

**KEARNS IMPROVEMENT DISTRICT**

**Financial Statements  
and  
Independent Auditor's Report**

**December 31, 2020 and 2019**

**HBME**

**CERTIFIED PUBLIC ACCOUNTANTS**

**KEARNS IMPROVEMENT DISTRICT**

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and  
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**HBME, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

# KEARNS IMPROVEMENT DISTRICT

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**INDEPENDENT AUDITOR'S 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, 2020 and 2019, 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2020 and 2019, 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 5-12 and the pension schedules on pages 45-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2021 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.

***HBME, LLC***

June 9, 2021

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**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020. 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.

**2020 Financial Highlights:**

- The assets of the District exceeded its liabilities by \$90,938,351. Of this amount, \$64,730,685 represents capital assets net of related debt, \$423,243 is restricted for debt service, and \$13,033,930 represents the District's investment in Central Valley Water Reclamation Facility (CVWRF). The remaining \$12,750,493 consists primarily of operating cash and investment reserves maintained for emergencies, major repairs, and capital projects and debt service requirements.
- The District's total net position increased by \$5,915,759 in 2020. This consisted of \$1,448,222 of operating income, \$3,431,099 from nonoperating income, and \$1,036,438 of capital contributions from developer contributed water and sewer lines.
- The District's net capital assets increased by \$10,430,377. In order to keep up with and prepare for new growth, the District added a net \$13,081,785 of new capital investment, primarily in its water distribution system and sewer collection lines. The District funds capital projects through net income, impact fees, and bonding. In 2020, the District drew down on the Series 2019A bond which is a \$21M revenue bond from the State of Utah Division of Drinking Water at 1.25% to pay for water distribution system expansion.

**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.

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 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, 2020**

**Financial Analysis**

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 17,401,732	\$ 11,859,895	\$ 15,732,336
Capital assets	86,765,353	76,334,976	74,407,205
Other assets	<u>17,330,358</u>	<u>23,781,938</u>	<u>10,286,412</u>
Total assets	<u>121,497,443</u>	<u>111,976,809</u>	<u>100,425,953</u>
Deferred outflows of resources	<u>477,705</u>	<u>1,011,285</u>	<u>699,837</u>
Current liabilities	4,052,016	3,634,177	2,812,358
Noncurrent liabilities	<u>26,259,186</u>	<u>24,195,930</u>	<u>14,675,620</u>
Total liabilities	<u>30,311,202</u>	<u>27,830,107</u>	<u>17,487,978</u>
Deferred inflows of resources	<u>725,595</u>	<u>135,395</u>	<u>646,437</u>
Net investment in capital assets	64,730,685	64,621,116	61,974,839
Restricted	423,243	2,202,020	388,174
Unrestricted	<u>25,784,423</u>	<u>18,199,456</u>	<u>20,628,362</u>
Total net position	<u>\$ 90,938,351</u>	<u>\$ 85,022,592</u>	<u>\$ 82,991,375</u>

As can be seen from the above schedule, assets exceeded liabilities by \$90,938,351 at the end of 2020. The largest portion of the District's net position, \$64,730,685 or 71%, reflects its net investment in capital assets. These capital assets are used in the daily operations of the District and, consequently, are not available for future spending.

An additional significant portion of the District's net position, \$13,033,930 or 14.3% reflects the District's investment in CVWRF and is used in the daily operations of that facility and consequently, is not available for future spending. The remaining \$12,750,493 consists primarily of operating cash, investment reserves maintained for emergencies, major repairs and capital projects, and receivables and other assets, less accounts payable and other accrued liabilities.

Other significant year over year items are:

- Total assets have steadily increased from \$100,425,953 in 2018 to \$121,497,443 in 2020. This is primarily due to the addition of water and sewer system capital assets to accommodate population growth in the District.
- Noncurrent liabilities increased \$9,520,310 from 2018 to 2019. This is primarily due to the issuance of a \$9M bond to pay for water and sewer system capital improvements.

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

- Noncurrent liabilities increased \$2,063,256 from 2019 to 2020. This is due to the drawing down on a \$21M bond to pay for water system capital improvements.

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.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 16,789,104	\$ 15,233,412	\$ 16,181,840
Operating expenses	<u>(15,340,882)</u>	<u>(14,348,120)</u>	<u>(13,369,784)</u>
Operating income	1,448,222	885,292	2,812,056
Nonoperating revenue	4,125,760	2,837,367	2,377,293
Nonoperating expenses	<u>(694,661)</u>	<u>(2,509,646)</u>	<u>(2,453,987)</u>
Income before capital contributions	4,879,321	1,213,013	2,735,362
Capital contributions	<u>1,036,438</u>	<u>818,204</u>	<u>-</u>
Change in net position	5,915,759	2,031,217	2,735,362
Net position - beginning of year	<u>85,022,592</u>	<u>82,991,375</u>	<u>80,256,013</u>
Net position - end of year	<u>\$ 90,938,351</u>	<u>\$ 85,022,592</u>	<u>\$ 82,991,375</u>

Total net position at the end of 2020 increased by \$5,915,759. This increase came from operations and capital contributions. This increase was invested mainly in capital assets. Because of planned residential growth in the coming years, the District invested significantly in 2020 in its water distribution and sewer collection systems. A new 1.5MG tank and pumping station were constructed, with one additional 5MG tank now under construction. New water lines and a water pump station expansion are also under construction. A new sewer lift station is nearing completion and a major sewer line upgrade and sewer siphon are in the planning stage.

Key factors that contributed to the change in net position of \$5,915,759 in 2020, \$2,031,217 in 2019, and \$2,735,362 in 2018 include the following:

- 2020 was a hot and dry year, resulting in higher water sales of \$1,557,692 as compared to 2019, which was a wetter than normal year.
- 2019 was a wetter than normal year resulting in a drop in revenue of \$948,428 as compared to 2018. The District generally budgets for an "average" water year. When water revenue drops, so does the cost to purchase water, allowing the District to maintain a balanced budget.

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

- Operating expenses in 2020 were \$992,762 higher than 2019. This is due to water purchases and sewer treatment costs, salaries and benefits, and utilities. Sewer treatment costs increased for the year at the CVWRF, and the District's proportionate share of those expenses is reflected in our operating expenses. Salaries and benefits increased due to normal wage increases for personnel. Utilities increased due to the addition of water pump stations and reservoirs.

**Variance Between Final Budget and Actual Results**

Actual results for 2020 compare favorably to the 2020 District budget with the District performing better than the final budget by \$7,345,259.

	2020 Actual	2020 Budget	Difference
Operating revenues	\$ 16,789,104	\$ 15,621,000	\$ 1,168,104
Operating expenses	<u>(15,340,882)</u>	<u>(16,447,134)</u>	<u>1,106,252</u>
Operating income	1,448,222	(826,134)	2,274,356
Nonoperating revenue	4,125,760	2,636,770	1,488,990
Nonoperating expenses	(2,034,252)	(1,540,136)	(494,116)
Equity in net income (loss) of joint venture	<u>1,339,591</u>	<u>(1,700,000)</u>	<u>3,039,591</u>
Income before capital contributions	4,879,321	(1,429,500)	6,308,821
Capital contributions	<u>1,036,438</u>	<u>-</u>	<u>1,036,438</u>
Change in net position	<u>\$ 5,915,759</u>	<u>\$ (1,429,500)</u>	<u>\$ 7,345,259</u>

Key comparisons of the actual results to the budget include the following:

- Operating revenues were 7.48% higher than the budgeted mainly due to water sales as the District experienced a hot dry summer.
- Operating expenses were 6.73% less than budget mainly due to personnel, supplies, vehicles, insurance, contract services and several other cost items, as the District worked hard to keep costs at a minimum.
- We experienced a gain in our joint venture ownership of CVWRF resulting in a large positive variance. This gain was due to their costs coming in lower in 2020 and due to substantial capital improvements at CVWRF which eliminated maintenance costs. CVWRF will continue to make substantial capital improvements in the coming years which makes budgeting for our investment difficult in the future.

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Capital Asset and Debt Administration**

*Capital assets.* The District's investment in capital assets as of December 31, 2020, amounts to \$86,765,353 (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 increased \$10,430,377 or 13.7%.

Some major capital asset events during the 2020 fiscal year included the following:

- Zone E 1.5 MG Tank construction (\$3,150,079)
- Zone E 1.5 MG Tank pump house construction (\$2,206,945)
- Zone D U-111 water main extension (\$2,191,838)
- Various other water system upgrades (\$737,623)
- Cougar Lane sewer line upgrade (\$1,419,156)
- 5400 South sewer line upgrade (\$1,786,413)

Major capital asset events during the 2019 fiscal year included the following:

- Zone A 2 MG tank design and construction (\$2,397,917)
- Zone E 1.5 MG tank and pump house design (\$538,098)
- Manhole rehabilitation (\$256,612)
- Sewer line expansion design work throughout the District (\$175,911)

Major capital asset events during the 2018 fiscal year included the following:

- "Backyard" sewer project construction (\$1,134,586)
- Dump truck (\$135,683)
- Zone A tank design (\$116,055)

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

The following table summarizes the District's capital assets, net of depreciation, for the last three years.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land	\$ 695,979	\$ 658,402	\$ 432,311
Water stock	30,550	30,550	30,550
Construction in progress	2,183,878	3,324,466	327,404
Buildings and improvements	6,286,390	6,471,034	6,648,251
Water System	37,624,829	26,918,493	27,039,829
Sewer transmission and collection lines	39,355,855	38,317,373	39,130,004
Transportation equipment	401,115	435,300	603,503
Machinery and equipment	133,682	162,088	173,947
Office equipment	53,075	17,270	21,406
<b>Total</b>	<u><u>\$ 86,765,353</u></u>	<u><u>\$ 76,334,976</u></u>	<u><u>\$ 74,407,205</u></u>

Key comparisons of capital assets include the following:

- Water system assets increased \$10,706,336 in 2020 from 2019. This was primarily due to the construction of a 1.5MG tank and pump station, along with significant transmission line projects to accommodate population growth.
- Construction in progress increased \$2,742,881 in 2019 from 2018. This was primarily due to construction of a 2MG water tank, a 1.5MG tank, and a pump station.

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

**Long-term debt.** At December 31, 2020, the District had total long-term debt of \$27,714,004 (inclusive of current portion). The debt represents bonds secured solely by specified revenue sources and a note payable to CVWRF. The increase is due to debt incurred for infrastructure expansion to accommodate residential and commercial growth in the District.

The District has no outstanding general obligation debt. The following table summarizes the Districts long-term debt.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenue bonds	\$ 25,826,000	\$ 21,863,000	\$ 12,325,000
Note payable - CVWRF	1,888,004	2,317,171	2,695,403
<b>Total</b>	<u><u>\$ 27,714,004</u></u>	<u><u>\$ 24,180,171</u></u>	<u><u>\$ 15,020,403</u></u>

**KEARNS IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

Key comparisons of long-term debt include the following:

- The increase in revenue bonds from 2018 to 2019 was the result of a \$9M revenue bond that was issued in 2019 to pay for water and sewer capital projects.
- The increase in revenue bonds from 2019 to 2020 was the result of drawing down on a revenue bond to pay for water system capital projects.

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 2020, there were no increases to fixed monthly charges for water or sewer. For 2021, the District did increase its sewer rates by 6% through a \$2.11 increase to the monthly sewer basic service fee. This increase was necessary to pay for the District's share of upgrades to the Central Valley Water Reclamation Facility sewer treatment plant. The plant is being upgraded to meet new stricter water regulations. 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. In 2020 an independent rate study was performed. Based on forecasted new growth in the District, a new rate study is underway and expected to be completed in 2021 to identify appropriate increases to meet District operation and capital needs for 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, 2020 and 2019**

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 8,911,479	\$ 3,785,383
Investments	7,101,816	6,902,525
Water, sewer, and other receivables, net	1,014,782	868,404
Inventories	349,916	254,632
Prepaid expenses and other	23,739	48,951
Total current assets	17,401,732	11,859,895
Noncurrent assets		
Restricted cash and cash equivalents	4,296,428	12,445,770
Capital assets, net	86,765,353	76,334,976
Investment in joint venture	13,033,930	11,336,168
Total noncurrent assets	104,095,711	100,116,914
Total assets	121,497,443	111,976,809
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows related to pensions	477,705	1,011,285
Total deferred outflows of resources	477,705	1,011,285

(Continued)

**KEARNS IMPROVEMENT DISTRICT**  
**Statements of Net Position (Continued)**  
**December 31, 2020 and 2019**

	2020	2019
<b><u>LIABILITIES</u></b>		
Liabilities:		
Current liabilities:		
Accounts payable	905,529	872,430
Accrued and other liabilities	103,534	79,229
Compensated absences	225,472	221,135
Customer deposits	348,723	366,343
Accrued interest on bonds payable	190,591	128,873
Revenue bonds and notes payable - current	2,278,167	1,966,167
Total current liabilities	4,052,016	3,634,177
Noncurrent liabilities:		
Compensated absences	143,058	103,081
Revenue bonds and notes payable	25,435,837	22,214,004
Net pension liability	680,291	1,878,845
Total noncurrent liabilities	26,259,186	24,195,930
Total liabilities	30,311,202	27,830,107
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred inflows related to pensions	643,742	40,785
Deferred gain on bond refunding	81,853	94,610
Total deferred inflows of resources	725,595	135,395
<b><u>NET POSITION</u></b>		
Net investment in capital assets	64,730,685	64,621,116
Restricted for debt service and impact fees	423,243	2,202,020
Unrestricted	25,784,423	18,199,456
Total net position	\$ 90,938,351	\$ 85,022,592

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, 2020 and 2019**

	2020	2019
Operating revenues:		
Water sales	\$ 9,941,352	\$ 8,383,594
Sewer service charges	6,654,200	6,599,590
Other	193,552	250,228
Total operating revenues	16,789,104	15,233,412
Operating expenses:		
Water purchased	4,904,387	4,034,687
Sewer treatment costs	2,435,082	2,151,131
Salaries and benefits	3,254,435	3,417,179
Repairs and maintenance	626,390	656,764
Other administrative and office costs	1,321,039	1,362,592
Depreciation and amortization	2,799,549	2,725,767
Total operating expenses	15,340,882	14,348,120
Net operating income	1,448,222	885,292
Nonoperating revenues (expenses):		
Property taxes	1,612,752	1,600,113
Impact fees	802,538	810,340
Interest income	347,293	426,914
Miscellaneous income (expense)	23,586	(65,877)
Interest expense and bond issuance costs	(490,527)	(660,549)
Equity in net gain (loss) of joint venture	1,339,591	(1,565,682)
Property taxes disbursed to others	(204,134)	(217,538)
Total nonoperating revenues (expenses)	3,431,099	327,721
Net income before capital contributions	4,879,321	1,213,013
Capital contributions		
Developer contributed water and sewer lines	1,036,438	818,204
Change in net position	5,915,759	2,031,217
Net position, beginning of year	85,022,592	82,991,375
Net position, end of year	\$ 90,938,351	\$ 85,022,592

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

**KEARNS IMPROVEMENT DISTRICT**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Receipts from customers and users	\$ 16,609,158	\$ 15,487,141
Payments to vendors and suppliers	(9,323,871)	(8,061,229)
Payments to employees	(3,247,833)	(3,256,239)
Net cash provided by operating activities	4,037,454	4,169,673
Cash flows from noncapital and related financing activities:		
Property tax and fee in lieu collected	1,628,700	1,579,458
Property tax disbursed to other governments	(204,134)	(217,538)
Proceeds from contributions and rebates	12,786	-
Net cash provided by noncapital and related financing activities	1,437,352	1,361,920
Cash flows from capital and related financing activities:		
Impact fees collected	802,538	810,340
Purchase of capital assets	(15,146,009)	(4,087,777)
Proceeds from sale of capital assets	11,144	185,102
Issuance of long-term debt	5,500,000	10,500,000
Principal paid on bonds and notes	(1,966,167)	(1,340,232)
Interest paid on bonds and notes	(441,566)	(675,815)
Net cash provided (used) by capital and related financing activities	(11,240,060)	5,391,618
Cash flows from investing activities:		
Capital acquisitions in joint venture	(358,171)	(3,003,612)
Revenue income credit from joint venture	-	1,464
Purchase of investments	(7,978,176)	(3,615,029)
Sale of investments	7,851,390	3,438,138
Interest received	274,788	349,135
Net cash used by investing activities	(210,169)	(2,829,904)
Increase (decrease) in cash and cash equivalents	(5,975,423)	8,093,307
Cash and cash equivalents, beginning of year	16,231,153	8,137,846
Cash and cash equivalents, end of year	\$ 10,255,730	\$ 16,231,153

(Continued)

**KEARNS IMPROVEMENT DISTRICT**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,448,222	\$ 885,292
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,799,549	2,725,767
Net pension adjustment	(62,017)	167,488
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Water, sewer, and other receivables	(162,326)	228,854
Inventories	(95,284)	(29,719)
Prepaid expenses	25,212	(15,658)
Increase (decrease) in:		
Accounts payable	33,099	189,322
Accrued and other liabilities	24,305	(19,913)
Compensated absences	44,314	13,365
Customer deposits	(17,620)	24,875
Net cash provided by operating activities	\$ 4,037,454	\$ 4,169,673
Non-cash investing, capital and financing activities:		
Capital contributions - developers	\$ 1,036,438	\$ 818,204
Equity in net loss of joint venture	(1,339,591)	1,565,682

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**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2020 and 2019**

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, 2020 and 2019**

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 \$8,284 and \$8,284 as of December 31, 2020 and 2019, 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, 2020 and 2019**

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 lines), 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 an individual cost of \$2,500 or more, 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:

<u>Assets</u>	<u>Years</u>
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 1,500 hours of accumulated sick leave into cash or health insurance coverage. Employees may elect to receive either 20% 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, 2020 and 2019**

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), including additions to and 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, 2020 and 2019**

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 2019 financial statements to conform with the 2020 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, 2020 and 2019**

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, 2020, the District had the following recurring fair value measurements.

Investment Type	12/31/2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
PTIF	\$ 8,393,738	\$ -	\$ 8,393,738	\$ -
Money Market Funds	2,710,335	-	2,710,335	-
U.S. Agency Bonds	352,941	352,941	-	-
Corporate Bonds	4,038,540	4,038,540	-	-
U.S. Treasuries	-	-	-	-
Total	<u>\$ 15,495,554</u>	<u>\$ 4,391,481</u>	<u>\$ 11,104,073</u>	<u>\$ -</u>

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

*Fair Value of Investments (Continued)*

At December 31, 2019, the District had the following recurring fair value measurements.

<u>Investment Type</u>	<u>12/31/2019</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
PTIF	\$ 2,824,535	\$ -	\$ 2,824,535	\$ -
Money Market Funds	1,616,306	-	1,616,306	-
U.S. Agency Bonds	1,856,286	1,856,286	-	-
Corporate Bonds	3,175,930	3,175,930	-	-
U.S. Treasuries	254,003	254,003	-	-
Total	<u>\$ 9,727,060</u>	<u>\$ 5,286,219</u>	<u>\$ 4,440,841</u>	<u>\$ -</u>

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, 2020, \$4,504,972 of the District's bank balances of \$4,729,040 was uninsured and uncollateralized (\$13,382,629 uninsured in 2019).

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, 2020, the District had investments of \$8,393,738 with the PTIF (\$2,824,535 in 2019). The District also had \$7,101,816 in debt securities investments (\$6,902,525 in 2019) which were held by the investment's counterparty and are registered 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.

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

As of December 31, 2020, 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	\$ 8,393,738	\$ 8,393,738	\$ -	\$ -
Money Market Funds	2,710,335	18,156	2,692,179	-
U.S. Agency Bonds	352,941	352,941	-	-
Corporate Bonds	4,038,540	1,568,695	2,469,845	-
Total	\$ 15,495,554	\$ 10,333,530	\$ 5,162,024	\$ -

As of December 31, 2019, 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	\$ 2,824,535	\$ 2,824,535	\$ -	\$ -
Money Market Funds	1,616,306	221,402	1,394,904	-
U.S. Agency Bonds	1,856,286	651,725	1,204,561	-
Corporate Bonds	3,175,930	1,352,973	1,822,957	-
U.S. Treasuries	254,003	-	254,003	-
Total	\$ 9,727,060	\$ 5,050,635	\$ 4,676,425	\$ -

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, 2020, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings				
		AAA	AA	A	BBB	Unrated
PTIF	\$ 8,393,738	\$ -	\$ -	\$ -	\$ -	\$ 8,393,738
Money Market Funds	2,710,335	18,156	498,292	955,536	243,595	994,756
U.S. Agency Bonds	352,941	352,941	-	-	-	-
Corporate Bonds	4,038,540	-	528,202	3,510,338	-	-
Total	\$ 15,495,554	\$ 371,097	\$ 1,026,494	\$ 4,465,874	\$ 243,595	\$ 9,388,494

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

As of December 31, 2019, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings				
		AAA	AA	A	BBB	Unrated
PTIF	\$ 2,824,535	\$ -	\$ -	\$ -	\$ -	\$ 2,824,535
Money Market Funds	1,616,306	221,402	-	1,066,493	-	328,411
U.S. Agency Bonds	1,856,286	1,656,342	-	199,944	-	-
Corporate Bonds	3,175,930	199,298	590,813	2,033,449	352,370	-
U.S. Treasuries	254,003	254,003	-	-	-	-
Total	\$ 9,727,060	\$ 2,331,045	\$ 590,813	\$ 3,299,886	\$ 352,370	\$ 3,152,946

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.

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:

	2020	2019
Restricted cash and cash equivalents:		
Revenue bond funds	\$ 4,296,428	\$ 12,445,770

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 658,402	\$ 37,577	\$ -	\$ 695,979
Water stock	30,550	-	-	30,550
Construction in progress	3,324,466	1,811,589	(2,952,177)	2,183,878
Total capital assets, not depreciated	4,013,418	1,849,166	(2,952,177)	2,910,407
Capital assets, being depreciated:				
Buildings and improvements	7,578,480	8,542	-	7,587,022
Water systems	48,731,046	11,876,353	(38,141)	60,569,258
Sewer transmission and collection lines	56,424,629	2,281,624	(17,000)	58,689,253
Transportation equipment	1,924,104	106,380	(16,198)	2,014,286
Machinery and equipment	847,104	13,480	-	860,584
Office equipment	249,703	46,902	(77,146)	219,459
Total capital assets, depreciated	115,755,066	14,333,281	(148,485)	129,939,862
Less: accumulated depreciation for:				
Buildings and improvements	1,107,446	193,186	-	1,300,632
Water systems	21,812,553	1,169,673	(37,797)	22,944,429
Sewer transmission and collection lines	18,107,256	1,243,142	(17,000)	19,333,398
Transportation equipment	1,488,804	140,565	(16,198)	1,613,171
Machinery and equipment	685,016	41,886	-	726,902
Office equipment	232,433	11,097	(77,146)	166,384
Total accumulated depreciation	43,433,508	2,799,549	(148,141)	46,084,916
Total capital assets depreciated, net	72,321,558	11,533,732	(344)	83,854,946
Capital assets, net	\$ 76,334,976	\$ 13,382,898	\$ (2,952,521)	\$ 86,765,353

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

4. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 432,311	\$ 226,091	\$ -	\$ 658,402
Water stock	30,550	-	-	30,550
Construction in progress	327,404	3,034,487	(37,425)	3,324,466
Total capital assets, not depreciated	<u>790,265</u>	<u>3,260,578</u>	<u>(37,425)</u>	<u>4,013,418</u>
Capital assets, being depreciated:				
Buildings and improvements	7,563,408	15,072	-	7,578,480
Water systems	48,068,139	770,674	(107,767)	48,731,046
Sewer transmission and collection lines	56,280,654	543,975	(400,000)	56,424,629
Transportation equipment	2,012,980	-	(88,876)	1,924,104
Machinery and equipment	915,618	22,173	(90,687)	847,104
Office equipment	266,571	3,530	(20,398)	249,703
Total capital assets, depreciated	<u>115,107,370</u>	<u>1,355,424</u>	<u>(707,728)</u>	<u>115,755,066</u>
Less: accumulated depreciation for:				
Buildings and improvements	915,157	192,289	-	1,107,446
Water systems	20,815,336	1,104,974	(107,757)	21,812,553
Sewer transmission and collection lines	17,036,220	1,219,036	(148,000)	18,107,256
Transportation equipment	1,409,477	168,203	(88,876)	1,488,804
Machinery and equipment	741,671	34,032	(90,687)	685,016
Office equipment	245,165	7,233	(19,965)	232,433
Total accumulated depreciation	<u>41,163,026</u>	<u>2,725,767</u>	<u>(455,285)</u>	<u>43,433,508</u>
Total capital assets depreciated, net	<u>73,944,344</u>	<u>(1,370,343)</u>	<u>(252,443)</u>	<u>72,321,558</u>
Capital assets, net	<u>\$ 74,734,609</u>	<u>\$ 1,890,235</u>	<u>\$ (289,868)</u>	<u>\$ 76,334,976</u>

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

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, 2020 by issue (all direct placements) are as follows:

Purpose	Original Issue	Annual Principal	Interest Rates	Installments Begin Date	Maturity Date	Amount
Water and Sewer Revenue Bonds, series 2009 *	\$ 3,825,000	\$191,000 to \$192,000	0.00%	5/1/2011	5/1/2030	\$ 1,915,000
Water and Sewer Revenue Bonds, series 2011 *	\$ 7,615,000	\$283,000 to \$498,000	3.00%	5/1/2013	5/1/2032	5,098,000
Water and Sewer Revenue Bonds, series 2017	\$ 4,668,000	\$283,000 to \$498,000	2.22%	5/1/2013	5/1/2032	3,374,000
Water and Sewer Revenue Bonds, series 2019A *	\$ 1,500,000	\$66,000 to \$84,000	1.25%	1/1/2021	1/1/2040	7,000,000
Water and Sewer Revenue Bonds, series 2019B	\$ 9,000,000	\$283,000 to \$498,000	1.00% to 2.65%	5/1/2020	5/1/2032	8,439,000
Total revenue bonds payable						25,826,000
Less: current maturities						(1,839,000)
Total long-term revenue bonds						<u>\$ 23,987,000</u>

\* State of Utah issued bonds (loans to District)

In December 2019, the District issued the Series 2019B Water and Sewer Bonds to finance the construction of a 2 million-gallon water tank and various sewer line projects.

During 2019, the District received a loan from the Department of Environmental Quality of the State of Utah in the amount of \$21,000,000, referred to as Series 2019A Water and Sewer Revenue Bonds, for the construction of various water and sewer projects. As of December 31, 2020, the District had drawn \$7,000,000 on the loan. It is anticipated that the District will continue to draw upon this loan for its construction projects over the next several years. Principal and interest payments will be required annually.

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

5. LONG-TERM DEBT (CONTINUED)

Revenue bond debt service requirements to maturity are as follows:

December 31,	Principal	Interest	Total
2021	\$ 1,839,000	\$ 460,222	\$ 2,299,222
2022	2,480,000	426,341	2,906,341
2023	2,534,000	387,163	2,921,163
2024	2,635,000	346,461	2,981,461
2025	2,678,000	303,616	2,981,616
2026 - 2030	9,253,000	916,710	10,169,710
2031 - 2035	3,630,000	227,805	3,857,805
2036 - 2040	777,000	48,562	825,562
	<u>\$ 25,826,000</u>	<u>\$ 3,116,880</u>	<u>\$ 28,942,880</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, 2020 and 2019.

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. In 2017, Central Valley Water Reclamation Facility refunded these bonds and the District became the only member with an outstanding balance as the other members chose to pay off their debt portions through a current refunding. As of December 31, 2020 and 2019, the District's remaining share of the outstanding debt was \$1,888,004 and \$2,317,171, respectively.

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

December 31,	Principal	Interest	Total
2021	\$ 439,167	\$ 66,017	\$ 505,184
2022	449,167	52,252	501,419
2023	463,750	40,952	504,702
2024	478,750	28,897	507,647
2025	57,170	15,524	72,694
	<u>\$ 1,888,004</u>	<u>\$ 203,642</u>	<u>\$ 2,091,646</u>

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

5. LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 21,863,000	\$ 5,500,000	\$ (1,537,000)	\$ 25,826,000	\$ 1,839,000
Notes payable	2,317,171	-	(429,167)	1,888,004	439,167
Compensated absences	324,216	184,589	(140,275)	368,530	225,472
Total long-term liabilities	<u>\$ 24,504,387</u>	<u>\$ 5,684,589</u>	<u>\$ (2,106,442)</u>	<u>\$ 28,082,534</u>	<u>\$ 2,503,639</u>

Total interest expense incurred on long-term debt for the years ended December 31, 2020 and 2019 was \$490,527 and \$660,549, respectively, of which none was capitalized.

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 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 East 200 South, Salt Lake City, Utah 84102 or visiting the website: [www.urs.org](http://www.urs.org).

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

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 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.

Contribution Rate Summary

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2020 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	15.80%	89.00%
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, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

For the year ended December 31, 2020, the employer and employee contributions to the Systems were as follows:

<b>System</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>
Noncontributory System	\$ 253,482	N/A
Contributory System	37,510	15,564
Tier 2 Public Employees System	53,599	-
Tier 2 DC Only System	5,183	N/A
Total Contributions	<u>\$ 349,774</u>	<u>\$ 15,564</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.

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

At December 31, 2020, the District reported no net pension asset and a net pension liability of \$680,291.

	<u>Measurement Date: December 31, 2019</u>			<b>Proportionate Share December 31, 2018</b>	<b>Change</b>
	<b>Net Pension Asset</b>	<b>Net Pension Liability</b>	<b>Proportionate Share</b>		
Noncontributory System	\$ -	\$ 585,894	0.1554562%	0.1850976%	-0.0296414%
Contributory System	-	90,128	1.3752389%	1.2439919%	0.1312470%
Tier 2 Public Employees System	-	4,269	0.0189821%	0.0257346%	-0.0067525%
Total Net Pension Asset / Liability	<u>\$ -</u>	<u>\$ 680,291</u>			

The net pension asset and liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2019 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, 2020, the District recognized pension expense of \$287,941.

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

At December 31, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 54,488	\$ 9,881
Changes in assumptions	63,876	123
Net difference between projected and actual earnings on pension plan investments	-	524,560
Changes in proportion and differences between contributions and proportionate share of contributions	9,567	109,178
Contributions subsequent to the measurement date	349,774	-
Total	\$ 477,705	\$ 643,742

The \$349,774 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, 2019. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2020	\$ (145,775)
2021	(168,784)
2022	(5,803)
2023	(197,541)
2024	353
Thereafter	1,739

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

Noncontributory System

For the year ended December 31, 2020, the District recognized pension expense of \$252,177.

At December 31, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 53,294	\$ 8,416
Changes in assumptions	62,053	-
Net difference between projected and actual earnings on pension plan investments	-	296,292
Changes in proportion and differences between contributions and proportionate share of contributions	6,682	108,371
Contributions subsequent to the measurement date	253,482	-
Total	<u>\$ 375,511</u>	<u>\$ 413,079</u>

The \$253,482 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, 2019. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2020	\$ (65,612)
2021	(102,776)
2022	(10,017)
2023	(112,645)

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

Contributory System

For the year ended December 31, 2020, the District recognized pension expense of \$11,839.

At December 31, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	224,986
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	37,510	-
Total	<u>\$ 37,510</u>	<u>\$ 224,986</u>

The \$37,510 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, 2019. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>	
2020	\$	(79,631)
2021		(65,540)
2022		4,122
2023		(83,937)

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

Tier 2 Public Employees System

For the year ended December 31, 2020, the District recognized pension expense of \$23,925.

At December 31, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,194	\$ 1,465
Changes in assumptions	1,823	123
Net difference between projected and actual earnings on pension plan investments	-	3,282
Changes in proportion and differences between contributions and proportionate share of contributions	2,885	807
Contributions subsequent to the measurement date	58,782	-
Total	<u>\$ 64,684</u>	<u>\$ 5,677</u>

The \$58,782 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, 2019. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>	
2020	\$	(532)
2021		(468)
2022		92
2023		(959)
2024		353
Thereafter		1,739

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 - 9.75 percent, average, including inflation
Investment rate of return	6.95 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual 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, 2019 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

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

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity securities	40%	6.15%	2.46%
Debt securities	20%	0.40%	0.08%
Real assets	15%	5.75%	0.86%
Private equity	9%	9.95%	0.89%
Absolute return	16%	2.85%	0.46%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		4.75%
	Inflation		2.50%
	Expected arithmetic nominal return		7.25%

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

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

*Discount Rate*

The discount rate used to measure the total pension liability was 6.95%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate remained unchanged at 6.95%.

Actuarial Assumptions (Continued)

*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 6.95%, 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 (5.95%) or one percentage-point higher (7.95%) than the current rate:

<u>System</u>	<u>1% Decrease (5.95%)</u>	<u>Discount Rate (6.95%)</u>	<u>1% Increase (7.95%)</u>
Noncontributory System	\$ 1,829,951	\$ 585,894	\$ (451,637)
Contributory System	703,610	90,128	(427,193)
Tier 2 Public Employees System	36,815	4,269	(20,883)
Total	<u>\$ 2,570,376</u>	<u>\$ 680,291</u>	<u>\$ (899,713)</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, 2020 and 2019**

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>2020</u>		<u>2019</u>		<u>2018</u>
401(k) Plan*					
Employer contributions	\$ 150,138	\$	111,113	\$	119,592
Employee contributions	115,329		91,526		89,593
457 Plan					
Employer contributions	-		-		-
Employee contributions	20,650		650		3,627
Roth IRA Plan					
Employer contributions	N/A		N/A		N/A
Employee contributions	10,724		10,779		5,616

\* 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 2020 and 2019, 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, 2020 and 2019**

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, 2020 and 2019, and for the years then ended are as follows:

	<u>2020</u>	<u>2019</u>
Total assets	\$ 216,991,015	\$ 188,190,620
Total net position	122,614,583	107,963,502
Operating revenue	19,936,823	18,776,614
Change in net position	14,651,081	13,784,262
The District's interest in:		
Equity	13,033,930	11,336,168
Net gain (loss)	1,339,591	(1,565,682)

The District has recorded in prior years its previous proportionate share (10.51%) 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 \$2,435,082 and \$2,151,131 in sewage treatment costs from the joint venture for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, unpaid sewage treatment costs billed to the District were \$225,147 and \$226,052, 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 2020 and 2019, the District purchased approximately 8,980 and 7,388 acre feet of water at costs of \$4,904,387 and \$4,034,687, respectively.

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to the Financial Statements (Continued)**  
**December 31, 2020 and 2019**

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.

10. COVID-19 IMPACT

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 21, 2020 the Governor of Utah declared a health emergency and issued an order to close all nonessential businesses until further notice. Pursuant to the government order and the District's own initiatives, the District modified its operations and, where possible, certain workers telecommuted from their homes. In May 2020, this order was rescinded, and the District continued to perform its operations, but with several precautions and health safety requirements. The District had no significant impact to its operations. However, the further related impact cannot be reasonably estimated at this time.

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**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 Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/(Asset)
Noncontributory System	2015	0.1854709%	\$ 805,358	\$ 1,570,526	51.30%	90.20%
	2016	0.1818215%	1,028,834	1,550,241	66.37%	87.80%
	2017	0.1850052%	1,187,960	1,629,566	72.90%	87.30%
	2018	0.1817857%	796,458	1,576,684	50.51%	91.90%
	2019	0.1850976%	1,363,008	1,624,080	83.92%	87.00%
	2020	0.1554562%	585,894	1,397,599	41.92%	93.70%
Contributory System	2015	0.5238382%	\$ 151,098	\$ 280,114	53.90%	90.50%
	2016	0.6789726%	477,219	289,302	164.96%	85.70%
	2017	1.2489916%	409,807	299,683	136.75%	92.90%
	2018	1.2626538%	102,747	256,212	40.10%	98.20%
	2019	1.2439919%	504,815	232,838	216.81%	91.20%
	2020	1.3752389%	90,128	246,434	36.57%	98.60%
Tier 2 Public Employees System	2015	0.0324763%	\$ (984)	\$ 159,307	-0.60%	103.50%
	2016	0.0265604%	(58)	171,583	-0.03%	100.20%
	2017	0.0248923%	2,777	204,136	1.36%	95.10%
	2018	0.0274209%	2,418	268,342	0.90%	97.40%
	2019	0.0002573%	11,022	301,142	3.66%	90.80%
	2020	0.0189821%	4,269	263,852	1.62%	96.50%

**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 December 31,	Actuarial Determined Contributions	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered 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%
	2017	291,213	291,213	-	1,584,637	18.38%
	2018	299,968	299,968	-	1,624,080	18.47%
	2019	258,170	258,170	-	1,397,599	18.47%
	2020	253,482	253,482	-	1,372,399	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%
	2017	37,048	37,048	-	256,212	14.46%
	2018	33,668	33,668	-	232,838	14.46%
	2019	35,634	35,634	-	246,434	14.46%
	2020	37,510	37,510	-	259,403	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%
	2017	40,634	40,634	-	270,715	15.01%
	2018	45,942	45,942	-	304,919	15.07%
	2019	40,894	40,894	-	263,852	15.50%
	2020	53,599	53,599	-	340,664	15.73%
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%
	2017	2,558	2,558	-	38,229	6.69%
	2018	4,158	4,158	-	62,156	6.69%
	2019	4,563	4,563	-	68,200	6.69%
	2020	5,183	5,183	-	77,479	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, 2020**

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

As a result of the passage of SB 129, the retirement rates for members in the Tier 2 Public Safety and Firefighter Hybrid System have been modified to be the same as the assumption used to model the retirement pattern in the Tier 1 Public Safety and Firefighter Systems, except for a 10% load at first eligibility for unreduced retirement prior to age 65.

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## **COMPLIANCE SECTION**



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**CERTIFIED PUBLIC ACCOUNTANTS**

- E. LYNN HANSEN, CPA
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**INDEPENDENT AUDITOR’S 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 (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated June 9, 2021.

***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 opinion 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 the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the 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.

***ABMC, LLC***

June 9, 2021



COMMITTED. EXPERIENCED. TRUSTED

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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE***

Board of Trustees  
Kearns Improvement District

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

We have audited Kearns Improvement District’s (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the District’s major federal programs for the year ended December 31, 2020. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

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

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

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

In our opinion, Kearns Improvement District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

### ***Report on Internal Control over Compliance***

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

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

***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 over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***HBMC, LLC***

June 9, 2021

**KEARNS IMPROVEMENT DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Federal Award/Contract #	Passed Through to Subrecipients	Amount Expended
<b><u>Environmental Protection Agency</u></b>				
Pass-through Awards (from the State of Utah):				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS 99878 - Proj # 3F1725	-	7,265,645
Total Environmental Protection Agency			-	7,265,645
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ -	\$ 7,265,645

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Kearns Improvement District (the District) under programs of the federal government for the year ended December 31, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the District.

2. SIGNIFICANT ACCOUNTING POLICIES

Federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, endowments, or direct appropriations. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the Schedule to show the total expenditures for each of the District's federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide summary of individual federal programs. Each program included in the CFDA is assigned a five digit program identification number (CFDA number) which is reflected in the Schedule. Federal financial assistance programs and contracts which have not been assigned a CFDA number have been identified as “None” in the CFDA Column of the Schedule.

Type A and Type B Programs - The Single Audit Act of 1984 (as amended) and the Uniform Guidance establish the levels to be used in defining Type A and Type B federal programs. Type A programs for the District are those programs that exceeded \$750,000 in the federal awards expended for the fiscal year ended June 30, 2020. All other programs are classified as Type B by the District.

Reporting Entity

The District reporting entity is fully described in Footnote 1 of the District's basic financial statements. The Schedule includes all federal financial assistance programs administered by the District for the year ended December 31, 2020.

**KEARNS IMPROVEMENT DISTRICT**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

Expenditures reported in the Schedule are reported on the same basis of accounting as described in Footnote 1 of the District's basic financial statements. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

The District has not elected to use the 10% de minimis cost rate.

4. NON-CASH ASSISTANCE

No federal awards were expended in the form of non-cash assistance.

**KEARNS IMPROVEMENT DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

A. Summary of Auditor's Results

**Financial Statements**

1	Type of auditor's report issued	Unmodified
2	Internal control over financial reporting:	
	Material weakness identified and reported	No
	Significant deficiencies identified and reported	No
3	Noncompliance material to financial statements noted?	No

**Federal Awards**

4	Internal control over major federal programs:	
	Material weakness identified and reported	No
	Significant deficiencies identified and reported	No
5	Type of auditor's report issued on compliance for major programs	Unmodified
6	Any audit findings required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

**Identification of Major Federal Programs**

7	The following programs were tested as major programs: CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds	
8	The dollar threshold used for distinguishing Type A and Type B programs	\$ 750,000
9	Auditee qualify as a low-risk auditee?	No

B. Current Year Findings and Questioned Costs – Financial Audit and Major Federal Award Programs

No reportable conditions noted

C. Prior Year Findings and Questioned Costs – Financial Audit and Major Federal Award Programs

No reportable conditions noted

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

Board of Trustees  
Kearns Improvement District

***Report on Compliance***

We have audited Kearns Improvement District’s (the District) compliance with the applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, for the year ended December 31, 2020.

State compliance requirements were tested for the year ended December 31, 2020 in the following areas:

- |                              |                       |
|------------------------------|-----------------------|
| Budgetary Compliance         | Fund Balance          |
| Open and Public Meetings Act | Fraud Risk Assessment |

***Management’s Responsibility***

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

***Auditor’s Responsibility***

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

### ***Opinion on Compliance***

In our opinion, Kearns Improvement District complied, in all material respects, with the state compliance requirements referred to above for the year ended December 31, 2020.

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

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

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

### ***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.

***ABMC, LLC***

June 9, 2021