

MILLCREEK

**Basic Financial Statements
and
Independent Auditors' Report**

Year Ended June 30, 2018

MILLCREEK

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Millcreek, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Millcreek, Utah (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

November 16, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This document is a narrative overview and analysis of the financial activities of Millcreek City for the fiscal year ending June 30, 2018. Millcreek City was incorporated as of January 1, 2017; therefore, only eighteen months of operations are presented. Millcreek City management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the city's activities are classified in the following manner: government activities refers to general administration, parks, streets, police, fire, planning etc., and presently City has no business-type activities.

FINANCIAL HIGHLIGHTS

- The total net position of Millcreek City increased from \$94,238,916 to \$155,707,290.
- The total net position of governmental activities is \$155,707,290 and is made up of \$146,434,358 in capital assets, such as land, infrastructure and equipment and \$9,272,932 in other net position. The \$9,272,932 in other net position is made up of \$355,671 which is restricted for capital projects; the remaining \$8,917,261 is unrestricted assets.
- Total liabilities of the City increased by \$14,261,581. The City issued Tax Anticipation Notes in the amount of \$4,927,000 in January of 2018. The primary increase in liabilities was Deferred Inflows of Property taxes increased \$10,041,553 and the debt of \$4,927,000.

REPORTING THE CITY AS A WHOLE

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

The government-wide financial statements are designed to provide readers with a broad overview of Millcreek City's finances, in a manner similar to a private-sector business.

- The statement of net position presents information on all of Millcreek City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Millcreek City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net position changed during the fiscal year reported. 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 all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements distinguish functions of Millcreek City that are principally supported by taxes and intergovernmental revenues (governmental activities). The government-wide financial statements can be found on pages 9-10 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Millcreek City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The City currently only uses a governmental fund.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Millcreek City, assets exceed liabilities by \$155,707,290.

By far the largest portion of Millcreek City's net position (94.04%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, which is zero at this time as there is no related debt.

STATEMENT OF NET POSITION

	Governmental	Activities
	2018	2017
Current and Other Assets	\$ 21,837,497	\$ 5,133,470
Capital Assets	151,452,587	92,426,659
Total Assets	173,290,084	97,560,129
Long-term Debt Outstanding	5,018,229	-
Other Liabilities	2,207,520	3,005,721
Deferred Inflows	10,357,045	315,492
Total Liabilities	17,582,794	3,321,213
Net Position:		
Net Investment in Capital Assets	146,434,358	92,426,659
Restricted	355,671	497,047
Unrestricted	8,917,261	1,315,210
Total Net Position	\$ 155,707,290	\$ 94,238,916

CHANGES IN NET POSITION

	Governmental	Activities
	2018	2017
Revenues		
Program Revenues		
Charges for Services	\$ 2,583,200	\$ -
Capital Grants and Contributions	4,084,112	95,725,678
General Revenues		
Property Taxes	362,620	2,384,051
Franchise Taxes	913,662	-
General Sales Taxes	9,900,601	-
Other Taxes	-	3,457
Other Revenues	130,877	3,400
Total Revenues	17,975,072	98,116,586
Expenses		
General Government	5,714,511	56,085
Public Safety	5,439,241	396,000
Streets/Public Works	5,161,197	3,425,585
Debt service	112,853	-
Total Expenses	16,427,802	3,877,670
Change in Net Position	1,547,270	94,238,916
Net Position Beginning (restated)	154,160,020	-
Net Position Ending	\$ 155,707,290	\$ 94,238,916

ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of June 30, 2018, the City's governmental funds equity is \$4,345,932. The General Fund is the chief operating fund and the only fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund was amended resulting in an increase from the original budget of \$16,520,727 to \$19,777,053.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Millcreek City's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$151,452,587 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure (streets, sidewalks, curb and gutter, bridges, etc.), and equipment.

All major capital assets were contributed from the County during the fiscal year 2017 included the following:

- Land under streets, parks for and amount of \$73,005,060
- Infrastructure, streets, parks and storm drain for an amount of \$80,943,984
- Machinery & equipment which consists of an outdoor movie screen for \$21,999.

MILLCREEK CITY'S CAPITAL ASSETS

	Governmental	Activities
	<u>2018</u>	<u>2017</u>
Capital Assets		
Land	\$ 73,005,060	\$ 73,005,060
Improvements	531,653	-
Infrastructure	80,943,984	80,943,984
Machinery and equipment	279,275	21,999
Total	<u>154,759,972</u>	<u>153,971,043</u>
Less Accumulated Depreciation	(3,307,385)	(1,623,280)
Total Capital Assets	<u>\$ 151,452,587</u>	<u>\$ 152,347,763</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt - At June 30, 2018, the City had Tax Anticipation Notes in the amount of \$4,927,000 that were issued in January of 2018 and subsequently paid after year end in July 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Unemployment rate for Salt Lake County (of which Millcreek is part) was 3.9 % compared with the State unemployment rate of 3.0%.
- Millcreek is continuing to see an increase in commercial permits and many rezoning changes.
- Being a contract city, major projects are securing future contract for services such as:
 - Police protection
 - Fire protection
 - Animal services
 - Public works services

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Millcreek City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

City Finance Officer
3330 South 1300 East
Millcreek, UT 84106

MILLCREEK
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 9,424,819
Receivables:	
Property and other taxes	12,372,700
Due from other governments	355,671
Capital assets:	
Land	73,005,060
Improvements	531,653
Machinery and equipment	279,275
Infrastructure	80,943,984
Accumulated depreciation	<u>(3,307,385)</u>
Total assets	<u>173,605,777</u>
 <u>LIABILITIES</u>	
Accounts payable	2,051,531
Accrued interest payable	59,113
Accrued liabilities	96,876
Construction bonds	315,693
Non-current liabilities:	
Due within one year	4,954,394
Due in more than one year	<u>63,835</u>
Total liabilities	<u>7,541,442</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenue	<u>10,357,045</u>
Total deferred inflows of resources	<u>10,357,045</u>
 <u>NET POSITION</u>	
Net investment in capital assets	146,434,358
Restricted for:	
Capital projects	355,671
Unrestricted	<u>8,917,261</u>
Total net position	<u>\$ 155,707,290</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Activities
For the Year Ended June 30, 2018

			<u>Program Revenues Capital</u>	<u>Net (Expense) Revenues and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
General government	\$ 5,714,511	\$ 2,583,200	\$ -	\$ (3,131,311)
Public safety	5,439,241	-	-	(5,439,241)
Streets and public works	5,161,197	-	4,084,112	(1,077,085)
Debt service - interest and fiscal charges	112,853	-	-	(112,853)
 Total governmental activities	 <u>16,427,802</u>	 <u>2,583,200</u>	 <u>4,084,112</u>	 <u>(9,760,490)</u>
 <u>GENERAL REVENUES</u>				
Taxes:				
Property taxes				362,620
Franchise taxes				913,662
General sales taxes				9,900,601
Interest income				111,701
Miscellaneous				19,176
Total general revenues				<u>11,307,760</u>
Change in net position				1,547,270
Net position - beginning, restated				<u>154,160,020</u>
Net position - ending				<u><u>\$ 155,707,290</u></u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Balance Sheet – Governmental Fund
June 30, 2018

	General
<u>ASSETS</u>	
Cash and cash equivalents	\$ 9,424,819
Receivables:	
Sales, property and franchise taxes	12,372,700
Class C road funds	355,671
Total assets	\$ 22,153,190
<u>LIABILITIES</u>	
Liabilities:	
Accounts payable	\$ 2,051,531
Accrued interest payable	59,113
Accrued liabilities	96,876
Construction bonds	315,693
Tax and revenue anticipation notes	4,927,000
Total liabilities	7,450,213
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenue	10,357,045
Total deferred inflows of resources	10,357,045
<u>FUND BALANCE</u>	
Restricted for Class C road projects	355,671
Unassigned	3,990,261
Total fund balance	4,345,932
Total liabilities, deferred inflows of resources, and fund balances	\$ 22,153,190
Amounts reported for governmental activities in the statement of net position are different because:	
Total Fund Balance - Total Governmental Fund	\$ 4,345,932
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in funds	151,452,587
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds	(91,229)
Net position of governmental activities	\$ 155,707,290

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Revenues, Expenditures, and
Change in Fund Balance – Governmental Fund
For the Year Ended June 30, 2018

	General
<u>REVENUES</u>	
Taxes	\$ 11,176,883
Licenses and permits	2,162,696
Charges for services	23,750
Intergovernmental	4,084,112
Fines and forfeitures	396,754
Interest	111,701
Miscellaneous	19,176
Total revenues	17,975,072
<u>EXPENDITURES</u>	
General government	5,558,056
Law enforcement	5,439,241
Streets and public works	4,331,247
Debt service:	
Interest and fiscal charges	59,113
Bond issuance costs	53,740
Total expenditures	15,441,397
Net change in fund balance	2,533,675
Fund balance, beginning of year	1,812,257
Fund balance, end of year	\$ 4,345,932

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of
Governmental Fund To the Statement of Activities
For the Year Ended June 30, 2018

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances - total governmental funds (page 12)	\$ 2,533,675
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays and capital contributions in the current period.	(895,176)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(91,229)
Change in net position - governmental activities (page 10)	\$ <u>1,547,270</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget to Actual – General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget - Positive (Negative)
<u>REVENUES</u>				
Taxes	\$ 11,624,247	\$ 10,000,000	\$ 11,176,883	\$ 1,176,883
Licenses and permits	1,093,123	600,000	2,162,696	1,562,696
Charges for service	25,000	28,000	23,750	(4,250)
Intergovernmental	3,216,735	3,728,440	4,084,112	355,672
Fines and forfeitures	453,697	365,000	396,754	31,754
Interest	100,000	109,532	111,701	2,169
Miscellaneous	7,925	24,081	19,176	(4,905)
Bond proceeds	-	4,922,000	-	(4,922,000)
Total revenues	<u>16,520,727</u>	<u>19,777,053</u>	<u>17,975,072</u>	<u>(1,801,981)</u>
<u>EXPENDITURES</u>				
General government				
Mayor	241,500	225,000	219,204	5,796
Administration	4,526,705	5,174,180	1,575,274	3,598,906
Facilities	-	690,000	658,022	31,978
Planning and zoning	2,932,580	1,495,000	1,249,269	245,731
Risk management	70,000	35,000	31,042	3,958
Court	655,113	649,024	560,957	88,067
Engineering services	1,014,860	995,000	817,433	177,567
Legal	573,000	527,000	446,855	80,145
Public safety				
Law enforcement	1,275,647	5,439,241	5,439,241	-
Streets and public works	5,231,322	4,435,000	4,331,247	103,753
Debt service	-	112,608	112,853	(245)
Total expenditures	<u>16,520,727</u>	<u>19,777,053</u>	<u>15,441,397</u>	<u>4,335,656</u>
Net change in fund balance	-	-	2,533,675	2,533,675
Fund balance, beginning of year	1,812,257	1,812,257	1,812,257	-
Fund balance, end of year	<u>\$ 1,812,257</u>	<u>\$ 1,812,257</u>	<u>\$ 4,345,932</u>	<u>\$ 2,533,675</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Notes to the Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Millcreek, Utah (the City) was incorporated in 2017 under the laws of the State of Utah. The City operates under a Mayor-Council form of government. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides the following services as authorized by its charter: general administrative, highway and streets, and planning and zoning.

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Reporting Entity

As required by U.S. GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). The City has determined that as of June 30, 2018 it has no component units for which it is accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. For the year ended June 30, 2018, the City has one major fund, the General Fund, and no non-major funds.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an *other financing source*. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than expenditures in the government-wide financial statements. As of and for the year ended June 30, 2018, the City has outstanding tax and revenue anticipation notes. Although these notes are classified as debt, they are recorded in the government-wide and governmental fund financial statements because they will be repaid with current financial resources.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Governmental funds do not report donated capital assets received unless the sale of those assets is imminent. The assets are reported in the government-wide financial statements.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

Cash, Deposits and Investments 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. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The State Treasurer's Investment Fund operates in accordance with state laws and regulations. The reported value of the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less when purchased meet this definition.

Receivables and Payables Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as *due to or due from other funds*.

Inventories and Prepaid Items Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	50 years
Machinery and equipment	5 years

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

Compensated Absences For governmental funds, amounts of vested or accumulated personal time off (PTO) are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Accumulated PTO may be paid to employees upon termination or retirement if approved by the City Manager.

Deferred Inflows and Outflows of Resources Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time.

Governmental funds report revenue that is unavailable as deferred inflows of resources. Governmental funds report unavailable revenue from property taxes and from special assessments. These amounts are deferred and recognized as revenue in the period that the amount become available.

Deferred outflows of resources represent a consumption of net position that applies to a future period and is therefore deferred until that time.

Long-Term Obligations In the government-wide financial statements, long-term debt and other long-term obligations are generally reported as liabilities in the governmental activities and statement of net position. Bond premiums and discounts are amortized over the life of the applicable debt. Bond issuance costs are reported as an expense of the current period. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as *other financing sources* while discounts on debt issuances are reported as *other financing uses*. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. As of and for the year ended June 30, 2018, the City has outstanding tax and revenue anticipation notes. Although these notes are classified as debt, they are recorded in the government-wide and governmental fund financial statements because they will be repaid with current financial resources.

Fund Balance Governmental fund balance is reported in five separate categories: Nonspendable, restricted, committed, assigned, and unassigned. When both restricted and unrestricted fund balance is available for use, it is the City's policy to use restricted fund balance first. When expenditures qualify for more than one unrestricted fund balance classification, it is the City's policy to use resources in the following order: Committed, assigned, and then unassigned.

Restricted Assets Restricted assets are comprised of receivables for Class C road projects.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by the 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. The City has no pension liability as of June 30, 2018.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

Capital related items:

When capital assets (property, plant and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 154,759,972
Accumulated depreciation	<u>(3,307,385)</u>
Capital assets, net	<u><u>\$ 151,452,587</u></u>

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Explanation of Certain Differences Between Governmental Fund Operating Statements and the Statement of Net Activities

The governmental fund statement of revenues, expenditures, and change in fund balances includes a reconciliation between net change in fund balances - total governmental fund and change in net position of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays and contributions are reported in the governmental fund as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follow:

Capital outlays and contributions	\$ 788,929
Depreciation expense	<u>(1,684,105)</u>
Net difference, as reported	<u><u>\$ (895,176)</u></u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- For the fiscal year beginning July 1, the Mayor submits a proposed budget to the City Council by the first City Council meeting in May. The budget includes proposed expenditures and the means of financing them.
- By passage of a resolution, the budget is legally enacted on or before June 15, after a public hearing has been held.
- Once adopted, the budget can be amended by subsequent City Council action. The budget officer is authorized to transfer budgeted amounts between departments within any fund; however, the City Council must approve any revisions that alter the total expenditures of any fund. Increased appropriations require a public hearing to amend the budget.
- Interim adjustments of estimated revenues and appropriations, during the year ended June 30, 2018, have been included in the final budget approved by the City Council, as presented in the basic financial statements.
- As determined by state law, the level by which expenditures may not legally exceed appropriations is the total departmental budgets within a given fund.
- Unencumbered appropriations lapse at the end of each fiscal year.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgetary Information (Continued)

An annual budget for the General Fund was legally adopted by the City and is prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of actual versus such budgets for governmental funds.

Tax Revenues

Property taxes are collected by the Salt Lake County Treasurer and remitted to the City in two to three installments in November, December, and January of each fiscal year and a final settlement by March 31st. Taxes are levied and are due and payable on November 1st and delinquent after November 30th of each year at which time they become liens if not paid. An accrual of delinquent current and prior year's property taxes beyond that which was received within 60 days after fiscal year end has not been made, as the amounts are not deemed to be material. An accrual for current year property taxes estimated to be collected the following November and December is made each year.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30th and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, semi-annual, or annual basis. An accrual has not been made for fees due and payable to the City at June 30th as the amounts are not deemed to be material.

4. DETAILED NOTES FOR ALL FUNDS

Deposits and Investments

Utah State law establishes the rules and regulations for deposits and investments and is known as the Utah Money Management Act. The Act established the Money Management Council that promulgates additional rules and determines which financial institutions may qualify to hold deposits and investments for state and local entities. The City has complied with the Utah Money Management Act and rules of the Money Management Council with regard to deposits and investments.

As of June 30, 2018, the City's demand deposits amounted to \$1,627,770.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Deposits and Investments (Continued)

As of June 30, 2018, the City had investments in the Utah Public Treasurer's Investment Fund of \$8,068,605. The fund is not rated and the weighted average maturity was less than 90 days.

Custodial Credit Risk - Deposits This is the risk that in the event of a bank failure, the City's deposits may not be returned. As of June 30, 2018, \$250,000 of the City's \$1,627,770 bank balance was insured by FDIC limits and, therefore, is not exposed to custodial credit risk. The Utah Money Management Act does not require deposits to be insured or collateralized and the City has no formal policy regarding deposit credit risk. The Act requires that the City keep deposits in a qualified depository, which the City has done.

Custodial Credit Risk – Investments This is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City has no formal policy regarding custodial credit risk for investments. Money invested in the Utah Public Treasurer's Investment Fund is pooled with many other state and local entities, and is managed by the Utah State Treasurer. The Fund is not categorized as to custodial credit risk.

Interest Rate Credit Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss from changes in interest rates is to follow the Utah Money Management Act and only invest in instruments that mature in one year or less. Investments within the Public Treasurer's Investment Fund have a weighted average maturity of less than ninety days.

Credit Risk is the risk that an issuer will not fulfill its obligations. The City policy is consistent with and complies with the Utah State Money Management Act. Investment is limited to U.S. Treasuries, U.S. Government Agency instruments, Utah Public Treasurer's Investment Fund, and other instruments that are rated A or higher by Standard & Poor's or Moody's. The City only invested in the Utah Public Treasurer's Investment Fund and U.S. Treasury securities during the year.

Concentration of Credit risk City policy requires diversification and limits the amount that may be invested in the same company. First, the City may not invest more than 20% of its idle funds outside of the Utah Public Treasurer's Investment Fund. Second, not more than 10% of the total portfolio may be invested in a single company's credit instruments. The Utah Public Treasurer's Investment Fund is highly diversified and must comply with various rules of the Utah State Money Management Act and Money Management Council.

The deposits and investments described above are included on the government-wide statement of net position as follows:

Cash and cash equivalents	\$ 9,424,819
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MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Accounts Receivable

Receivables as of June 30, 2018 for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General
Receivables:	
Taxes	\$ 12,372,700
Intergovernmental	355,671
Gross receivables	12,728,371
Less: allowance for uncollectibles	-
Net total receivables	\$ 12,728,371

Governmental funds report *deferred revenue* as deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2018, the various components of *deferred revenue* and *unearned revenue* reported in the government fund were as follows:

	Deferred Inflows of Resources	Unearned
Property taxes receivable	\$ 10,357,045	\$ -
Total deferred inflows of resources/ unearned revenue, governmental funds	\$ 10,357,045	\$ -

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 was as follows:

	7/1/17	Increases	Decreases	6/30/18
<u>Governmental activities</u>				
Capital assets:				
Land	\$ 73,005,060	\$ -	\$ -	\$ 73,005,060
Improvements	-	531,653	-	531,653
Infrastructure	80,943,984	-	-	80,943,984
Machinery and equipment	21,999	257,276	-	279,275
Total capital assets	<u>153,971,043</u>	<u>788,929</u>	<u>-</u>	<u>154,759,972</u>
Accumulated depreciation:				
Improvements	-	(10,633)	-	(10,633)
Infrastructure	(1,618,880)	(1,618,879)	-	(3,237,759)
Machinery and equipment	(4,400)	(54,593)	-	(58,993)
Total accumulated depreciation	<u>(1,623,280)</u>	<u>(1,684,105)</u>	<u>-</u>	<u>(3,307,385)</u>
Net governmental capital assets	<u>\$152,347,763</u>	<u>\$ (895,176)</u>	<u>\$ -</u>	<u>\$ 151,452,587</u>

In the government-wide financial statements depreciation was charged as follows by program or activity:

Governmental activities:	
General government	\$ 65,226
Highways and public improvements	<u>1,618,879</u>
Total depreciation expense - governmental activities	<u>\$ 1,684,105</u>

As discussed in note 5, the City recorded additional capital assets that were deemed to have been transferred at June 30, 2017.

Tax and Revenue Anticipation Notes

On January 15, 2018, the City issued Tax and Revenue Anticipation Notes Series 2018 for \$4,927,000 where future revenues are pledged as security for the notes. The notes bear interest of 2.5% and mature on June 30, 2018. As of June 30, 2018, \$4,927,000 was still outstanding. On July 9, 2018, the notes were paid off in connection with the issuance of Tax and Revenue Anticipation Notes Series 2018B for \$9,997,000. The Series 2018B notes bear interest of 2.95% and are scheduled to mature on December 31, 2018.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2018

4. DETAILED NOTES FOR ALL FUNDS (CONTINUED)

Other Information

Risk Management The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance through the Utah Local Government Insurance Trust for all of these risks of loss. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

City Management estimates that the amount of other actual or potential claims against the City as of June 30, 2018 will not materially affect the financial condition of the City.

5. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required in the City's Governmental Activities to record roads transferred to the City during the period ended June 30, 2017. This resulted in an increase in capital assets and net position in the government-wide financial statements in the amount of \$59,921,104. The governmental fund financial statements were not affected by this adjustment.

Hansen, Bradshaw, Malmrose & Erickson

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

Mayor and City Council
Millcreek, Utah

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 the governmental activities and each major fund of Millcreek, Utah (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

November 16, 2018

Hansen, Bradshaw, Malmrose & Erickson

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INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH THE *STATE COMPLIANCE AUDIT GUIDE* ON COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS, AND INTERNAL CONTROL OVER COMPLIANCE

Major and City Council
Millcreek, Utah

Report On Compliance with General State Compliance Requirements

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

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

Budgetary Compliance	Restricted Taxes and Related Revenues
Fund Balance	Open and Public Meetings Act
Cash Management	Treasurer's Bond

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on General State Compliance Requirements

In our opinion, Millcreek, Utah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the state compliance requirements referred to above to determine the audit that are appropriate in the circumstances for the purpose of expressing our opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a state compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a state compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of 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 communication is not suitable for any other purpose.

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

November 16, 2018