SOUTH DAVIS SEWER DISTRICT
West Bountiful, Utah

Audited Financial Statements
For the Fiscal Years Ended December 31, 2025 and 2024

SOUTH DAVIS SEWER DISTRICT
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Year Ended December 31, 2025

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Davis Sewer District

Report on the Basic Financial Statements

Opinion

We have audited the statements of net position of South Davis Sewer District (the District) as of December 31, 2025 and 2024, the statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Davis Sewer District as of December 31, 2025 and 2024, and the changes in its financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Davis Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

South Davis Sewer District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the modified approach for eligible infrastructure assets, the schedules of the District's proportionate share of the net pension liability (asset), schedules of District contributions, and notes to required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a required 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 inquires of management regarding 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 a report, dated June 17, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Squire & Company, PC

Orem, Utah
June 17, 2026

SOUTH DAVIS SEWER DISTRICT
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2025 and 2024
(unaudited)

This section presents management's discussion and analysis of the financial position and performance of the South Davis Sewer District for the fiscal year ending December 31, 2025, with comparative totals for December 31, 2024. It is presented as a narrative overview and analysis of the financial activities of the District. Please read it in conjunction with the Basic Financial Statements and Notes to the Financial Statements, and the other information which is presented in the Financial Section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded their liabilities and deferred inflows of resources at the close of the fiscal year 2025 by $125,755,842, a 7.6% increase from 2024. In 2024 and 2023 the District's net position was $116,858,452 and $105,590,968, respectively. Net investment in capital assets is 75.8% of the District's total net position at the close of 2025.
- Operating revenues increased by $2,183,464 and operating expenses increased by $1,311,526 during 2025 compared to 2024.
- The District transferred $21,471,652 of capital assets to their joint venture Wasatch Resource Recovery, LLC (WRR) during 2025. This transfer increased the District's investment in WRR.
- During 2025, the District abandoned a capital asset project causing a loss on capital assets of $1,773,216.
- The District issued new bonds (series 2025) totaling $35,000,000 to fund construction at the South Plant.

Overview of the Financial Statements

This analytical review and communication aim to introduce the District's financial position. The District's basic financial statements include (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows, (4) Notes to Financial Statements, and (5) Required Supplementary Information.

The scope of the District's financial statements covers the entire entity. The basis of accounting is accrual, and the measurement focus encompasses all economic resources. All revenues and expenses are recorded, irrespective of when the cash transactions occur.

The District uses an enterprise fund to account for fiscal activities related to wastewater collection and treatment in south Davis County. An enterprise fund is a type of proprietary fund used by governments to report activities where users pay fees for services provided. The financial statements of the District are designed to offer readers a comprehensive overview of its finances, similar to a private sector business. The District's accounting cycle follows the calendar year.

The ***Statements of Net Position*** show the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The ***Statements of Revenues, Expenses, and Changes in Net Position*** show how the District's net position changed during the years presented. Changes in net position are reported as the event giving rise to the change occurs, regardless of the timing of related cash flows (e.g. uncollected fees charged and earned but unused leave).

The ***Statements of Cash Flows*** detail the District's cash receipts and payments within the reporting period. It covers operating, investing, and financing activities, explaining the sources, uses, and changes in cash balance.

The ***Notes to Financial Statements*** offer additional information necessary to understand the data in the financial statements.

Required Supplementary Information provides additional details beyond the basic financial statements and notes on infrastructure assets and pensions.

Financial Analysis of the District

The District's net position may serve over time as a useful indicator of a government's financial position. In the case of the South Davis Sewer District, the net position at the end of fiscal year 2025 was $125,755,842.

The following tables summarize information presented in the financial statements:

SOUTH DAVIS SEWER DISTRICT
Condensed Statements of Net Positon
December 31, 2025, 2024, and 2023

	2025	2024	2023
Current and other assets	$ 83,362,124	$ 51,042,341	$ 19,584,555
Capital assets	149,305,021	138,498,122	124,698,019
Total assets	232,667,145	189,540,463	144,282,574
Deferred outflows of resources	1,603,345	1,518,763	1,240,960
Total assets and deferred outflows of resources	$ 234,270,490	$ 191,059,226	$ 145,523,534
Current liabilities	$ 8,175,255	$ 9,272,430	$ 3,823,761
Non-current liabilities	99,151,376	64,074,492	35,854,140
Total liabilities	107,326,631	73,346,922	39,677,901
Deferred inflows of resources	1,188,017	853,852	254,665
Total liabilities and deferred inflows of resources	108,514,648	74,200,774	39,932,566
Net position:			
Net investment in capital assets	95,260,973	97,877,634	93,270,182
Unrestricted	30,494,869	18,980,818	12,320,786
Total net position	125,755,842	116,858,452	105,590,968
Total liabilities, deferred inflows of resources, and net position	$ 234,270,490	$ 191,059,226	$ 145,523,534

SOUTH DAVIS SEWER DISTRICT'S
Revenues, Expenses, and Changes in Net Positon
Year Ended December 31, 2025, 2024, and 2023

	2025	2024	2023
Operating revenues	$ 16,300,457	$ 14,116,993	$ 12,468,819
Operating expenses	(11,873,255)	(10,561,729)	(10,959,547)
Operating income	4,427,202	3,555,264	1,509,272
Nonoperating revenues	9,967,707	9,096,003	7,470,025
Nonoperating expenses	(7,205,256)	(3,093,260)	(3,013,929)
Total nonoperating revenues (expenses)	2,762,451	6,002,743	4,456,096
Increase in net position before capital contributions	7,189,653	9,558,007	5,965,368
Capital contributions	1,707,737	1,709,477	1,407,967
Change in net position	8,897,390	11,267,484	7,373,335
Net position at beginning of year	116,858,452	105,590,968	98,217,633
Net position at end of year	$ 125,755,842	$ 116,858,452	$ 105,590,968

The largest portion of the District’s net position reflects its investment in capital assets ($95,260,973 or 75.8%) less any related debt used to acquire those assets. The District uses these capital assets to provide wastewater services to its customers (citizens). It should be noted that resources needed to repay debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net position is unrestricted ($30,494,869 or 24.2%) and may be used to meet the District’s ongoing obligations. This balance includes the District’s proportionate share of the net pension liability and related deferred outflows and inflows of resources of the defined benefit pension plans administered by the Utah Retirement Systems.

In comparing 2025 with 2024, the following items should be noted:

The 2025 operating revenues were $16,300,457, an increase of 15.5% compared to $14,116,993 in 2024 due to new construction of homes and businesses within the District and by an $8/month sewer service fee increase that was implemented midyear in 2024.

The 2025 operating expenses were $11,873,255, an increase of 12.4% compared to $10,561,729 in 2024. In 2025, personnel services (salaries and benefit) expenses increased due to cost-of-living adjustments and repairs and maintenance increased.

Nonoperating revenues and expenses decreased by $3,240,292 for a total of $2,762,451. The key changes were increased investment earnings due to more cash on hand offset by increased interest expense with new bonds, loss on disposal of capital asset as a result of the abandonment of a capital asset project, and larger allocated losses from its investment in WRR.

Capital contributions were $1,707,737and $1,709,477 for 2025 and 2024, respectively. Capital contributions primarily come from deeded sewer lines to the District from developers and contractors.

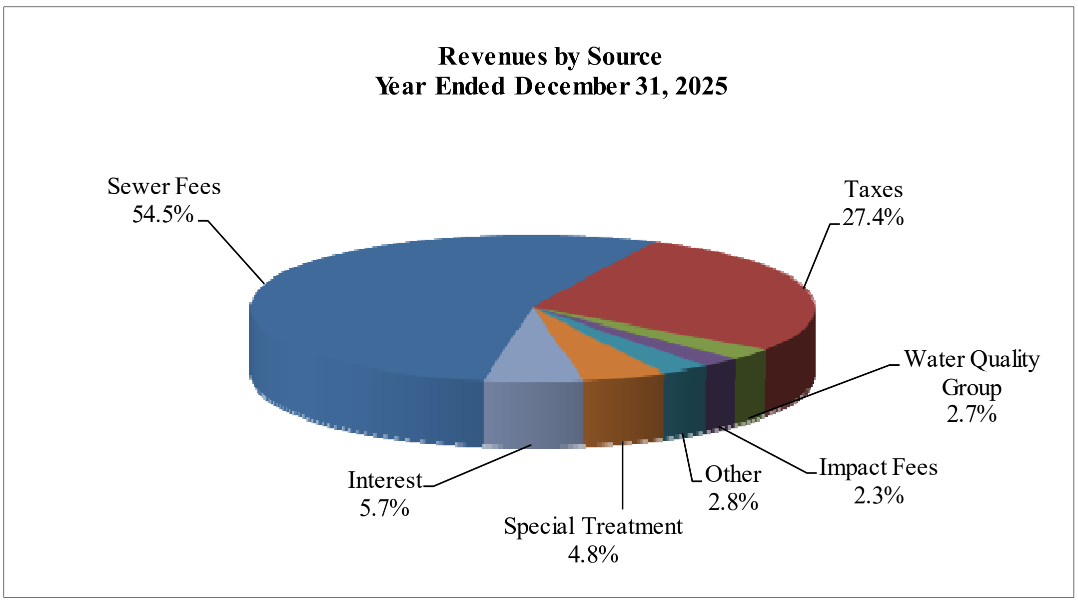
In comparing 2024 with 2023, the following items should be noted:

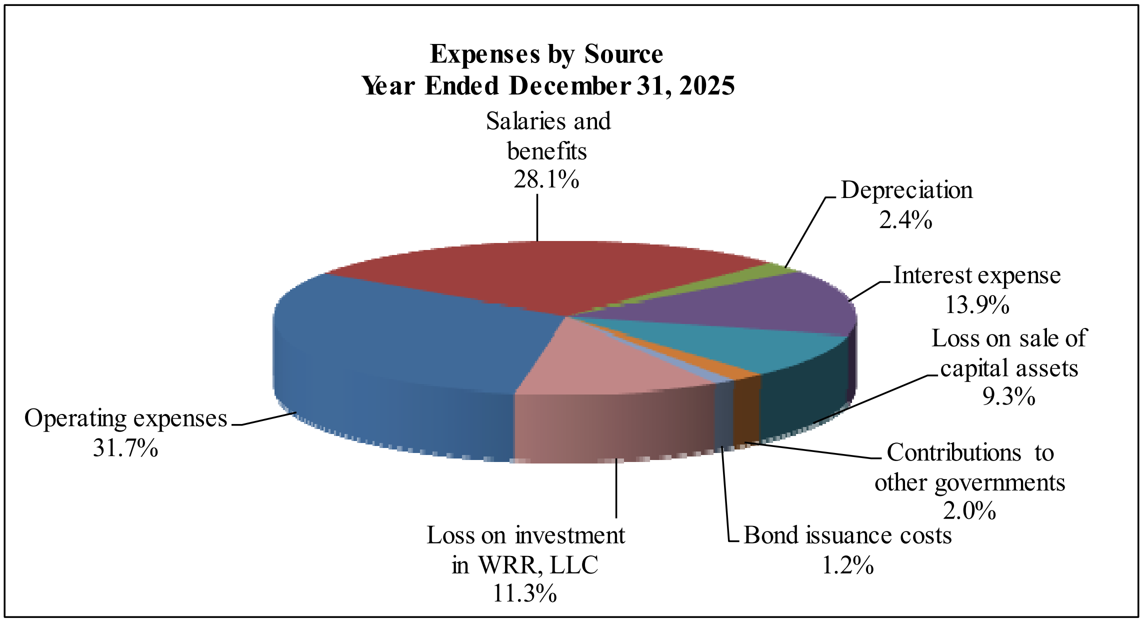
In 2024 the operating revenues were $14,116,993, an increase of 13.2% compared to $12,468,819 in 2023 mainly from new construction of homes and businesses within the District as well as an $8/month sewer service fee increase to fund construction at the North Plant. The increase was for half of the year's billings.

In 2024 the operating expenses were $10,561,729, a decrease of 3.6% comparted to $10,681,088 in 2023. In 2024, personnel services (salaries and benefit) expenses decreased 5.0% from 2023. Despite a tight labor market, increasing health care costs and the increase in the cost of living (COLA) were offset by changes to pension-related accounts, some personnel retirements, and other staff attrition.

Nonoperating revenues and expenses increased by $1,546,647 for a total of $6,002,743. The key changes were increased property taxes due to a 50.0% tax increase enacted by the District in 2023 to offset increased operating costs and the reduction of federal revenue due to an expiring grant.

Capital contributions were $1,709,477 and $1,407,967 for 2024 and 2023, respectively. Capital contributions primarily comes from deeded sewer lines to the District from developers and contractors.





Capital Assets

The capital assets of the District are made up of land, buildings and treatment plant facilities, a collection system of lines and pipes, and equipment.

The District had $149,305,021, $138,498,122, and $124,698,018 as of 2025, 2024, and 2023, respectively, (net of depreciation) in capital assets. Most of the increase in 2025 was the South Plant and North Plant construction and rehabilitation projects. There was also decrease due to the transfer of assets to WRR and the abandonment of a project. This represents a net increase of 7.8% in 2025 as shown in the tables below:

SOUTH DAVIS SEWER DISTRICT'S
Condensed Capital Assets, net of depreciation
December 31, 2025, 2024, and 2023

	2025	2024	2023
Land	$ 3,070,568	$ 3,070,568	$ 3,070,568
Construction in progress	44,024,639	28,962,868	16,705,693
Infrastructure	97,566,399	97,076,686	95,367,209
Equipment	4,643,415	9,388,000	9,554,549
Total capital assets	$ 149,305,021	$ 138,498,122	$ 124,698,018

Studies have shown that every dollar of preventative maintenance spent in the first 10 years of an asset will save $4-5 over the second 10 years (Iowa Department of Transportation). The District has an aggressive asset management program to prolong the useful life of its assets.

Additional information on the District's capital assets can be found in Note 7.

Debt Administration and Long-Term Liabilities

The District issued 20-year taxable revenue bonds (Series 2017A) to finance the construction of the Wasatch Resource Recovery (WRR) renewable energy project. The par amount of these bonds was $21,195,000. The outstanding bonds payable (net book value) amount was $14,863,918 as of the end of 2025. The closing date for the bonds was May 17, 2017, and the maturity date is December 1, 2037. The average coupon rate is 4.2%. Bonds maturing on and after December 1, 2027, are callable at par on December 1, 2026.
On December 3, 2019, the District issued revenue bonds (Series 2019) in the amount of $12,179,000. These bonds will mature on December 1, 2039, and have an average coupon rate of 2.2%. The purpose of the Series 2019 bonds is to fund treatment plant rehabilitation and ABNR projects that are required by the State of Utah, Division of Water Quality (DWQ) and the Environmental Protection Agency (EPA) to meet new wastewater standards.

On December 21, 2021, the District issued combined utility revenue bonds (Series 2021) in the amount of $10,000,000 to fund additional treatment plant rehabilitation and the ABNR project. These bonds mature in 20 years (2041). The average coupon rate is 2.1%.

On December 18, 2024, the District closed on direct placement revenue bonds to continue financing North Plant Construction in the amount of $30,610,000. The interest rate for these bonds is 4.8%, and the maturity date is December 1, 2054.

On December 18, 2025, the District closed on direct placement revenue bonds to continue financing South Plant Construction in the amount of $35,000,000. The interest rate for these bonds is 6.5%, and the maturity date is December 1, 2055.

SOUTH DAVIS SEWER DISTRICT'S
Condensed Outstanding Debt, net of unamortized premiums and discounts
December 31, 2025, 2024, and 2023

	2025	2024	2023
Revenue bonds payable	$ 99,934,533	$ 65,135,873	$ 36,415,526

For additional information on the District's debt see Note 9.

Modified Approach to Accounting for Infrastructure

Starting January 1, 2004, the District elected to use the Modified Approach instead of the Depreciation Approach to manage capital assets and correct any deficiencies of its qualifying networks or subsystems of infrastructure assets (Collection system, lift stations and treatment plant facilities) as defined by *GASB Statement No. 34*. The Modified Approach reflects a more accurate portrayal of infrastructure value. Using the Depreciation Approach does not consider the value added or maintained due to maintenance and rehabilitation efforts to extend the life of the asset. When possible, the District utilizes the experience and knowledge of its employees to perform most of the preservation procedures to its infrastructure assets to keep costs low.

The District's Asset Management Plan (AMP) defines a condition rating scale between 1 and 5, with 1 being very good and 5 being very poor. The District's target level of service is a rating between 1 and 3.

Funds totaling $893,000 were budgeted and funds expended were $1,214,955 in 2025 to rehabilitate and correct those identified deficiencies in the collection system, treatment plants and lift station systems. Funds totaling $1,725,000 have been budgeted for 2026. The District has always budgeted and expended significant funds for this purpose. The estimated budget required to maintain and preserve the current overall condition through the fiscal year ending December 31, 2031, is $865,000 per year.

There have been no significant changes in the condition level of the collection system, treatment plants, lift stations and their related subsystems compared to the target levels, except for the cogeneration system, it has a conditional level of 5 and has been taken out of service due to problems with siloxane and digester gas. The next conditional assessment sample is scheduled for 2027 for all infrastructure assets.

Additional information about the Modified Approach can be found in the Supplementary Information Section of this report.

Economic Factors, Next Year's (2026) Budget, and Rates

- The District continues to approach budgeting for revenues conservatively with the focus on long-term sustainability. Utah's economy is projected to remain strong and stable in 2026, characterized by low 3.3% forecasted unemployment, moderate job and wage growth, continued population growth, and steady consumer spending. Economic growth is expected to continue at a measured pace despite national economic uncertainties. (2026 Governor Economic Report)

- The 2026 debt service for the five 20-30 year revenue bonds, (series 2017A, 2019, 2021, 2024 and 2025), will be interest payments totaling $4,122,606 and principal payments totaling $2,525,000. Total debt service for 2026 will be $6,647,606. This debt service will include the 2025 revenue bond series that was issued in December 2025.

- The Utah State Tax Commission proposed a certified tax rate property tax values for 2026 of $15,036,798,935. According to the Davis County Assessor, property values are to increase modestly or level off in 2026. The certified tax revenue for 2026 is projected to be $6,495,897. The proposed property tax rate for 2026 is 0.000432, a 4.4% decrease from 2025.

- Interest rates remain elevated relative to long-term historical averages, with the Federal Funds Rate currently in the 3.50%–3.75% range. While rates have moderated from recent highs, they remain sufficient to support strong investment earnings while continuing to influence borrowing costs for future capital financing.

- $1,725,000 is budgeted for repairs and maintenance of the District's infrastructure and is broken down as follows: $1,225,000 for the collection system and lift stations and $500,000 for treatment plants. It is projected that 2 new employees, at a projected cost of $300,000, will be needed to operate the treatment plants.

- It's probable a sewer service rate increase will take place in 2027. The current monthly sewer service rate is $27 and could increase to $32 in 2027. The purpose of this rate increase is to cover additional debt service for the District's treatment plant, rehabilitation and construction expenses mandated by the Utah Division of Water Quality and the Environmental Protection Agency (EPA), and operation costs due to inflation and increased power usage from new plant upgrades.

Requests for Information

This financial report is designed to provide a general overview of the South Davis Sewer District finances and to demonstrate accountability and transparency in its operations. If you have questions about this report or need additional information, please contact the District's Office, at 1800 W 1200 N, West Bountiful, mailing address P. O. Box 140111, Salt Lake City, Utah 84114-0111, by phone at (801) 295-3469.

BASIC FINANCIAL STATEMENTS

SOUTH DAVIS SEWER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 16,685,199	$ 9,994,593
Investments	2,120,311	2,030,261
Receivables:		
Sewer service charges	1,044,689	937,593
Property taxes	2,017,809	2,199,522
Special treatment charges	195,410	202,273
Leases	1,183,356	846,773
Other, net	308,820	66,980
Prepaids	722,240	571,769
Inventory	21,172	27,105
Total current assets	24,299,006	16,876,869
Capital Assets:		
Land, construction in progress, sewer treatment facility and collection system	144,661,606	129,110,122
Machinery and equipment, mobile equipment, and office furniture and collection system, net of accumulated depreciation	4,643,415	9,388,000
Net capital assets	149,305,021	138,498,122
Other Assets:		
Restricted cash and cash equivalents	35,178,078	30,305,267
Investment in WRR, LLC	23,872,807	3,844,924
Reimbursable costs	12,233	15,281
Total other assets	59,063,118	34,165,472
Total assets	232,667,145	189,540,463
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	1,603,345	1,518,763

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

SOUTH DAVIS SEWER DISTRICT
STATEMENTS OF NET POSITION (Continued)
December 31, 2025 and 2024

		2025		2024
LIABILITIES				
Current Liabilities:				
Current portion of bonds payable	$	2,525,000	$	2,515,000
Accounts payable		2,643,504		4,827,078
Construction retention payable		2,100,544		1,292,078
Accrued salaries and related benefits		143,579		134,671
Accrued interest		336,664		199,765
Current portion of compensated absences		425,964		303,838
Total current liabilities		8,175,255		9,272,430
Long-Term Liabilities:				
Bonds payable, net of unamortized discount, less current portion		97,409,533		62,620,873
Compensated absences, less current portion		520,622		600,158
Net pension liability		1,221,221		853,461
Total long-term liabilities		99,151,376		64,074,492
Total liabilities		107,326,631		73,346,922
DEFERRED INFLOWS OF RESOURCES:				
Related to pensions		4,661		7,079
Related to leases		1,183,356		846,773
Total deferred inflows of resources		1,188,017		853,852
NET POSITION				
Net investment in capital assets		95,260,973		97,877,634
Unrestricted		30,494,869		18,980,818
Total net position	$	125,755,842	$	116,858,452

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

SOUTH DAVIS SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues:		
Sewer service charges	$ 14,305,485	$ 12,211,910
Sewer special treatment charges	1,256,126	1,072,576
Inspection and project fees	80,740	43,200
Other operating revenues	658,106	789,307
Total operating revenues	16,300,457	14,116,993
Operating Expenses:		
Personnel services	5,365,690	5,011,364
Contractual services	687,189	641,757
Utilities	712,228	651,444
Repairs and maintenance	3,772,123	3,091,113
Supplies	600,619	602,395
Insurance	275,350	242,279
Depreciation	460,056	321,377
Total operating expenses	11,873,255	10,561,729
Operating Income	4,427,202	3,555,264
Nonoperating Revenues (Expenses):		
Property taxes	7,189,669	7,151,620
Intergovernmental contributions	700,000	750,000
Impact fees	593,263	258,508
Investment earnings	1,484,775	880,362
Interest expense	(2,659,408)	(1,252,693)
Bond issuance costs	(230,492)	(156,454)
Loss on investment in WRR, LLC	(2,160,222)	(1,437,358)
Contributions to other governments	(377,704)	(246,755)
Gain (loss) on the sale of capital assets	(1,777,430)	55,513
Total nonoperating revenues (expenses)	2,762,451	6,002,743
Income Before Capital Contributions	7,189,653	9,558,007
Capital Contributions:		
Developer contributed sewer lines	1,707,737	1,709,477
Change in Net Position	8,897,390	11,267,484
Net Position at Beginning of Year	116,858,452	105,590,968
Net Position at End of Year	$ 125,755,842	$ 116,858,452

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

SOUTH DAVIS SEWER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

	2025	2024
Cash Flows from Operating Activities:		
Cash received from customers	$ 15,954,200	$ 13,817,706
Cash paid to suppliers	(11,211,462)	(6,253,711)
Cash paid to employees and for benefits	(5,033,432)	(5,094,480)
Net cash provided (used) by operating activities	(290,694)	2,469,515
Cash Flows from Noncapital Financing Activities:		
Intergovernmental contributions collected	700,000	750,000
Property taxes collected	6,993,678	5,749,103
Net cash provided by noncapital financing activities	7,693,678	6,499,103
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(2,494,463)	(1,121,099)
Impact fees collected	593,263	258,508
Purchases of capital assets	(29,138,965)	(7,038,120)
Proceeds from sale of capital assets	349,783	330,249
Proceeds from issuance of bonds	36,864,844	29,941,550
Principal payments on bonds payable	(2,515,000)	(1,919,000)
Net cash provided by capital and related financing activities	3,659,462	20,452,088
Cash Flows from Investing Activities:		
Net purchases of investments	(85,823)	(88,311)
Contributions made to WRR, LLC	(900,986)	(2,511,936)
Interest received	1,487,780	830,671
Net cash provided (used) by investing activities	500,971	(1,769,576)
Net Change in Cash	11,563,417	27,651,130
Cash at Beginning of Year	40,299,860	12,648,730
Cash at End of Year (see Note 2)	$ 51,863,277	$ 40,299,860

A reconciliation of operating income to cash flows provided (used) by operating activities follows:

	2025	2024
Operating income	$ 4,427,202	$ 3,555,264
Depreciation	460,056	321,377
Changes in operating assets and liabilities:		
Receivables	(349,305)	(304,691)
Prepaids	39,807	(25,425)
Inventory	5,933	(2,384)
Reimbursable costs	3,048	5,404
Accounts and construction retention payable	(5,209,693)	(996,914)
Accrued expenses	51,498	41,151
Net pension asset, liability, and related deferrals	280,760	(124,267)
Net cash provided (used) by operating activities	$ (290,694)	$ 2,469,515

	2025	2024
Noncash financing, capital, or investing activities:		
Loss on investment in WRR, LLC	$ (2,160,222)	$ (1,437,358)
Assets transferred to WRR, LLC	(21,287,119)	-
Accounts payable and retainage payable acquistion of capital assets	(3,834,585)	(5,648,619)
Developer contributed sewer lines	1,707,737	1,709,477
Change in fair value of investments	4,227	23,884
Recording of lease receivable	(349,713)	(613,553)
Recording of deferred inflows of resources related to leases	349,713	613,553
Pass-through property taxes contributed to other governments	377,704	246,755

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Davis Sewer District (the District) are in compliance with generally accepted accounting principles applicable to local governmental units. The following is a summary of the more significant policies.

The Reporting Entity

South Davis Sewer District is organized as a special service district in Davis County. The District's purpose is to provide sewage treatment and disposal services and facilities for participating cities and customers.

The District accounts for its operations as an enterprise (proprietary-type) fund; activities are financed and operated in a manner similar to private business enterprises where the intent of the Board is that the costs (expenses, including depreciation) of providing goods or services to members and the general public on a continuing basis be financed or recovered primarily through user charges.

Measurement Focus and Basis of Accounting

The financial statements are maintained on the accrual basis of accounting, under which revenues are recognized in the period in which they are earned and become measurable, and expenses are recorded in the period incurred if measurable.

The District distinguishes operating revenues and expenses from nonoperating items by whether or not transactions are related to the District's daily operations of its wastewater treatment and disposal services and facilities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Basis

The basis of budgeting is the same as the basis required by accounting principles generally accepted in the United States of America (GAAP) except for the following: 1) bond principal payments, 2) depreciation, and 3) capital expenditures are budgeted as nonoperating expenditures. The District is required by state statute to adopt a budget prior to the beginning of each fiscal year. The budgetary report is reconciled to the basic financial statements (GAAP basis) as noted in the other supplementary information.

Cash and Cash Equivalents

For cash flow reporting, cash and cash equivalents include amounts in demand deposits, investments in the Utah Public Treasurers' Investment Fund, as well as short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable from customers primarily represent assessments to member cities. An allowance for doubtful accounts has been established of $0 and $1,607,296 at December 31, 2025 and 2024, respectively.

Leases

The District is a lessor for noncancelable leases of land. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of the leases, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (a) the discount rate it uses to discount the expected lease receipts to present value, (b) least term, and (c) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessees.

The District monitors changes in the circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of lease receivable.

Inventory and Prepaids

Inventory is valued at cost using the first-in/first-out method and consist of expendable supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaids. The cost of prepaids is recorded as an expense when consumed rather than when purchased.

Capital Assets

The District elects to use the *Modified Approach* for infrastructure reporting for its sewer treatment facility and collection system. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed. Capital assets are recorded at cost. The capitalization threshold is defined to be assets with an initial or individual cost greater than $5,000.

Donated capital assets are recorded at their estimated acquisition value at the date of donation. When constructing capital assets, interest expense incurred relating to activities is not capitalized, but expensed in the period in which the cost is incurred. Capital assets, except land and easements, are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Machinery and equipment	7 to 15 years
Mobile equipment	5 to 10 years
Office furniture and equipment	2 to 10 years

Upon the sale or retirement of capital assets, the related asset's cost and accumulated depreciation are removed from the applicable accounts and a gain or loss on disposal is recorded.

Compensated Absences

The District records compensated absences for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability is recognized if the leave is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or paid out upon termination or retirement.

The District permits eligible employees to accumulate earned, but unused, vacation and sick leave benefits while they are working for the District. There are also a few eligible employees who earn compensatory leave. When an employee terminates or retires, the District pays 100 percent of their vacation and compensatory leave. In addition to the vacation and compensatory payout, the District also pays that employee 50 percent of their accrued sick leave.

Pensions

For purposes of measuring the net pension liability (asset), 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 (URS) and additions to/deductions from the 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. Pension plan investments are reported at fair value.

Long-Term Obligations

Bond discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of unamortized bond discounts.

Deferred Outflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

Net position is divided into three components: net investment in capital assets (capital assets net of related debt less unspent bond proceeds and other capital-related liabilities), restricted, and unrestricted. Net position is reported as restricted when constraints are placed upon it by external parties or are imposed by constitutional provisions or enabling legislation.

Impact Fees

The District collects connection fees that are defined as impact fees. The District must expend these impact fees on capital expenditures relating to the infrastructure of the District. The District had impact fee reserves (impact fees collected and not spent on capital expenditures) of $0 at December 31, 2025 and 2024. Revenues from impact fees were $593,263 and $258,508 for the years ended December 31, 2025 and 2024, respectively.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments are carried at fair value. A reconciliation of cash and investments, as shown on the financial statements, is as follows at December 31, 2025 and 2024:

	2025	2024
Carrying amount of deposits	$ 767,872	$ 774,379
Carrying amount of investments	53,215,716	41,555,742
Total deposits and investments	$ 53,983,588	$ 42,330,121
Current assets - cash and cash equivalents	$ 16,685,199	$ 9,994,593
Current assets - investments	2,120,311	2,030,261
Other assets - restricted cash and cash equivalents	35,178,078	30,305,267
Total deposits and investments	$ 53,983,588	$ 42,330,121

The District complies with the State Money Management Act (Utah Code Section 51, Chapter 7) (Act) and related Rules of the Money Management Council (Council) in handling its depository and investing transactions. The District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, money market mutual funds, and obligations of governmental entities within the state of Utah.

The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

Deposits

The District's carrying amount of bank deposits at December 31, 2025 is $767,872 and the bank balance is $961,171 ($250,000 of which is covered by federal depository insurance). Uninsured deposits are not collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk in regard to the custody of the District's deposits.

Investments

The District had a balance of $51,095,405 held in the PTIF at December 31, 2025. The PTIF is an external local government investment pool managed by the Utah State Treasurer. The PTIF is authorized and makes investments in accordance with the Act. Participant accounts with the PTIF are not insured or otherwise guaranteed by the state. Participants in the PTIF share proportionally in the income, costs, gains and losses from investment activities. The degree of risk of the PTIF depends upon the underlying portfolio, which consists of debt securities held by the state or in the state's name by the state's custodial banks, primarily consisting of corporate bonds and notes. The portfolio has a weighted average maturity of 90 days or less. The majority of the PTIF's corporate bonds and notes are variable-rate securities, which reset every three months to prevailing market interest rates. The PTIF has no debt securities with more than 5% of its total investments in a single issuer. The PTIF is not rated. The reported fair value of the pool is the same as the fair value of the pool shares and is not required to be reported in the fair value hierarchy.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act and related rules.

The District had the following investment and quality ratings as of December 31, 2025:

		Quality Rating						
Investment Type	Fair Value	Aaa	Aa3	A1	A2	A3	Baa1	Unrated
Investments:								
PTIF	$ 15,917,327	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,917,327
Mutual funds	168,949	168,949	-	-	-	-	-	-
Certificates of deposits	1,546,486	-	306,834	-	-	-	98,649	1,141,003
Corporate bonds	404,875	-	-	202,254	101,252	101,369	-	-
	18,037,637	168,949	306,834	202,254	101,252	101,369	98,649	17,058,330
Restricted investments:								
PTIF	35,178,078	-	-	-	-	-	-	35,178,078
Total investments	$ 53,215,715	$ 168,949	$ 306,834	$ 202,254	$ 101,252	$ 101,369	$ 98,649	$ 52,236,408

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to interest rate risk by complying with the Act, which requires that the remaining term to maturity of investments to not exceed the period of availability of the funds invested. Except for endowments, the Act further limits the remaining term to maturity on all investments in commercial paper and bankers' acceptances to 270 days or less and fixed-income securities to 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years.

The District's investment balances by investment type and maturity are as follows at December 31, 2025:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	5-10	More Than 10
Investments:					
PTIF	$ 15,917,327	$ 15,917,327	$ -	$ -	$ -
Mutual funds	168,949	168,949	-	-	-
Certificates of deposits	1,546,486	358,439	1,188,047	-	-
Corporate bonds	404,875	101,369	303,506	-	-
	18,037,637	16,546,084	1,491,553	-	-
Restricted investments:					
PTIF	35,178,078	35,178,078	-	-	-
Total investments	$ 53,215,715	$ 51,724,162	$ 1,491,553	$ -	$ -

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for managing this risk is to comply with the Act and related rules. The Act limits investments in commercial paper and or corporate obligations to 5% of the District's total portfolio with a single issuer. The District places no other limits on the amount it may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk 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 or collateral securities that are in the possession of an outside party. The District's investment policy is to follow the Utah Money Management Act and to invest mainly in the PTIF. The District's investment policy does not limit the amount that can be held by counterparties.

NOTE 3 – FAIR VALUE MEASUREMENTS

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2025:

Mutual funds are valued at the daily closing price as reported by the fund (Level 1 inputs).

Certificates of deposit are valued at the original amount deposited at the financial institution plus the interest earned on the certificate through the end of the fiscal year (Level 2 inputs).

Corporate bonds are valued using a matrix pricing model (Level 2 inputs).

NOTE 4 – PROPERTY TAXES

District Property Tax Revenue

The property tax revenue of the District is collected and distributed by the Davis County treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 (the legal lien date) and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30.

An annual uniform fee based on the value of motor vehicles is levied in lieu of an ad valorem tax on motor vehicles. This uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. Legislation requires motor vehicles be subject to an "age-based" fee that is due each time a vehicle is registered. The revenues collected in each county from motor vehicle fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when collected.

As of December 31, 2025, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2022 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion.

In addition to property taxes the District levies for it own purposes, the District levies property taxes for community development agencies (located within their boundaries). During the years ended December 31, 2025 and 2024, taxes levied by the District for community development agencies were recorded as revenue with an equivalent amount of expenses in the amount of $377,704 and $246,755, respectively.

NOTE 5 – JOINT VENTURE

In 2017, the District entered into a joint venture with ALPRO SD, LLC (ALPRO), a Utah limited liability company to construct a project that would be jointly owned by the District and ALPRO. During 2025 OPAL Energy Group, LLC (OPAL) bought ALPRO. OPAL and the District each have a 50 percent investment in the Resource Recovery Project. Operations of the jointly-owned project are managed by Wasatch Resource Recovery, LLC (WRR), a Utah limited liability company. The District has a 50 percent member interest in WRR.

The new agreement with OPAL does give daily management operations of WRR to OPAL and they have an option to increase their ownership portion to 80 percent based on meeting certain benchmarks. The agreement also called for the District and OPAL to contribute the assets of WRR, that were previously held by the District and OPAL, to the financial statements of WRR. The District transferred assets valued at $21,287,119 to WRR in 2025.

At December 31, 2025 and 2024, the District's investment in WRR of $23,872,807 and $3,844,924, respectively, represents amounts contributed to WRR less the District's equity in the accumulated earnings (losses) as of December 31, 2025 and 2024 and any adjustments for impairment. In addition, it should be noted that at times the contributions to WRR were not split evenly between the District and

ALPRO. This led to the District's investment in WRR being more than 50 percent of equity. Moving forward OPAL will contribute and make additional capital improvements to WRR.

The Company evaluates the recoverability of the investment in the joint venture whenever events or changes in circumstances indicate that the investment's carrying amount may not be recoverable. Such circumstances could include, but are not limited to (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of operating losses in the joint venture. No adjustments were made during the years ended December 31, 2025 and 2024. Management's estimate is based on assumptions that require significant judgment and actual results may differ from estimated amounts.

Summary financial information for WRR is as follows:

WRR, LLC
Summary Financial Information
As of and for the Years Ended December 31, 2025 and 2024

	2025	2024
Cash	$ 96,260	$ 87,713
Accounts receivable	373,169	282,372
Other current assets	360	-
Net capital assets	42,788,287	13,500
Total assets	43,258,076	383,585
Accounts payable	270,459	288,329
Related party payable	5,719,450	-
Total liabilities	5,989,909	288,329
Members' equity	$ 37,268,167	$ 95,256
Operating revenues	$ 3,129,138	$ 3,362,817
Operating expenses	(7,449,581)	(6,237,534)
Net loss	$ (4,320,443)	$ (2,874,717)

NOTE 6 – LEASE RECEIVABLE

The District leases a site to a third party for cell tower operations under lease terms of 26 years. The District will receive monthly payments of $1,149 escalating by 2 percent a year.

The District leases a site to WRR for the operations of the joint venture under lease terms of 30 years. The District will receive monthly payments of $3,500 escalating by 2.3 percent a year.

For the years ended December 31, 2025 and 2024, the District recognized lease revenue of $13,130 and $14,331 and interest revenue of $40,904 and $34,183, respectively. At December 31, 2025 and 2024, the District reports a lease receivable and an equal deferred inflow of resources related to leases of $1,183,356 and $846,773, respectively.

A summary of principal and interest to be received from the leases for the years following December 31, 2025 are as follows:

Year Ending December 31,	Principal	Interest	Total
2026	$ 9,622	$ 47,163	$ 56,785
2027	11,301	46,747	58,048
2028	13,078	46,263	59,341
2029	14,955	45,706	60,661
2030	16,940	45,072	62,012
2031-2035	118,563	212,831	331,394
2036-2040	187,324	182,657	369,981
2041-2045	276,253	136,823	413,076
2046-2050	300,131	77,292	377,423
2051-2055	235,189	16,204	251,393
	$ 1,183,356	$ 856,758	$ 2,040,114

NOTE 7 – CAPITAL ASSETS

The following changes occurred with respect to capital assets during the year ended December 31, 2025:

	Balance at Jan. 1, 2025	Additions	Deletions		Balance at Dec. 31, 2025
Capital assets not being depreciated:					
Land	$ 3,070,568	$ -	$ -		$ 3,070,568
Construction in progress	28,962,868	31,732,352	(16,670,581)		44,024,639
Infrastructure (sewer treatment facility)	97,076,686	14,975,509	(14,485,796)	*	97,566,399
Total capital assets not being depreciated	129,110,122	46,707,861	(31,156,377)		144,661,606
Capital assets being depreciated:					
Machinery and equipment	9,714,626	1,643,168	(6,985,855)	*	4,371,939
Mobile equipment	4,263,292	1,187,294	(630,585)		4,820,001
Office furniture and equipment	771,191	44,523	-		815,714
Total capital assets being depreciated	14,749,109	2,874,985	(7,616,440)		10,007,654
Accumulated depreciation for:					
Machinery and equipment	(2,156,311)	(196,170)	184,533	*	(2,167,948)
Mobile equipment	(2,506,624)	(254,285)	272,394		(2,488,515)
Office furniture and equipment	(698,174)	(9,602)	-		(707,776)
Total accumulated depreciation	(5,361,109)	(460,057)	456,927		(5,364,239)
Net capital assets being depreciated	9,387,999	2,414,928	(7,159,513)		4,643,415
Net capital assets	$ 138,498,121	$ 49,122,789	$ (38,315,890)		$ 149,305,021

* These assest deletions were transferred to WRR (see Note 5 for more information).

The following changes occurred with respect to capital assets during the year ended December 31, 2024:

	Balance at Jan. 1, 2024	Additions	Deletions	Balance at Dec. 31, 2024
Capital assets not being depreciated:				
Land	$ 3,070,568	$ -	$ -	$ 3,070,568
Construction in progress	16,705,693	12,257,175	-	28,962,868
Infrastructure (sewer treatment facility)	95,367,209	1,709,477	-	97,076,686
Total capital assets not being depreciated	115,143,470	13,966,652	-	129,110,122
Capital assets being depreciated:				
Machinery and equipment	9,714,626	-	-	9,714,626
Mobile equipment	4,154,254	429,563	(320,525)	4,263,292
Office furniture and equipment	771,191	-	-	771,191
Total capital assets being depreciated	14,640,071	429,563	(320,525)	14,749,109
Accumulated depreciation for:				
Machinery and equipment	(2,058,211)	(98,100)	-	(2,156,311)
Mobile equipment	(2,350,396)	(202,018)	45,790	(2,506,624)
Office furniture and equipment	(676,915)	(21,259)	-	(698,174)
Total accumulated depreciation	(5,085,522)	(321,377)	45,790	(5,361,109)
Net capital assets being depreciated	9,554,549	108,186	(274,735)	9,388,000
Net capital assets	$ 124,698,019	$ 14,074,838	$ (274,735)	$ 138,498,122

The District's construction commitments as of December 31, 2025 are as follows:

Project	Project Authorized	Costs to Date	Costs to Complete
North Plant Rehab	$ 91,412,914	$ 43,841,933	$ 47,570,981
South Plant Odor	2,000,000	182,706	1,817,294

During the year ended December 31, 2025, the District disposed of $1,773,216 of capitalized construction in progress and abandoned the project. The loss on the disposal is shown on the statements of revenues, expenses, and changes in net position. In addition the District transferred assets in the amount of $21,471,652 to its joint venture in WRR (see Note 5).

NOTE 8 – RETIREMENT PLANS

Description of Plans

Eligible employees of the District are provided with the following plans through the Utah Retirement Systems (URS) administered by the URS:

Defined Benefit Pension Plans (cost-sharing, multiple-employer plans):

- Public Employees Noncontributory Retirement System (Tier 1 Noncontributory System)
- Public Employees Contributory Retirement System (Tier 1 Contributory System)
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Contributory System)

Defined Contribution Plans (individual account plans):

- 401(k) Plan (includes the Tier 2 Defined Contribution Plan)
- 457 Plan and other individual plans

District employees qualify for membership in the retirement systems if a) employment, contemplated to continue during a fiscal or calendar year, normally requires an average of 20 or more hours per week and the employee receives benefits normally provided by the District as approved by the Utah State Retirement Board, b) the employee is a classified school employee whose employment normally requires an average of 20 hours or more per week regardless of benefits, c) the employee is a teacher who teaches half-time or more and receives benefits normally provided by the District as approved by the Utah State Retirement Board, or d) the employee is an appointed officer.

The Tier 2 systems became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with URS, are members of the Tier 2 systems.

The plans are established and governed by the respective sections of Title 49 of the *Utah Code.* The plans are amended statutorily by the Utah State Legislature. Title 49 provides for the administration of the plans under the direction of the Utah State Retirement Board, whose members are appointed by the Governor.

The URS (a component unit of the State of Utah) issues a publicly available financial report that can be obtained at www.urs.org.

Benefits Provided

The URS provides retirement, disability, and death benefits to participants in the plans.

Retirement benefits in the defined benefit pension plans are determined from 1.50% to 2.00% of the employee's highest 3 or 5 years of compensation times the employee's years of service depending on the pension plan; benefits are subject to cost-of-living adjustments up to 2.50% or 4.00%, limited to the actual Consumer Price Index increase for the year. Employees are eligible to retire based on years of service and age.

Defined contribution plans are available as supplemental plans to the basic retirement benefits of the defined benefit pension plans and as a primary retirement plan for some Tier 2 participants. Participants in the defined contribution plans are fully vested in employer and employee contributions at the time the contributions are made, except Tier 2 required contributions and associated earnings are vested during the first four years of employment. If an employee terminates prior to the vesting period, employer contributions and associated earnings for that employee are subject to forfeiture. Forfeitures are used to cover a portion of the plan's administrative expenses paid by participants. Benefits depend on amounts contributed to the plans plus investment earnings. Individual accounts are provided for each employee and are available at termination, retirement, death, or unforeseeable emergency.

Contributions

As a condition of participation in the plans, 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.

District required contribution rates for the plans were as follows for the year ended December 31, 2025:

	Defined Benefit Plans Rates					
	District Contribution *	Amortization of UAAL **	Paid by District for Employee	Paid by Employee	District Rates for 401(k) Plan	Totals
Tier 1 Noncontributory System	11.86%	4.11%	-	-	-	15.97 %
Tier 1 Contributory System	6.09%	5.87%	6.00%	-	-	17.96 %
Tier 2 Public Employees System	10.08%	4.11%	-	0.81%	-	15.00 %
Tier 2 Defined Contribution System	0.08%	4.11%	-	-	10.00%	14.19 %

* District contribution includes 0.08% of covered-employee payroll of the Tier 2 plans for death benefits.
** Required contributions include an additional amount to finance any unfunded actuarial accrued liability in the Tier 1 plans.

Employees can make additional contributions to defined contribution plans subject to limitations.

District and employee contributions to the plans were as follows for the year ended December 31, 2025:

	District Contributions *	Employee Contributions
Tier 1 Noncontributory System	$ 343,687	$ -
Tier 1 Contributory System	53,768	25,908
Tier 2 Public Employees System	185,388	9,513
Tier 2 Defined Contribution System	7,221	-
401(k) Plan	15,391	170,997
457 Plan and other individual plans	-	51,870

* A portion of required contributions in the Tier 2 plans is used to finance the unfunded actuarial accrued liability in the Tier 1 plans.

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

At December 31, 2025, the District reported a net pension asset of $0 and a net pension liability of $1,221,221 for the following plans:

	Net Pension Asset	Net Pension Liability
Tier 1 Noncontributory System	$ -	$ 665,037
Tier 1 Contributory System	-	433,240
Tier 2 Public Employees System	-	122,945
Total	$ -	$ 1,221,221

The net pension liability (asset) was measured as of December 31, 2024 and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2024, rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability (asset) is equal to the ratio of actual contributions compared to the total of all employer contributions during the plan year.

The following presents the District's proportion (percentage) of the collective net pension liability (asset) at December 31, 2024 and the change in its proportion since the prior measurement date for each plan:

	Proportionate Share	
	2024	Change
Tier 1 Noncontributory System	0.2097166 %	(0.0144966)%
Tier 1 Contributory System	3.4569046 %	0.4703947 %
Tier 2 Public Employees System	0.0412237 %	(0.0034056)%

The District recognized pension expense for the plans as follows at December 31, 2025:

	Pension Expense
Defined benefit pension plans:	
Tier 1 Noncontributory System	$ 613,204
Tier 1 Contributory System	122,734
Tier 2 Public Employees System	134,772
Total	$ 870,710
Defined contribution plans:	
Tier 2 Defined Contribution Plan	$ 7,221
401(k) Plan	15,391
Total	$ 22,612

The District reported deferred outflows of resources related to defined benefit pension plans from the following sources at December 31, 2025:

	Deferred Ouflows of Resources Related to Pensions			
	Tier 1 Noncontributory System	Tier 1 Contributory System	Tier 2 Public Employees System	Total
Differences between expected and actual experience	$ 396,269	$ -	$ 53,150	$ 449,419
Changes of assumptions	55,011	-	41,062	96,073
Net difference between projected and actual earnings on pension plan investments	200,319	232,609	7,858	440,786
Changes in proportion and differences between District contributions and proportionate share of contributions	3,125	-	23,878	27,003
Contributions subsequent to the measurement date	343,687	53,768	192,609	590,064
Total	$ 998,411	$ 286,377	$ 318,557	$ 1,603,345

The District reported deferred inflows of resources related to defined benefit pension plans from the following sources at December 31, 2025:

	Deferred Inflows of Resources Related to Pensions			
	Tier 1 Noncontributory System	Tier 1 Contributory System	Tier 2 Public Employees System	Total
Differences between expected and actual experience	$ -	$ -	$ 847	$ 847
Changes of assumptions	-	-	13	13
Changes in proportion and differences between District contributions and proportionate share of contributions	928	-	2,873	3,801
Total	$ 928	$ -	$ 3,733	$ 4,661

The $590,064 reported as deferred outflows of resources related to pensions resulting from our contributions subsequent to the measurement date of December 31, 2025 will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2026. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to defined benefit pension plans will be recognized in pension expense as follows:

Year Ending December 31,	Tier 1 Noncontributory System	Tier 1 Contributory System	Tier 2 Public Employees System	Total
2026	$ 382,496	$ (1,937)	$ 14,667	$ 395,226
2027	367,423	331,826	22,411	721,660
2028	(81,283)	(83,451)	10,030	(154,704)
2029	(14,840)	(13,829)	12,294	(16,375)
2030	-	-	28,220	28,220
Thereafter	-	-	34,593	34,593

Actuarial Assumptions

The total pension liability (asset) in the January 1, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50% to 9.50%, average, including inflation
Investment rate of return	6.85%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the January 1, 2024, valuation were based on an experience study of the demographic assumptions for the period ending December 31, 2022. Assumptions remained unchanged that affect measurement of the net pension liability since the prior measurement date.

The long-term expected rate of return on defined benefit 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	Target Allocation	Long-Term Expected Real Rate of Return
Equity securities	35%	2.45%
Debt securities	20%	0.51%
Real assets	18%	0.98%
Private equity	12%	1.21%
Absolute return	15%	0.65%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.85%. 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, actuarially determined and certified by the Utah State Retirement Board. Based on those assumptions, the plans' 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 (asset).

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.85%, as well as what its proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.85%) or 1-percentage-point higher (7.85%) than the current rate:

	1% Decrease (5.85%)	Discount Rate (6.85%)	1% Increase (7.85%)
District's proportionate share of the net pension (asset) liability:			
Tier 1 Noncontributory System	$ 2,812,555	$ 665,037	$ (1,136,038)
Tier 1 Contributory System	1,840,243	433,240	(769,581)
Tier 2 Public Employees System	367,207	122,945	(67,067)
Total	$ 5,020,005	$ 1,221,221	$ (1,972,686)

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plans

The District reported payables of $24,370 and $16,699 for contributions to defined benefit pension plans and defined contribution plans at December 31, 2025 and 2024, respectively.

NOTE 9 – LONG-TERM LIABILITIES

Long-term liabilities were as follows for the year ended December 31, 2025:

	Balance at Jan. 1, 2025	Additions	Deletions	Balance at Dec. 31, 2025	Due Within One Year
Revenue bonds	$ 16,015,000	$ 35,000,000	$ (960,000)	$ 50,055,000	$ 995,000
Revenue bonds (direct placement)	49,340,000	-	(1,555,000)	47,785,000	1,530,000
Unamortized discounts	(219,127)	-	28,046	(191,081)	-
Unamortized premiums	-	2,285,614	-	2,285,614	-
Compensated absences *	903,996	18,215	-	922,211	425,964
Net pension liability	853,461	957,710	(589,950)	1,221,221	-
Total bonds payable, net	$ 66,893,330	$ 38,261,539	$ (3,076,904)	$ 102,077,965	$ 2,950,964

Long-term liabilities were as follows for the year ended December 31, 2024:

	Balance at Jan. 1, 2024	Additions	Deletions	Balance at Dec. 31, 2024	Due Within One Year
Revenue bonds	$ 16,945,000	$ -	$ (930,000)	$ 16,015,000	$ 960,000
Revenue bonds (direct placement)	19,719,000	30,610,000	(989,000)	49,340,000	1,555,000
Unamortized discounts	(248,474)	-	29,347	(219,127)	-
Compensated absences *	879,060	24,936	-	903,996	303,838
Net pension liability	699,890	764,848	(611,277)	853,461	-
Total bonds payable, net	$ 37,994,476	$ 31,399,784	$ (2,500,930)	$ 66,893,330	$ 2,818,838

* The change for compensated absences is presented net for both years.

A summary of principal debt requirements to maturity for the revenue bonds (competitive and direct placements) for the years following December 31, 2025 are as follows:

Year Ending	Outstanding Bonds		Outstanding Bonds (Direct Placement)		
December 31,	Principal	Interest	Principal	Interest	Total
2026	$ 995,000	$ 2,310,386	$ 1,530,000	$ 1,812,219	$ 6,647,606
2027	1,030,000	2,356,956	1,577,000	1,767,155	6,731,112
2028	1,675,000	2,314,469	1,623,000	1,720,441	7,332,910
2029	1,750,000	2,240,125	1,669,000	1,672,100	7,331,225
2030	1,825,000	2,162,425	1,717,000	1,622,130	7,326,555
2031-2035	10,440,000	9,504,969	9,409,000	7,297,085	36,651,053
2036-2040	7,960,000	7,061,050	10,193,000	5,721,747	30,935,797
2041-2045	6,245,000	5,501,250	6,147,000	4,167,666	22,060,916
2046-2050	7,970,000	3,776,000	7,010,000	2,693,416	21,449,416
2051-2055	10,165,000	1,574,250	6,910,000	26,696,107	45,345,357
	$ 50,055,000	$ 38,801,880	$ 47,785,000	$ 55,170,066	$ 191,811,946

Revenue bonds payable with their outstanding balance are comprised of the following individual issues at December 31, 2025:

Series	Purpose	Original Amount	Interest Rate Range	Final Maturirty Date	Outstanding Balance
2017A	Investment in WRR	$ 21,195,000	3.50% - 4.50%	December 1, 2037	$ 15,055,000
2019 (Direct placement)	North and South Plant Rehab	12,179,000	2.05% - 2.29%	December 1, 2039	9,418,000
2021 (Direct placement)	North and South Plant Rehab	10,000,000	2.05%	December 1, 2041	8,302,000
2024 (Direct placement)	North Plant Rehab	30,610,000	4.79%	December 1, 2054	30,065,000
2025	North Plant Rehab	35,000,000	5.00%	December 1, 2055	35,000,000
					$ 97,840,000

NOTE 10 – CONDUIT DEBT

The District issued revenue bonds to provide financial assistance to a private-sector entity for acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. The District is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The District has made a limited commitment to maintain the issue's tax-exempt status.

At December 31, 2025 and 2024, the principal amount payable was $19,585,000 and $20,740,000, respectively.

NOTE 11 – ECONOMIC DEPENDENCY

The District has contracted with its participating cities, exclusively, to receive, treat, and dispose of the participating cities' municipal wastewater. In the event that participating cities, for economic or environmental reasons, were unable to continue using the District's facilities, the District would be susceptible to risk of closure.

NOTE 12 – RISK MANAGEMENT

The District maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty, and malpractice liability up to $3,000,000 per occurrence through policies administered by the Utah Local Governments Trust. The District also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the Utah Local Governments Trust. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis subject to a deductible of $1,000 per occurrence. Settled claims have not exceeded the District's insurance coverage for any of the past three years.

The District also maintains a public treasurer's fidelity bond with a private carrier. All District employees are covered for workers' compensation by the Utah Local Governments Trust. Unemployment insurance is covered by the District on a pay-as-you-go basis. Claims have been minimal for the past three years.

NOTE 13 – ENVIRONMENTAL REMEDIATION LIABILITY

The nature of the District's operations is such that the District may be held liable for environmental clean-up costs. The District is unaware of any such issues and has taken extensive measures to prevent potential environmental problems caused by its activities. The costs of potential remediation are not estimable since no knowledge of environmental problems currently exists. Therefore, no liability has been accrued.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH DAVIS SEWER DISTRICT
Modified Approach for Eligible Infrastructure Assets
For the Year Ended December 31, 2025

In accordance with GASB Statement No. 34, the District is required to account for and report infrastructure capital assets. The District defines infrastructure as the basic physical assets of the wastewater collection system and treatment plant facilities. Infrastructure assets are capital assets which normally are stationary in nature and can be preserved for significantly more years than other capital assets. The District's major infrastructure system consists of the collection system, treatment plant facilities and the resource recovery facility and it can be divided into subsystems such as trunk lines, collection lines, manholes, lift stations, plant facilities, and other appurtenances. Subsystem details are not presented in the basic financial statements. However, the District maintains detailed information on these subsystems.

The District has elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its capital assets. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated if the following requirements are met:

1. The District manages the eligible infrastructure capital assets using an asset management (AMP) system meeting the following minimum requirement: (A) have up-to-date inventory records, (B) perform condition assessments at least once every three years and summarize the results using a measurement scale, and (C) estimate annual amount to maintain and preserve at the established condition assessment level.

2. The District documents that the eligible infrastructure systems and sub-systems (capital assets) are being preserved approximately at or above the established and disclosed condition assessment level.

Using the Modified Approach, both preservation and maintenance costs are expensed and only those costs for additions and improvements must be capitalized.

The District makes use of a physical condition assessment of its collection system, treatment plant facilities and the resource recovery facility that began January 1, 2004. The District's objective is to complete an assessment annually (or at least once every three years) of all infrastructure assets covered by its asset management system in accordance with GASB Statement No. 34. The District's condition assessments are performed using statistical samples that are representative of infrastructure assets. The latest condition assessment was performed in 2025 according to GASB Statement No. 34. This allows the District to ensure that assets are maintained at a prescribed condition and analyze future funding needs. The District's collection system and treatment plant facilities are composed of approximately 379 miles of sewer lines, 9,298 sections of line, 9,076 manholes, 11 lift stations, 2 treatment plants that can treat up to 16 million gallons (capacity) per day (MGD) of wastewater and one resource recovery facility.

In 2025, approximately 17.9% of the District's collection system was cleaned and 16.9% were inspected by closed circuit television (CCTV) (see Collection System GIS TV and Cleaning Maps in this section).

The District spent approximately $1,214,955 on maintenance and/or preservation of its infrastructure assets for the year ended December 31, 2025. These expenses add service life to capital assets. A study by the Iowa Department of Transportation reported that for every dollar of preventative maintenance spent in the first 10 years of an asset, $4-5 will be saved over the next 10 years. The District has an aggressive asset management program to prolong the useful life of its capital assets.

The District is using trenchless technology or cured-in-place-pipe (CIPP) as a means of being more efficient in repairing and maintaining the sewer collection system. CIPP equipment, resin, and liners are used to complete rehabilitation projects of the collection system. The collection system operators performed 239. 257, and 232 rehabilitation projects for CIPP on sewer lateral lines and main lines in 2025, 2024, and 2023, respectively.

The District developed condition grade scales to provide a means of rating the assets during each condition assessment. The assets are assessed for several possible defects which are assigned a relative weight. Those weights are then normalized to sum to one (100.0%). The assigned condition grade score for each possible defect is multiplied by the normalized relative weight to yield a weighted defect score. The weighted defect scores are totaled for each asset yielding a total asset rating that will range from 1 to 5. The District has set a minimum service level of 3 (moderate/fair) for all infrastructure assets.

The following table makes known the most recent conditional assessments (GASB Statement No. 34, paragraph 132).

	Treatment Facilities			Collection Line Segments			Manholes			Lift Stations		
Condition	2025	2024	2023	2025	2024	2023	2025	2024	2023	2025	2024	2023
Very Good	649	639	641	1294	627	653	1456	1376	1540	11	11	11
Good	64	64	63	234	226	24	24	32	32			
Fair	20	20	21	71	73	75	12	13	12			
Poor							7	6	8			
Very Poor												

In 2025, the District performed condition assessments of line segments for the collection system, calculated in accordance with GASB Statement No. 34 guidelines. The District also performed assessments of both treatment plants, manholes, lift stations and the WRR facility. The results of the condition assessments indicated that the District’s infrastructure assets were generally maintained at or above the established minimum service level.

The following condition assessments were noted:

The collection system, treatment plant equipment and subsystems are in clean, orderly and workmanlike condition. There is no deferred maintenance. The next condition assessment sample is scheduled for 2027.

The actual amounts the District expended on rehabilitation, repair and replacement of the collection system and treatment plant facilities over the current and past five reporting periods are as follows:

	2021	2022	2023	2024	2025
Estimated	$693,000	$903,000	$930,000	$900,000	$893,000
Actual	$885,754	$868,000	$935,000	$1,155,009	$1,214,955

The budget required to maintain and preserve the current overall condition through the year ended December 31, 2031, is estimated to be approximately $865,000 per year. This figure was arrived at by taking the average expenditure from 2019 to 2025 and adding 4.0% for inflation.

Funds totaling $893,000 were budgeted for fiscal year 2025 for the continued maintenance and preservation of the District's infrastructure assets and are allocated as follows:

$545,000 Collection System
$348,000 Plant & Equipment Facilities

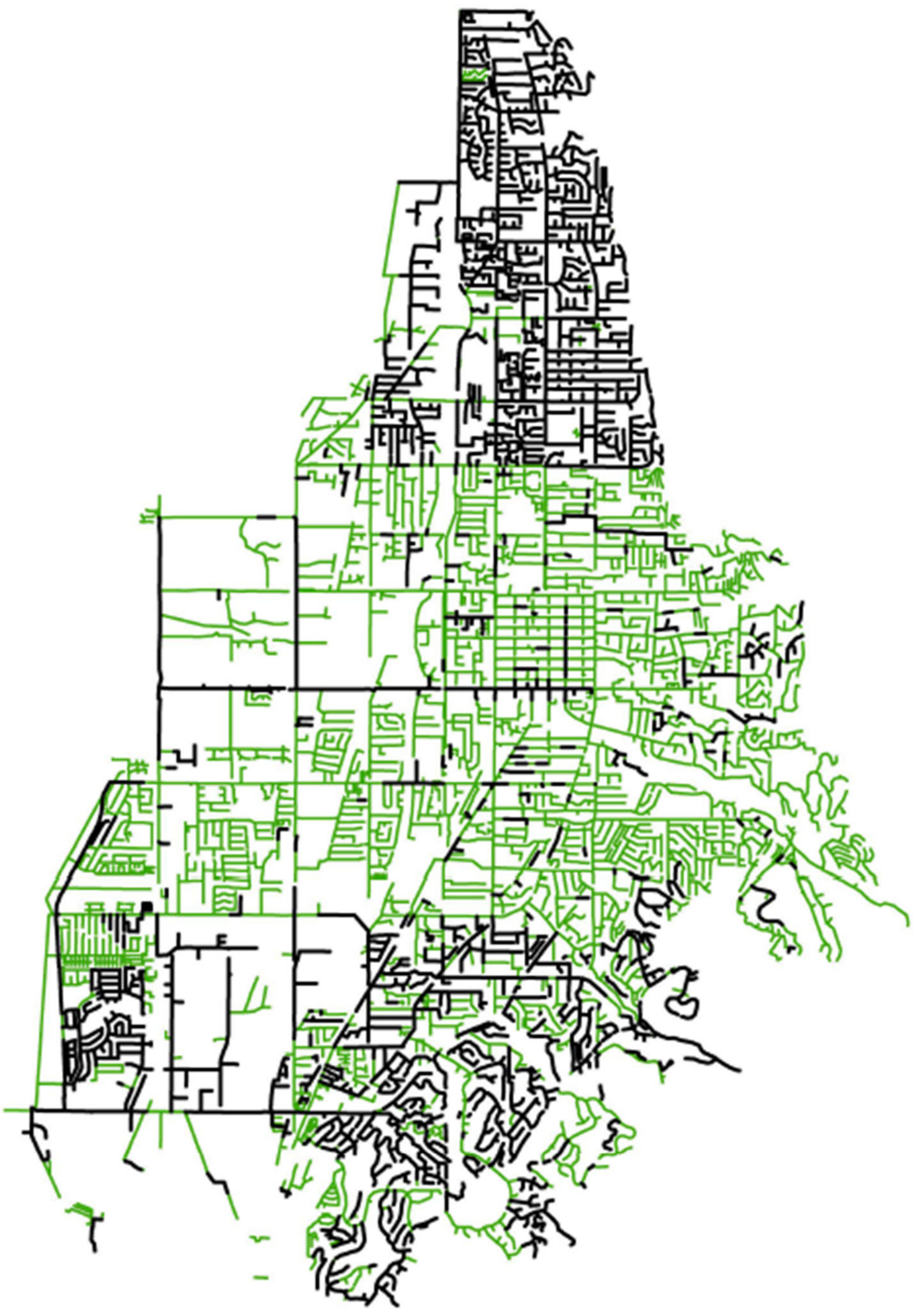
The amount estimated to achieve the 2025 minimal target conditional assessment was $893,000, the actual cost was approximately $1,214,955. The actual cost was much higher than anticipated due to the completion of the South Plant Upgrades Project, and the rolling of those new and renewed assets to the District asset register.

The EPA reports that much of the nation's infrastructure is deteriorating due to old age and lack of maintenance. Neglecting or deferring maintenance of an asset to the point of failure will cost more in the long run than carrying out routine maintenance.

Asset	North Plant	South Plant	Collection System
Barscreen	1	1	
Pump Station #1	1	1	
Grit Removal	1	1	
Primary Clarifiers	1	1	
Trickling Filters	1	1	
Pump Station #2	1	1	
Secondary Clarifiers	1	1	
Raw Sludge Pump Station	1	1	
Chlorination System	1	1	
Gravity Thickener	1	1	
Digester	2	2	
Sludge Drying Beds	1	1	
Operations Building	1	1	
CS Garages	1	1	
Maintenance Shop	1	1	
Office Building	1	1	
Yard Piping	1	1	
Electrical	1	1	
Cogeneration	5	5	
Utility Water System	1	1	
Chemical Feed Ferric & Polymer	1	1	
Site Work (Paving, etc)	2	2	
Moving Bed Biofilm Reactor (MBBR)		1	
Snail Trap		1	
MBBR Lift Station		1	
Foxboro Lift Station			1
Mountain View Lift Station			1
Sheep Road Lift Station			3
Outdoor Rec Lift Station			1
1100 North Lift Station			1
Birnam Woods Lift Station			1
North Pointe Lift Station			1
Parrish Lane Lift Station			1
Eaglewood Village Lift Station			1
Porter Lane Lift Station			1
Pages Lane Lift Station			1
6" Sewer Pipe			2
8" Sewer Pipe			2-3
10" Sewer Pipe			2-3
12" Sewer Pipe			2-3
15" Sewer Pipe			2-3
18" Sewer Pipe			2-3
21" Sewer Pipe			2-3
24" Sewer Pipe			2-3
27" Sewer Pipe			2-3
30" Sewer Pipe			2-3
33" Sewer Pipe			2-3
36" Sewer Pipe			2-3
42" Sewer Pipe			2-3
48" Sewer Pipe			2-3
Manholes			1-2

TV INSPECTIONS

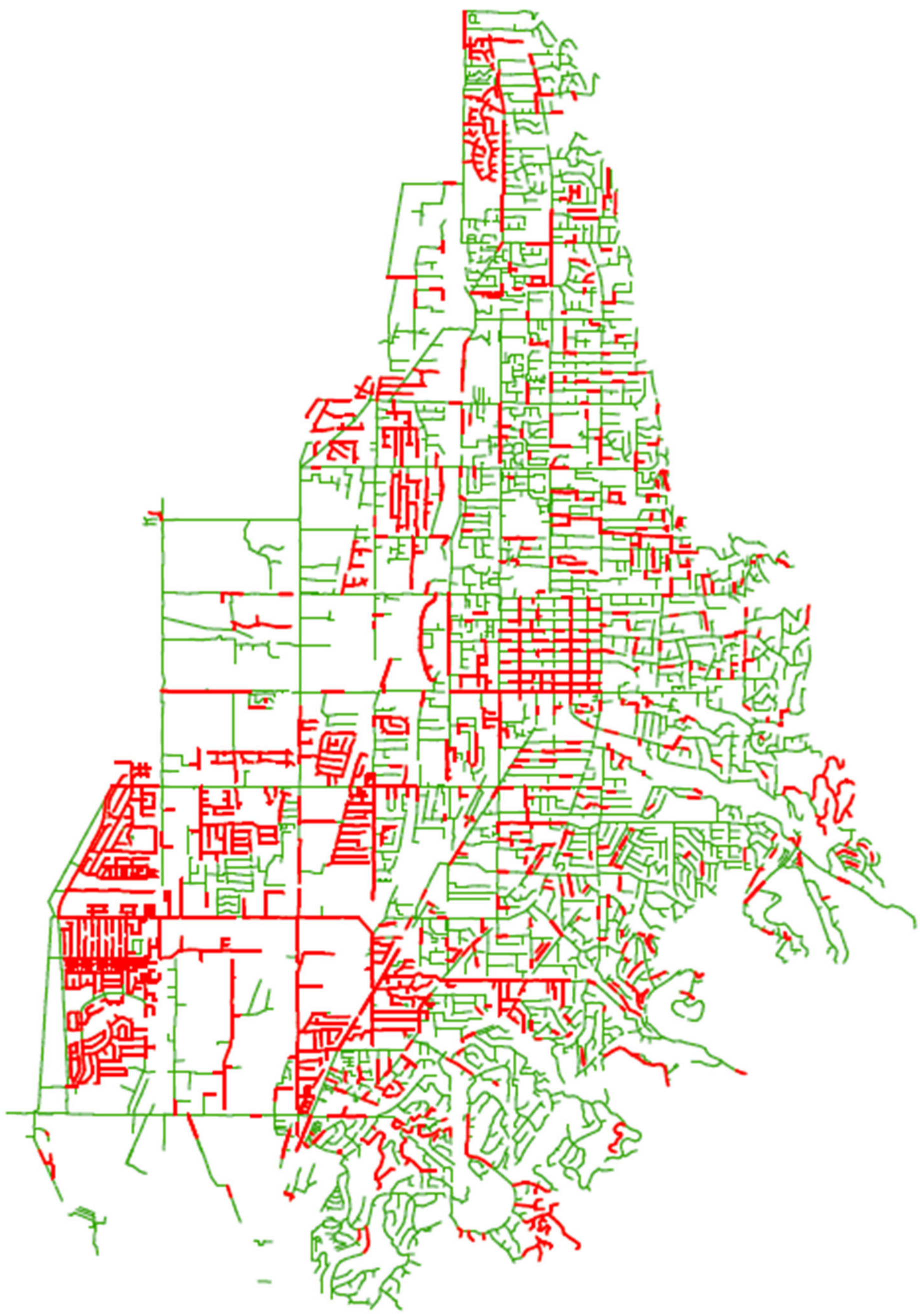
2023-2025



Pipe sections that were TV'ed between 2023 and 2025 are shown above in black.

CLEANING

2023-2025



Pipe sections that were cleaned between 2023 and 2025 are shown above in red.

SOUTH DAVIS SEWER DISTRICT
Schedules of the District's Proportionate Share of the Net Pension Liability (Asset)
Utah Retirement Systems
Last Ten Plan Years

	District's Proportion of Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered Payroll	District's 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
Tier 1 Noncontributory System:					
2024	0.2097166%	$ 665,036	$ 2,046,350	32.5 %	96.0%
2023	0.2242132%	520,077	2,146,877	24.2 %	96.9%
2022	0.2180273%	373,426	1,977,219	18.9 %	97.5%
2021	0.2129198%	(1,219,414)	1,806,770	(67.5)%	108.7%
2020	0.1992835%	102,221	1,612,366	6.3 %	99.2%
2019	0.1946828%	733,734	1,637,481	44.8 %	93.7%
2018	0.1854115%	1,365,319	1,627,788	83.9 %	87.0%
2017	0.1827746%	800,790	1,659,575	48.3 %	91.9%
2016	0.1859885%	1,194,274	1,703,079	70.1 %	87.3%
2015	0.1773809%	1,003,707	1,579,894	63.5 %	87.8%
Tier 1 Contributory System:					
2023	3.4569046%	$ 433,240	$ 428,774	101.0 %	97.3%
2023	2.9865099%	246,518	401,830	61.3 %	98.2%
2022	2.6950887%	277,183	378,521	73.2 %	97.7%
2021	2.4794490%	(1,794,979)	364,186	(492.9)%	115.9%
2020	2.1539158%	(386,029)	355,299	(108.6)%	103.9%
2019	1.8822009%	123,353	337,278	36.6 %	105.0%
2018	1.7087889%	693,431	319,834	216.8 %	91.2%
2017	1.5504906%	126,170	314,619	40.1 %	98.2%
2016	1.2969910%	425,557	311,199	136.7 %	92.9%
2015	0.6854172%	481,749	292,048	165.0 %	85.7%
Tier 2 Public Employees Retirement System:					
2024	0.0412237%	$ 122,945	$ 1,221,491	10.1 %	87.4%
2023	0.0446293%	86,866	1,153,823	7.5 %	89.6%
2022	0.0004526%	49,281	987,001	5.0 %	92.3%
2021	0.0488969%	(20,695)	908,362	(2.3)%	103.8%
2020	0.0598078%	8,602	956,444	0.9 %	98.3%
2019	0.0502777%	11,308	697,698	1.6 %	96.5%
2018	0.0733910%	13,165	359,127	3.7 %	90.8%
2017	0.0137612%	1,213	134,222	0.9 %	97.4%
2016	0.0105558%	1,177	86,566	1.4 %	95.1%
2015	0.0067634%	(15)	43,693	(0.0)%	100.2%

SOUTH DAVIS SEWER DISTRICT
Schedules of District Contributions
Utah Retirement Systems
Last Ten Reporting Years

	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
Tier 1 Noncontributory System:					
2025	$ 343,687	$ 343,687	$ -	$ 2,141,983	16.05%
2024	355,135	355,135	-	2,035,198	17.45%
2023	385,119	385,119	-	2,146,877	17.94%
2022	359,342	359,342	-	1,977,219	18.17%
2021	332,906	332,906	-	1,806,770	18.43%
2020	296,972	296,972	-	1,612,366	18.42%
2019	300,655	300,655	-	1,637,481	18.36%
2018	298,868	298,868	-	1,627,788	18.36%
2017	304,458	304,458	-	1,659,575	18.35%
2016	311,783	311,783	-	1,702,246	18.32%
Tier 1 Contributory System:					
2025	$ 53,768	$ 53,768	$ -	$ 431,794	12.45%
2024	57,692	57,692	-	428,774	13.46%
2023	56,095	56,095	-	401,830	13.96%
2022	53,742	53,742	-	378,521	14.20%
2021	52,661	52,661	-	364,186	14.46%
2020	51,376	51,376	-	355,299	14.46%
2019	48,770	48,770	-	337,278	14.46%
2018	46,248	46,248	-	319,834	14.46%
2017	45,494	45,494	-	314,619	14.46%
2016	44,999	44,999	-	311,199	14.46%
Tier 2 Public Employees System:					
2025	$ 185,388	$ 185,388	$ -	$ 1,261,386	14.70%
2024	190,463	190,463	-	1,221,491	15.59%
2023	184,727	184,727	-	1,153,823	16.01%
2022	158,296	158,296	-	987,001	16.04%
2021	144,740	144,740	-	908,362	15.93%
2020	150,446	150,446	-	956,444	15.73%
2019	108,954	108,954	-	697,698	15.62%
2018	55,056	55,056	-	359,127	15.33%
2017	20,194	20,194	-	134,222	15.05%
2016	12,907	12,907	-	86,566	14.91%
Tier 2 Defined Contribution System:					
2025	$ 7,221	$ 7,221	$ -	$ 153,908	4.69%
2024	8,094	8,094	-	142,184	5.69%
2023	8,337	8,337	-	134,689	6.19%
2022	7,942	7,942	-	123,639	6.42%
2021	7,752	7,752	-	115,870	6.69%
2020	5,796	5,796	-	86,639	6.69%
2019	4,035	4,035	-	60,308	6.69%
2018	1,948	1,948	-	29,123	6.69%
2017	-	-	-	-	-
2016	-	-	-	-	-

SOUTH DAVIS SEWER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE A – CHANGES IN ASSUMPTIONS – UTAH RETIREMENT SYSTEMS

The information presented was determined as part of actuarial valuations performed. Over time the actuarial assumptions are periodically changed. Amounts reported in the current and prior plan years include the following significant actuarial assumption changes:

Plan Year	Discount Rate	Payroll Growth Rate	Wage Inflation Rate	Inflation Rate
2024	6.85%	2.90%	3.50 to 9.50%	2.50%
2023	6.85%	2.90%	3.50 to 9.50%	2.50%
2022	6.85%	2.90%	3.25 to 9.25%	2.50%
2021	6.85%	2.90%	3.25 to 9.25%	2.50%
2020	6.95%	2.90%	3.25 to 9.25%	2.50%
2019	6.95%	3.00%	3.25 to 9.25%	2.50%
2018	6.95%	3.00%	3.25 to 9.25%	2.50%
2017	6.95%	3.00%	3.25 to 9.25%	2.50%
2016	7.20%	3.25%	3.35 to 9.35%	2.60%
2015	7.50%	3.25%	3.50 to 9.50%	2.75%

NOTE B – SCHEDULES OF DISTRICT CONTRIBUTIONS – UTAH RETIREMENT SYSTEMS

Contributions as a percentage of covered payroll may be different than the Utah State Retirement Board certified rate due to rounding or other administrative issues. A portion of the required contributions in the Tier 2 plans is used to finance the unfunded actuarial accrued liability of the Tier 1 plans.

COMPLIANCE SECTION

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
South Davis Sewer District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Davis Sewer District (the District), as of and for the year ended December 31, 2025, 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 17, 2026.

Report on 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) as basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 financial statements. 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 District'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.

Squire & Company, PC

Orem, Utah
June 17, 2026

Independent Auditor's Report on Compliance
and Report on Internal Control over Compliance
Required by the *State Compliance Audit Guide*

Board of Trustees
South Davis Sewer District

Report on Compliance

Opinion on Compliance

We have audited South Davis Sewer District's (the District) compliance with the following 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, 2025:

Budgetary Compliance
Fund Balance
Restricted Taxes and Other Related Restricted Revenue
Fraud Risk Assessment
Cash Management
Utah Retirement Systems

In our opinion, South Davis Sewer District complied, in all material respects, with the state compliance requirements referred to above for the year ended December 31, 2025.

Basis for Opinion on Compliance

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,* issued by the Office of the Utah State Auditor. Our responsibilities under those standards and the *State Compliance Audit Guide* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the *State Compliance Audit Guide* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the *State Compliance Audit Guide* as a whole

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *State Compliance Audit Guide*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Squire & Company, PC

Orem, Utah
June 17, 2026