

**HIGHLAND CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2010**

CITY OF HIGHLAND, UTAH
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INDEPENDENT AUDITOR'S REPORT

September 21, 2010

**Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 21, 2010 on my consideration of Highland City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland City's basic financial statements as a whole. The combining nonmajor fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.


Greg Ogden,
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The management of Highland City presents the following narrative and analysis of the financial statements and financial activities of Highland City as prescribed by the Government Accounting Standards Board (GASB). The information and analysis pertains to the fiscal year ended June 30, 2010.

Financial Highlights

The assets of Highland City exceeded its liabilities at June 30, 2010 by \$121,798,709 (net assets). Of this amount \$697,703 (unrestricted net assets) may be used to meet the government's ongoing obligations.

Highland City's total net assets decreased by \$4,903,245. Elements of the decrease were: 1) Road and park construction); 2) ongoing operations of the governmental activities; 3) ongoing operations of the business-type activities assets.

Highland City's governmental funds reported combined ending fund balances at June 30, 2010 of \$1,038, a decrease of \$426,925 in comparison to the prior year. At June 30, 2010 unreserved fund balance of the general fund was \$735,151, or 10.9% of total general fund expenditures for the year.

Overview of the Financial Statements

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

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

The statement of net assets presents information on all of Highland City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as an indicator of changes in the financial position of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, uncollected taxes that have been levied but not received.

Both of the government-wide financial statements distinguish functions of Highland City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Highland City include general government, public safety, streets and public improvements, parks and recreation, cemetery and garbage. The business-type activities of Highland City include services for water, pressurized irrigation, sewer (sanitary), and storm sewer.

The government-wide financial statements include Highland City (known as the primary government) and a separate legal entity (known as component unit). The financial information for the Highland Open Space Special Service District is included in the financial statements. However, because the City's governing body is the same as the governing board of this component unit and can substantially control it, their financial information is blended and reported together with the financial information presented for the primary government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Highland City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. All of the funds of Highland City can be divided into two categories; governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Highland City maintains seven (7) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and three capital projects funds, all of which are considered to be major funds. Data from the other three (3) governmental funds is provided in the form of individual and combining statements elsewhere in this report.

Highland City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

Proprietary funds. Highland City maintains one type of proprietary fund known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, pressurized irrigation, sewer, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water, sewer, secondary water and storm sewer funds because they are considered to be major funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. They are presented immediately following the notes to the financial statements. Auditor reports on compliance are also included at the end of the document.

Government-wide Financial Analysis

As noted earlier, net assets is an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$121,798,709 at the close of the fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (land, buildings, machinery and equipment) and infrastructure (roads, sidewalks, curb and gutter and various utility lines and storage facilities), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$697,703) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Highland City Net Assets

	Governmental Activities 2009	Business-Type Activities 2009	Governmental Activities 2010	Business-Type Activities 2010
Current and Other Assets	\$ 5,695,161	\$ 1,891,947	\$ 4,512,333	\$1,606,899
Capital Assets	\$ 90,721,285	\$ 49,971,561	\$ 88,374,692	\$ 49,120,303
Total Assets	<u>\$ 96,416,446</u>	<u>\$ 51,863,508</u>	<u>\$ 92,887,025</u>	<u>\$50,727,202</u>
Long-term Liabilities outstanding	\$13,115,656	\$ 4,450,722	\$ 12,590,167	\$ 4,186,649
Other Liabilities	\$ 3,541,533	\$ 470,089	\$ 4,585,954	\$ 452,748
Total Liabilities	<u>\$ 16,657,189</u>	<u>\$ 4,920,811</u>	<u>\$ 17,126,121</u>	<u>\$ 4,639,397</u>
Net assets:				
Investment in capital assets, net	\$ 77,937,516	\$ 45,537,933	\$ 76,052,938	\$ 44,835,891
Restricted	\$ 23,791	\$ 23,791	\$ 84,414	\$ 127,763
Unrestricted	\$ 1,797,950	\$ 1,380,973	\$(426,448)	\$ 1,124,151
Total net assets	<u>\$ 79,759,257</u>	<u>\$ 46,942,697</u>	<u>\$ 75,710,904</u>	<u>\$ 46,087,805</u>

Highland City Changes in Net Assets

	Governmental Activities 2009	Business-Type Activities 2009	Governmental Activities 2010	Business-Type Activities 2010
Revenues				
Program Revenues				
Charges for services	\$ 2,005,499	\$ 3,422,856	\$ 2,166,331	\$2,915,152
Operating Grants and Contributions	\$ 8,280		\$ 9,863	\$120,000
Capital Grants and Contributions	\$ 593,466	\$ 43,049	\$1,658,574	\$145,273
General revenues:				
Property and uniform vehicle taxes	\$ 1,886,618		\$ 1,935,790	
Other Taxes	\$ 2,363,170		\$ 2,350,689	
Other	\$ 949,686	\$44,569	\$113,279	\$ 13,497
Total revenues	<u>\$ 7,806,719</u>	<u>\$ 3,510,474</u>	<u>\$ 8,234,526</u>	<u>\$ 3,193,922</u>
Expenses:				
General government	\$ 2,561,046		\$ 2,118,005	
Public safety	\$ 2,451,594		\$ 2,359,437	
Streets and public improvements	\$3,707,540		\$ 3,871,352	
Parks and recreation	\$ 1,608,180		\$1,228,525	
Garbage	\$ 528,352		\$ 526,332	
Interest on long-term debt	\$ 569,871		\$ 552,909	
Cemetery	\$ 139,993		\$ 139,873	
Water		\$1,040,368		\$ 959,182
Secondary Water		\$1,172,712		\$ 1,107,913
Storm sewer		\$ 343,412		\$319,037
Sewer		\$1,544,084		\$1,394,735
Total expense	<u>\$ 11,566,576</u>	<u>\$ 4,100,576</u>	<u>\$ 10,796,433</u>	<u>\$3,780,867</u>
Decrease in net assets before transfers	\$(3,759,857)	\$ (590,102)	\$(2,561,907)	\$ (586,945)
Transfers	1,160,000	\$(1,160,000)	\$267,947	\$(267,947)
Increase (decrease) in net assets	<u>\$(2,599,857)</u>	<u>\$(1,750,102)</u>	<u>\$ (2,293,960)</u>	<u>\$ (854,892)</u>
Net assets, beginning	\$82,359,114	\$ 48,692,799	\$ 79,759,257	\$ 46,942,697
Prior Period Adjustment			\$(1,754,393)	
Net assets, ending	<u>\$ 79,759,257</u>	<u>\$ 46,942,697</u>	<u>\$ 75,710,904</u>	<u>\$ 46,087,805</u>

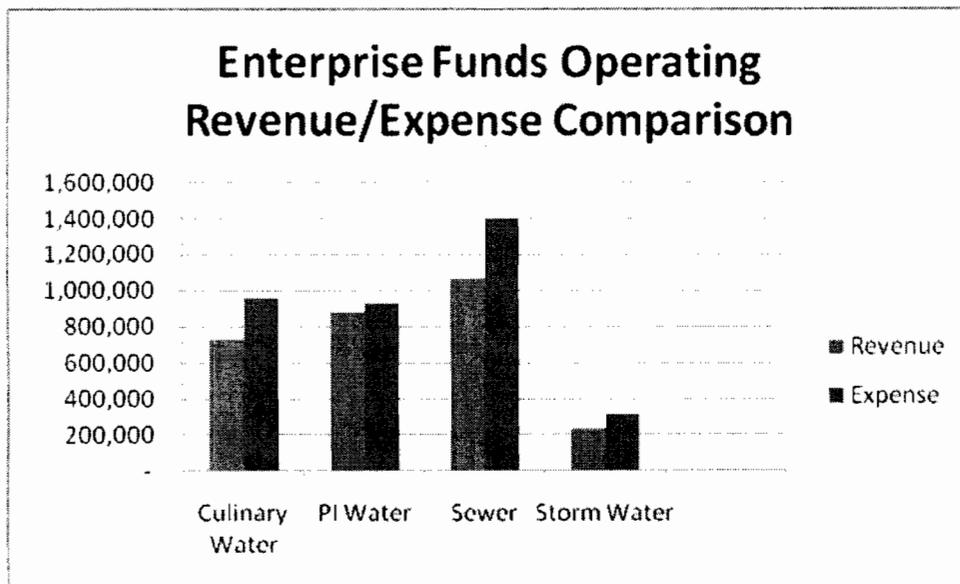
Governmental activities. As noted in the table above, governmental activities decreased the City's net assets by \$2,293,960. Key elements of the decrease were as follows:

1. Completion of road improvements and park improvements.
2. Due to the economic slowdown revenues were down.

Business-type activities. As noted previously in the table "Highland City Changes in Net Assets," business-type activities decreased the City's net assets by \$854,892. Key elements of the decrease were as follows:

1. Transfer to debt service fund
2. Purchase of additional water shares.

The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self supporting and the chart depicts the relationship of revenues to expenses.



Operating Revenues and Expenses—Business-type Activities

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance is a useful measure of the government's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the City's governmental funds reported combined ending fund balances of \$1,038, which was a decrease of \$426,925 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2010, unassigned fund balance of the general fund was \$735,151. A comparison of the unassigned fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unassigned fund balance represented 10.9% of total general fund expenditures. The City's unassigned general fund balance decreased \$20,865 during the fiscal year ended June 30, 2010.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements in more detail.

Combined Water funds-Unrestricted net assets at June 30, 2010 amounted to \$425,524, a decrease of \$11,887 from the previous year. Operating revenues were \$1,612,060 and operating expenses were \$1,892,383.

Storm sewer fund-Operating revenues were \$237,184 and operating expenses were \$317,934.

Sewer fund-Unrestricted net assets at June 30, 2010 amounted to \$666,041, a decrease of \$440,096 from the previous year. Operating revenues were \$1,065,908 and operating expenses were \$1,394,735.

General Fund Budgetary Highlights

During the fiscal year, the general fund's original budget was amended from \$7,003,486 (\$6,015,390 expenditures and \$975,000 transfers) to a final budget total of \$6,768,486 (\$5,813,275 expenditures, \$24,546 decrease in fund balance, and \$979,757 transfers , a decrease of \$235,000. The budget was reduced due to a slowdown in revenues and elimination of the contract for park and open space maintenance.

Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2010 was \$137,326,394 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and water stock. The total decrease in the City's investment in capital assets for the current year was \$3,339,069.

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

- 1) Park and road improvements.

Highland City Capital Assets

	Governmental Activities 2009	Business-Type Activities 2009	Governmental Activities 2010	Business-Type Activities 2010
Land	\$ 39,607,624	\$ 534,455	\$ 39,607,624	\$ 534,455
Water Shares		\$ 21,029,675		\$ 21,121,743
Construction in Progress	\$2,801,356	\$577,894	\$ 1,144,958	\$ 73,031
Buildings	\$14,006,832	\$ 1,157,289	\$ 14,006,833	\$ 1,157,289
Machinery and Equip	\$1,858,647	\$ 2,047,530	\$ 1,874,323	\$ 2,063,855
Infrastructure and Imp	\$64,544,654	\$ 32,214,435	\$ 67,457,201	\$ 32,813,339
Total	\$ 122,819,113	\$ 57,561,278	\$ 124,090,939	\$ 57,763,712
Less Accumulated Dep	\$ (32,101,420)	\$ (7,613,508)	\$ (35,757,085)	\$ (8,771,172)
Total net assets	\$ 90,717,693	\$ 49,947,770	\$ 88,333,854	\$ 48,992,540

Additional information on the City's capital assets is available in the notes to the financial statements.

Long-term debt. On June 30, 2010 the City had a total bonded debt outstanding of \$16,433,390. Of this amount \$4,178,390 was considered general obligation debt and was backed by the full faith and credit of the City.

Highland City Outstanding Debt

	Governmental Activities 2009	Business-Type Activities 2009	Governmental Activities 2010	Business-Type Activities 2010
General obligation bonds		\$ 4,433,390		\$ 4,178,390
Revenue bonds	\$12,695,000		\$ 12,255,000	
Other Long Term Debt	\$ 546,376	\$ 40,885	\$ 453,903	\$ 30,000
Total	\$13,241,376	\$ 4,474,275	\$ 12,708,903	\$ 4,208,390

The City's total debt decreased by \$798,358 during the fiscal year as a result of scheduled principal payments.

The original secondary water bonds are unrated. The bonds were originally issued in 1996 and were refinanced in 1998 and in 2009. The 2009 bonds are rated AA. The revenue bonds issued in 2006 and 2007 are both AA- rated.

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$763,194,336, except cities of the third class (Highland City is classified as a third class city) may issue debt up to an additional 8% of its total taxable property value of \$763,194,336 for water systems, artificial lighting systems or sewer systems. On June 30, 2010 the City's limitation was \$30,527,773 and the additional limitation was \$61,055,547, the current general obligation bonds are \$4,178,390.

Economic Factors and Next Year's Budgets and Rates

Economic trends of the state and region are better than the national indices but because of the slowdown in home construction and slowdown of the economy the related revenues were budgeted a little higher than the current year but revenues are projected to remain relatively flat. These and other factors were considered in preparing Highland City's budget for the 2010-2011 fiscal year. We are hoping the economy will start to rebound in 2011.

During the current fiscal year, unassigned fund balance in the general fund decreased by \$20,865. The general fund unassigned fund balance of \$735,151 represented 10.8% of general fund revenues which is within the range of 5% to 18% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for capital projects.

Request for Information

This financial report is designed to provide a general overview of Highland City's activities for those with an interest in the City's operations and position. Questions concerning the information provided in this report or requests for additional financial information should be addressed to: Highland City, Finance Director, 5400 W. Civic Center Drive, Suite #1, Highland, Utah 84003.

BASIC FINANCIAL STATEMENTS

CITY OF HIGHLAND, UTAH
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ -	\$ 1,147,607	\$ 1,147,607
Accounts Receivable, Net of Allowance for Uncollectibles	4,677,270	294,355	4,971,625
Internal Balances	(164,937)	164,937	-
TOTAL CURRENT ASSETS	<u>4,512,333</u>	<u>1,606,899</u>	<u>6,119,232</u>
NONCURRENT ASSETS			
Restricted Assets			
Cash and Cash Equivalents	40,838	127,763	168,601
Capital Assets			
Non Depreciable	40,752,582	21,729,229	62,481,811
Depreciable Assets (net of Depreciation)	47,581,272	27,263,311	74,844,583
TOTAL NONCURRENT ASSETS	<u>88,374,692</u>	<u>49,120,303</u>	<u>137,494,995</u>
TOTAL ASSETS	<u>92,887,025</u>	<u>50,727,202</u>	<u>143,614,227</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	764,932	452,748	1,217,680
Deferred Revenue	3,821,022	-	3,821,022
TOTAL CURRENT LIABILITIES	<u>4,585,954</u>	<u>452,748</u>	<u>5,038,702</u>
NONCURRENT LIABILITIES			
Due Within One Year	623,694	310,000	933,694
Due in more than One Year	11,966,473	3,876,649	15,843,122
TOTAL NONCURRENT LIABILITIES	<u>12,590,167</u>	<u>4,186,649</u>	<u>16,776,816</u>
TOTAL LIABILITIES	<u>17,176,121</u>	<u>4,639,397</u>	<u>21,815,518</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	76,052,938	44,835,891	120,888,829
Restricted for			
Community Improvements	84,414	127,763	212,177
Unrestricted	(426,448)	1,124,151	697,703
TOTAL NET ASSETS	<u>\$ 75,710,904</u>	<u>\$ 46,087,805</u>	<u>\$ 121,798,709</u>

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 2,118,005	\$ 299,154	\$ -	\$ -
Public Safety	2,359,437	739,034	9,863	20,937
Streets and Public Works	3,871,352	88,163	-	577,086
Parks and Recreation	1,228,525	312,003	-	1,060,551
Cemetery	139,873	141,847	-	-
Garbage	526,332	586,130	-	-
Interest on Long-Term Debt	552,909	-	-	-
Total Governmental Activities	10,796,433	2,166,331	9,863	1,658,574
Business-type Activities				
Sewer	1,394,735	1,065,908	-	130,789
Pressurized Irrigation	1,107,913	879,266	-	11,400
Storm Sewer	319,037	237,184	-	3,084
Water	959,182	732,794	120,000	-
Total Business-type Activities	3,780,867	2,915,152	120,000	145,273
TOTAL PRIMARY GOVERNMENT	\$ 14,577,300	\$ 5,081,483	\$ 129,863	\$ 1,803,847

General Revenues
Property Taxes
Vehicle Taxes
Sales Taxes
Franchise Taxes
Unrestricted Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

See the accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets**Primary Government**

Governmental Activities	Business-type Activities	Total
\$ (1,818,851)	-	\$ (1,818,851)
(1,589,603)	-	(1,589,603)
(3,206,103)	-	(3,206,103)
144,029	-	144,029
1,974	-	1,974
59,798	-	59,798
<u>(552,909)</u>	<u>-</u>	<u>(552,909)</u>
<u>(6,961,665)</u>	<u>-</u>	<u>(6,961,665)</u>
-	(198,038)	(198,038)
-	(217,247)	(217,247)
-	(78,769)	(78,769)
<u>-</u>	<u>(106,388)</u>	<u>(106,388)</u>
-	(600,442)	(600,442)
<u>(6,961,665)</u>	<u>(600,442)</u>	<u>(7,562,107)</u>
1,760,012	-	1,760,012
175,778	-	175,778
1,463,203	-	1,463,203
887,486	-	887,486
4,147	13,497	17,644
109,132	-	109,132
<u>267,947</u>	<u>(267,947)</u>	<u>-</u>
<u>4,667,705</u>	<u>(254,450)</u>	<u>4,413,255</u>
(2,293,960)	(854,892)	(3,148,852)
79,759,257	46,942,697	126,701,954
<u>(1,754,393)</u>	<u>-</u>	<u>(1,754,393)</u>
<u>\$ 75,710,904</u>	<u>\$ 46,087,805</u>	<u>\$ 121,798,709</u>

CITY OF HIGHLAND, UTAH

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2010

	Governmental-type Activities					Total Governmental Funds
	General	Capital Projects Parks	Capital Projects Roads	Capital Projects Building	Nonmajor Governmental Funds	
ASSETS						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	66,754	-	506,716	-	15,360	588,830
Taxes Receivable	2,033,247	-	-	-	-	2,033,247
Exaction Fees Receivable	-	580,900	939,680	534,613	-	2,055,193
Due from Other Fund	1,064,598	206,043	-	-	-	1,270,641
Restricted Cash	-	-	-	-	40,838	40,838
TOTAL ASSETS	\$ 3,164,599	\$ 786,943	\$ 1,446,396	\$ 534,613	\$ 56,198	\$ 5,988,749
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Accounts Payable	\$ 365,342	\$ 6,593	\$ 25,068	\$ -	\$ 15,687	\$ 412,690
Due to Other Funds	-	-	1,193,678	241,900	-	1,435,578
Development Bonds Held	224,946	-	-	-	-	224,946
Deferred Revenue	1,661,271	685,458	939,680	534,613	-	3,821,022
Compensated Absences	93,475	-	-	-	-	93,475
TOTAL LIABILITIES	2,345,034	692,051	2,158,426	776,513	15,687	5,987,711
FUND BALANCE						
Restricted for						
Impact Fees	-	-	-	-	-	-
Class C Roads	84,414	-	-	-	-	84,414
Debt Service	-	-	-	-	4,156	4,156
Assigned	-	94,892	-	-	36,355	131,247
Unassigned	735,151	-	(712,030)	(241,900)	-	(218,779)
TOTAL FUND EQUITY	819,565	94,892	(712,030)	(241,900)	40,511	1,038
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,164,599	\$ 786,943	\$ 1,446,396	\$ 534,613	\$ 56,198	\$ 5,988,749

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 1,038

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 88,333,854

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (12,623,988)

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 75,710,904

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental-type Activities					Total Governmental Funds
	General	Capital Projects Parks	Capital Projects Roads	Capital Projects Building	Nonmajor Governmental Funds	
REVENUES						
Taxes	\$ 4,286,479	\$ -	\$ -	\$ -	\$ -	\$ 4,286,479
Licenses and Permits	208,053	-	-	-	-	208,053
Intergovernmental	545,877	-	-	-	-	545,877
Charges for Services	1,427,160	468,900	355,401	-	227,210	2,478,671
Fines and Forfeitures	271,578	-	-	-	-	271,578
Interest	4,137	-	-	-	10	4,147
Miscellaneous	50,444	-	-	58,688	-	109,132
TOTAL REVENUES	6,793,728	468,900	355,401	58,688	227,220	7,903,937
EXPENDITURES						
General Government	1,516,794	-	-	40,341	325,159	1,882,294
Public Safety	2,161,381	-	-	4,189	-	2,165,570
Streets and Public Works	573,255	-	484,363	-	-	1,057,618
Parks and Recreation	786,271	88,706	-	-	-	874,977
Cemetery	91,815	-	-	-	-	91,815
Garbage	526,332	-	-	-	-	526,332
Debt Service						
Principal	66,245	-	-	-	440,000	506,245
Interest and Finance Charges	12,653	477	7,130	2,025	530,436	552,721
Capital Outlay	15,676	167,413	1,088,737	-	-	1,271,826
TOTAL EXPENDITURES	5,750,422	256,596	1,580,230	46,555	1,295,595	8,929,398
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	1,043,306	212,304	(1,224,829)	12,133	(1,068,375)	(1,025,461)
OTHER FINANCING SOURCES (USES)						
Impact Fees	-	268,580	31,040	20,937	10,032	330,589
Transfers from Other Funds	-	-	267,947	200,000	1,126,757	1,594,704
Transfers to Other Funds	(979,757)	(147,000)	-	(200,000)	-	(1,326,757)
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES	63,549	333,884	(925,842)	33,070	68,414	(426,925)
BEGINNING FUND BALANCE	756,016	(238,992)	213,812	(274,970)	(27,903)	427,963
ENDING FUND BALANCE	\$ 819,565	\$ 94,892	\$ (712,030)	\$ (241,900)	\$ 40,511	\$ 1,038

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

DEFICIT OF REVENUES AND OTHER FINANCING SOURCES OVER
EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS \$ (426,925)

*Amounts reported for governmental activities in the statement of
activities are different because*

Governmental funds report capital outlays as expenditures. In the
statement of activities the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current
period. (2,383,839)

Issuance of long-term debt provides current financial resources to
governmental funds. The repayment of the principal of long-term
debt consumes the current financial resources of governmental funds.
This amount is the net difference in the treatment of long-term debt
and related items. 499,261

Some revenues and expenses reported in the statement of activities do
not add to or require the use of current financial resources and, therefore,
are not reported as revenues or expenditures in the governmental funds. 17,543

CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS \$ (2,293,960)

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,163,736	\$ 4,189,736	\$ 4,286,479	\$ 96,743
Licenses and Permits	161,500	185,500	208,053	22,553
Intergovernmental	509,000	539,000	545,877	6,877
Charges for Services	1,844,250	1,451,250	1,427,160	(24,090)
Fines and Forfeitures	285,000	280,000	271,578	(8,422)
Interest	40,000	3,000	4,137	1,137
Miscellaneous	-	120,000	50,444	(69,556)
TOTAL REVENUES	7,003,486	6,768,486	6,793,728	25,242
EXPENDITURES				
General Government	1,536,735	1,492,120	1,516,794	(24,674)
Public Safety	2,289,065	2,207,565	2,161,381	46,184
Streets and Public Works	594,650	594,650	573,255	21,395
Parks and Recreation	852,587	856,587	801,947	54,640
Cemetery	74,353	94,353	91,815	2,538
Garbage	588,000	488,000	526,332	(38,332)
Debt Service				
Principal	67,000	67,000	66,245	755
Interest and Finance Charges	13,000	13,000	12,653	347
TOTAL EXPENDITURES	6,015,390	5,813,275	5,750,422	62,853
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	988,096	955,211	1,043,306	88,095
OTHER FINANCING SOURCES (USES)				
Sale of Land	-	-	-	-
Transfers to Other Funds	(975,000)	(979,757)	(979,757)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES	13,096	(24,546)	63,549	88,095
FUND BALANCE ALLOCATION	(13,096)	24,546	-	(24,546)
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 63,549	\$ 63,549

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Sewer	Pressurized Irrigation	Storm Sewer	Water	
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 527,486	\$ 475,604	\$ 7,869	\$ 136,648	1,147,607
Accounts Receivable, Net of Allowance for Uncollectibles	107,743	69,279	32,523	84,810	294,355
Due from Other Fund	164,937	-	-	-	164,937
TOTAL CURRENT ASSETS	800,166	544,883	40,392	221,458	1,606,899
NONCURRENT ASSETS					
Restricted Cash					
Cash and Cash Equivalents	127,763	-	-	-	127,763
Capital Assets					
Land	26,540	277,450	123,333	107,132	534,455
Water Shares	-	19,510,181	-	1,611,562	21,121,743
Construction in Progress	-	-	73,031	-	73,031
Buildings and Structures	-	663,667	-	493,622	1,157,289
Improvements	8,920,565	13,600,601	2,580,632	7,711,541	32,813,339
Machinery and Equipment	201,746	147,928	316,168	1,398,013	2,063,855
Less Accumulated Depreciation	(2,152,699)	(3,169,136)	(538,524)	(2,910,813)	(8,771,172)
TOTAL NONCURRENT ASSETS	7,123,915	31,030,691	2,554,640	8,411,057	49,120,303
TOTAL ASSETS	7,924,081	31,575,574	2,595,032	8,632,515	50,727,202
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	121,366	21,151	2,768	14,570	159,855
Accrued Interest Payable	-	292,893	-	-	292,893
Compensated Absences	12,759	552	5,038	11,651	30,000
Current Portion of Long-Term Debt	-	280,000	-	-	280,000
TOTAL CURRENT LIABILITIES	134,125	594,596	7,806	26,221	762,748
NONCURRENT LIABILITIES					
Bonds Payable	-	3,876,649	-	-	3,876,649
TOTAL NONCURRENT LIABILITIES	-	3,876,649	-	-	3,876,649
TOTAL LIABILITIES	134,125	4,471,245	7,806	26,221	4,639,397
NET ASSETS					
Investment in Capital Assets, Net of Related Debt	6,996,152	26,874,042	2,554,640	8,411,057	44,835,891
Restricted					
Community Improvements	127,763	-	-	-	127,763
Unrestricted	666,041	230,287	32,586	195,237	1,124,151
TOTAL NET ASSETS	\$ 7,789,956	\$ 27,104,329	\$ 2,587,226	\$ 8,606,294	\$ 46,087,805

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Sewer	Pressurized Irrigation	Storm Sewer	Water	
OPERATING REVENUES					
Charges for Services	\$ 1,061,572	\$ 743,308	\$ 237,184	\$ 663,194	\$ 2,705,258
Connection Fees	4,336	-	-	48,830	53,166
Miscellaneous	-	135,958	-	20,770	156,728
TOTAL OPERATING REVENUES	1,065,908	879,266	237,184	732,794	2,915,152
OPERATING EXPENSES					
Salaries and Benefits	273,209	50,712	152,577	242,252	718,750
Operations	797,646	487,519	33,732	409,741	1,728,638
Depreciation	323,880	394,970	131,625	307,189	1,157,664
TOTAL OPERATING EXPENSES	1,394,735	933,201	317,934	959,182	3,605,052
OPERATING INCOME (LOSS)	(328,827)	(53,935)	(80,750)	(226,388)	(689,900)
NON-OPERATING REVENUES (EXPENSES)					
Impact Fees	130,789	11,400	3,084	-	145,273
Interest Income	7,947	5,104	-	446	13,497
Interest Expense	-	(174,712)	(1,103)	-	(175,815)
TOTAL NON-OPERATING REVENUES (EXPENSES)	138,736	(158,208)	1,981	446	(17,045)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(190,091)	(212,143)	(78,769)	(225,942)	(706,945)
CONTRIBUTIONS AND TRANSFERS					
Contributions from Cities	-	-	-	120,000	120,000
Transfer from Other Fund	-	-	242,778	-	242,778
Transfer to Other Fund	(442,778)	-	(55,326)	(12,621)	(510,725)
TOTAL CONTRIBUTIONS AND TRANSFERS	(442,778)	-	187,452	107,379	(147,947)
CHANGE IN NET ASSETS	(632,869)	(212,143)	108,683	(118,563)	(854,892)
TOTAL NET ASSETS AT BEGINNING OF YEAR	8,422,825	27,316,472	2,478,543	8,724,857	46,942,697
TOTAL NET ASSETS AT END OF YEAR	\$ 7,789,956	\$ 27,104,329	\$ 2,587,226	\$ 8,606,294	\$ 46,087,805

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				Total Enterprise Funds
	Sewer	Pressurized Irrigation	Storm Sewer	Water	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 1,031,775	\$ 881,169	\$ 237,358	\$ 734,491	\$ 2,884,793
Payments to Suppliers	(817,532)	(488,506)	(32,643)	(407,439)	(1,746,120)
Payments to Employees	(273,395)	(50,798)	(158,354)	(247,088)	(729,635)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(59,152)	341,865	46,361	79,964	409,038
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers to Other Funds	-	-	242,778	-	242,778
Transfers to Other Funds	(442,778)	-	(55,326)	(12,621)	(510,725)
Due from Other Funds	17,841	35,673	-	-	53,514
Due to Other Funds	-	-	(182,778)	(35,673)	(218,451)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(424,937)	35,673	4,674	(48,294)	(432,884)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Impact Fees	130,789	11,400	3,084	-	145,273
Contributions from Cities	-	-	-	120,000	120,000
Acquisition of Capital Assets	(27,134)	(114,685)	(45,147)	(15,468)	(202,434)
Bond Payments	-	(253,188)	-	-	(253,188)
Interest Expense	-	(174,570)	(1,103)	-	(175,673)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	103,655	(531,043)	(43,166)	104,532	(366,022)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Income	7,946	5,104	-	446	13,496
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,946	5,104	-	446	13,496
NET CHANGE IN CASH AND CASH EQUIVALENTS	(372,488)	(148,401)	7,869	136,648	(376,372)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,027,737	624,005	-	-	1,651,742
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 655,249	\$ 475,604	\$ 7,869	\$ 136,648	\$ 1,275,370

See the accompanying notes to the financial statements

CITY OF HIGHLAND, UTAH
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Sewer</u>	<u>Pressurized Irrigation</u>	<u>Storm Sewer</u>	<u>Water</u>	
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Operating Income (Loss)	\$ (328,827)	\$ (53,935)	\$ (80,750)	\$ (226,388)	\$ (689,900)
Adjustments					
Depreciation	323,880	394,970	131,625	307,189	1,157,664
Changes in Assets and Liabilities					
Accounts Receivable, Net	(34,133)	1,903	174	1,697	(30,359)
Accounts Payable	(19,886)	(987)	1,089	2,302	(17,482)
Compensated Absences	(186)	(86)	(5,777)	(4,836)	(10,885)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (59,152)	\$ 341,865	\$ 46,361	\$ 79,964	\$ 409,038
Noncash Financing and Investing Transactions					
Developer Contributions of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -

See the accompanying notes to the financial statements

HIGHLAND CITY, UTAH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Highland City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

Financial Reporting Entity

Highland City was incorporated in 1977, under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, City Administrator, Justice Court, Finance, Attorney, Treasurer and Recorder

Public Safety: Police, Fire and Emergency Medical Services, (through Lone Peak Public Safety District), Engineer, Building Inspection, and Animal Control

Public Works: Streets, Water, Sewer, Garbage, Pressurized Irrigation and Storm Drains

Parks and Recreation: Parks, Cemetery and Recreation

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). The component unit discussed below is included as part of the City's reporting entity as a blended component unit.

The Highland City Open Space Special Service District (the District) was established to provide recreation services, including the operation and maintenance of parks, open space and trails within certain areas of the City. The District is governed by a board of trustees composed of the City Mayor and members of the City Council. Although it is a legally separate entity from the City, the District is reported as if it were part of the primary government because of the City's ability to impose its will upon the operations of the District. The District is included in these financial statements as the Open Space Trust Fund. Separate financial statements are not issued for the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTE 1 - (CONTINUED)

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

The *capital projects park fund* accounts for the construction and improvement of parks within the City.

NOTE 1 - (CONTINUED)

The *capital projects roads fund* accounts for the construction and improvement of roads within the City.

The *capital projects building fund* accounts for the construction and improvement of buildings owned by the City.

The City reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

The *pressurized irrigation fund* accounts for the City's pressurized irrigation distribution operations.

The *storm sewer fund* accounts for the activities of the City's efforts to provide storm drains.

The *water fund* accounts for the activities of the City's water, treatment and distribution.

Activities of these four funds include administration, operations and maintenance of the water, sewer, pressurized irrigation and storm drain systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all enterprise fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Fund Equity

Cash and cash equivalents

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

NOTE 1 - (CONTINUED)

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

Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and structures	20-50 years
Improvements and infrastructure	10-50 years
Machinery, equipment and vehicles	5-15 years

Compensated absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. Employees may accumulate unlimited vacation. An employee who is separated from employment may be compensated for all accrued vacation. The accumulated sick leave is earned at a rate of one day per month. Sick pay amounts are charged to expenditures when incurred. Employees may accumulate up to 65 days of sick leave. Employees will not be paid for any accumulated sick leave at separation from employment.

NOTE 1 - (CONTINUED)

Long-term liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report fund balances divided into five categories as follows:

Non-spendable – These amounts have already been spent. They match the total of inventory, prepaid expenses and permanent endowments (such as cemetery perpetual care).

Restricted – These amounts have restrictions that are externally imposed or are imposed by law. They include Class C road and impact fee amounts.

Committed – These amounts have city-imposed limitations. In order to be considered committed the government must make a formal action formally establishing the amount. All committed amounts must be spent by the end of the next fiscal year.

Assigned – These are funds that the government sets aside for a specific purpose. The city council is authorized to assign amounts to a specific purpose.

Unassigned – This category holds the remainder of the fund equity and is the amount available for the city to spend.

When faced with a choice, the City elects to use restricted, committed and assigned amounts before spending any unassigned amounts.

NOTE 1 - (CONTINUED)

Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Inter-Fund Transactions

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

Deferred Revenue

Property taxes due November 30, 2010 and unpaid from 2009 are shown as deferred revenue.

Exaction fees for improvements made by the City in the Town Center area which will be repaid by developers are also shown as deferred revenue.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

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

NOTE 2 - (CONTINUED)

Capital Asset Differences

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 39,607,624
Construction in Progress	1,144,958
Buildings and Structures	14,006,833
Improvements and Infrastructure	67,457,201
Machinery, Equipment and Vehicles	1,874,323
Less Accumulated Depreciation	<u>(35,757,085)</u>
Net Capital Asset Difference	<u>\$ 88,333,854</u>

Long-Term Liability Differences

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Bonds Payable	\$ (12,255,000)
Unamortized Bond Issuance Cost	118,736
Loans Payable	(144,652)
Accrued Interest	(127,296)
Long-Term Compensated Absences	<u>(215,776)</u>
Total Long-Term Liability Difference	<u>\$ (12,623,988)</u>

Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Capital Outlay	\$ 1,271,826
Depreciation Expense	<u>(3,655,665)</u>
Net Difference	<u>\$ (2,383,839)</u>

NOTE 2 - (CONTINUED)

Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-term liability and repayments are reported as reductions of those liabilities in the statement of activities. The details of these differences are reported below:

Principal Repayments on Bonds and Loans Payable	\$ 506,245
Amortization of Bond Issuance Costs	<u>(6,984)</u>
Net Difference	<u>\$ 499,261</u>

Other Revenue and Expense Differences

The change in long-term compensated absences and accrued interest are not reported in the statement of revenues, expenditures and changes in fund balance. These changes are reported in the statement of activities. The detail of these differences is reported below:

Change in Long-Term Compensated Absences	\$ 10,747
Change in Accrued Interest	<u>6,796</u>
Net Difference	<u>\$ 17,543</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor and the City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The City Administrator has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

NOTE 3 - (CONTINUED)

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

Tax Revenues

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

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

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30th.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

Deposits and investments for City government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7) (The Act) and by rules of the Utah Money Management Council (the Council). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2010, none of the City's bank balances of \$114,690 were uninsured and uncollateralized.

NOTE 4 - (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The City government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the City's investments at June 30, 2010:

<u>Investment Type</u>	<u>Fair Value</u>
State of Utah	
Public Treasurer's Investment Fund (PTIF)	<u>\$ 1,196,952</u>

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ 119,256
Investments	<u>1,196,952</u>
Total	<u>\$ 1,316,208</u>
Cash and Cash Equivalents	\$ 1,147,607
Restricted Cash and Cash Equivalents	<u>168,601</u>
Total	<u>\$ 1,316,208</u>

NOTE 5 - RECEIVABLES

Accounts receivable and the associated allowances for doubtful accounts at June 30, 2010 are presented in the schedule below.

Property taxes are levied on January 1 of 2010, are due in November of 2010, and are budgeted for the 2010 fiscal year. Even though they are not intended to fund the 2010 fiscal year, they must be recognized as an asset because the City has an enforceable claim to the revenue. The property taxes that have been remitted to the City within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

NOTE 5 - (CONTINUED)

Franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the City.

The following is a summary of receivables at June 30, 2010:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts Receivable	\$ 60,728	\$ 315,355	\$ 376,083
Allowance for Doubtful Accounts	(3,988)	(21,000)	(24,988)
Property Taxes Receivable	1,692,462	-	1,692,462
Sales Taxes Receivable	124,633	-	124,633
Class C Road Receivable	112,917	-	112,917
Franchise Taxes Receivable	103,235	-	103,235
Exaction Fees Receivable	2,055,193	-	2,055,193
Other Receivables	532,090	-	532,090
	<u>\$ 4,677,270</u>	<u>\$ 294,355</u>	<u>\$ 4,971,625</u>

NOTE 6 - CAPITAL ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2010.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Moves or Decreases</u>	<u>Ending Balance</u>
Capital Assets				
not being Depreciated				
Land	\$ 39,607,624	\$ -	\$ -	\$ 39,607,624
Construction in Progress	2,801,356	508,182	2,164,580	1,144,958
Capital Assets				
being Depreciated				
Buildings and Structures	14,006,832	1	-	14,006,833
Improvements and Infrastructure	64,544,654	2,912,547	-	67,457,201
Machinery, Equipment and Vehicles	<u>1,858,647</u>	<u>15,676</u>	<u>-</u>	<u>1,874,323</u>
Total	122,819,113	3,436,406	2,164,580	124,090,939
Less Accumulated Depreciation	<u>(32,101,420)</u>	<u>(3,655,665)</u>	<u>-</u>	<u>(35,757,085)</u>
Governmental Activities Capital Assets, Net	<u>\$ 90,717,693</u>	<u>\$ (219,259)</u>	<u>\$ 2,164,580</u>	<u>\$ 88,333,854</u>

NOTE 6 - (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2010.

Business-type Activities	Beginning Balance	Increases	Moves or Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 534,455	\$ -	\$ -	\$ 534,455
Water Shares	21,029,675	92,068	-	21,121,743
Construction in Progress	577,894	-	504,863	73,031
Capital Assets being Depreciated				
Buildings and Structures	1,157,289	-	-	1,157,289
Improvements and Infrastructure	32,214,435	598,904	-	32,813,339
Machinery, Equipment and Vehicles	<u>2,047,530</u>	<u>16,325</u>	<u>-</u>	<u>2,063,855</u>
Total	57,561,278	707,297	504,863	57,763,712
Less Accumulated Depreciation	<u>(7,613,508)</u>	<u>(1,157,664)</u>	<u>-</u>	<u>(8,771,172)</u>
Business-type Activities Capital Assets, Net	<u>\$ 49,947,770</u>	<u>\$ (450,367)</u>	<u>\$ 504,863</u>	<u>\$ 48,992,540</u>

Depreciation was charged to the functions/programs of the primary government as follows:

Government Activities	
General Government	\$ 246,458
Public Safety	193,867
Streets and Public Works	2,813,734
Parks and Recreation	353,548
Cemetery	<u>48,058</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 3,655,665</u>
Business-type Activities	
Sewer	\$ 323,880
Pressurized Irrigation	394,970
Storm Drain	131,625
Water	<u>307,189</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 1,157,664</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at June 30, 2010:

	Governmental Activities	Business-type Activities	Total
Accounts Payable	\$ 412,690	\$ 159,855	\$ 572,545
Accrued Interest Payable	127,296	292,893	420,189
Developer Bonds Payable	<u>224,946</u>	<u>-</u>	<u>224,946</u>
	<u>\$ 764,932</u>	<u>\$ 452,748</u>	<u>\$ 1,217,680</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in Governmental Activities long-term debt of the City for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue Bonds Payable					
2006 Sales and Franchise Tax	\$ 5,605,000	\$ -	\$ (210,000)	\$ 5,395,000	\$ 220,000
2007 Sales and Franchise Tax	7,090,000	-	(230,000)	6,860,000	240,000
Loans Payable					
1998 Cemetery Mortgage	210,897	-	(66,245)	144,652	70,219
Compensated Absences	<u>335,479</u>	<u>-</u>	<u>(26,228)</u>	<u>309,251</u>	<u>93,745</u>
	<u>\$ 13,241,376</u>	<u>\$ -</u>	<u>\$ (532,473)</u>	12,708,903	<u>\$ 623,694</u>
Unamortized Bond Issuance Costs				<u>(118,736)</u>	
				<u>\$12,590,167</u>	

The 2006 and 2007 sales and franchise tax revenue bonds were issued for the purchase of land for and the construction of city parks. The City pledges income derived from sales and franchise taxes to repay the revenue bonds through the maturity date of the bonds. Annual principal and interest payments are expected to require less than fifty percent of the sales and franchise tax revenues.

The cemetery mortgage loan was used to acquire land to expand the cemetery. The general obligation bonds were issued to improve the secondary water system. The City pledges income derived from the secondary water system to repay the general obligation bonds.

The following is a summary of changes in Business-type Activities long-term debt of the City for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
General Obligation Bonds					
1996B Irrigation Water	\$ 123,390	\$ -	\$ -	\$ 123,390	\$ -
2009 Refunding Bonds	4,310,000	-	(255,000)	4,055,000	280,000
Compensated Absences	<u>40,885</u>	<u>-</u>	<u>(10,885)</u>	<u>30,000</u>	<u>30,000</u>
	<u>\$ 4,474,275</u>	<u>\$ -</u>	<u>\$ (265,885)</u>	4,208,390	<u>\$ 310,000</u>
Unamortized Bond Issuance Costs and Discounts				<u>(21,741)</u>	
				<u>\$ 4,186,649</u>	

The 1996 and 2010 irrigation water general obligation bonds were issued to pay for water system improvements. The City pledges income, net of operating expenses, derived from irrigation water charges to repay the bonds through the maturity date of the bonds. Annual principal and interest payments are expected to require less than thirty five percent of the total pressurized irrigation income.

NOTE 8 - (CONTINUED)

Long-term debt and obligations payable at June 30, 2010 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
<u>Governmental Activities</u>				
Sales and Franchise Tax Revenue Bonds, Series 2006 (original amount--\$6,000,000)	4.00% to 4.35%	2027	\$ 220,000	\$ 5,175,000
Sales and Franchise Tax Revenue Bonds, Series 2007 (original amount--\$7,315,000)	4.00% to 5.25%	2028	240,000	6,620,000
Cemetery Mortgage (original amount--\$766,281)	6.00%	2012	70,219	74,433
Compensated Absences			93,475	215,776
Unamortized Bond Issuance Costs			-	(118,736)
Total Governmental Activities Long-term Debt			\$ 623,694	\$ 11,966,473
<u>Business-type Activities</u>				
Irrigation Water General Obligation Bonds, Series 1996B (original amount--\$123,390)	4.00%	2018	\$ -	\$ 123,390
Irrigation General Obligation Refunding Bonds, Series 2009 (original amount--\$4,310,000)	2.75% to 4.125%	2022	280,000	3,775,000
Compensated Absences			30,000	-
Unamortized Bond Issuance Costs and Discounts			-	(21,741)
Total Business-type Activities Long-term Debt			\$ 310,000	\$ 3,876,649

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Government-Wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 530,219	\$ 522,133	\$ 280,000	\$ 146,744	\$ 810,219	\$ 668,877
2012	554,433	497,333	290,000	139,044	844,433	636,377
2013	500,000	471,404	300,000	131,069	800,000	602,473
2014	525,000	448,954	305,000	122,069	830,000	571,023
2015	545,000	425,516	315,000	112,537	860,000	538,053
2016-2020	3,130,000	1,737,356	1,883,390	643,343	5,013,390	2,380,699
2021-2025	3,865,000	1,007,773	805,000	49,625	4,670,000	1,057,398
2026-2028	<u>2,750,000</u>	<u>178,899</u>	-	-	<u>2,750,000</u>	<u>178,899</u>
	<u>\$12,399,652</u>	<u>\$5,289,368</u>	<u>\$4,178,390</u>	<u>\$1,344,431</u>	<u>\$16,578,042</u>	<u>\$ 6,633,799</u>

NOTE 9 - RESTRICTED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is restricted for construction and maintenance of City streets and roads. Utah State statute requires unexpended impact fees held at year-end to be restricted for future expansion in the charging department or fund.

NOTE 10 - RETIREMENT PLANS

Plan Description

Highland City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement systems, 540 East 200 South Salt Lake City, Utah 84102-2099 or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Highland City is required to contribute 11.66% of plan members' annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Highland City's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2010, 2009, and 2008 were \$167,939, \$188,276 and \$168,719 respectively. The contributions were equal to the required contributions for each year.

NOTE 11 - DEFERRED COMPENSATION PLANS

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 457 for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 457 deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2010, 2009, and 2008 contributions totaling \$42,254, \$43,316, and \$49,249, respectively were made to the plan by employees and \$157,195, \$167,697 and \$180,429 respectively by the City.

NOTE 11 - (CONTINUED)

The City sponsors a defined contribution deferred compensation plan administered by Utah Retirement Systems under the Internal Revenue Code Section 401(k) for some City employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time City employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended June 30, 2010, 2009, and 2008 contributions totaling \$42,470, \$43,201 and \$61,835, respectively were made to the plan by employees and \$95,227, \$78,667, and \$112,011 respectively by the City.

NOTE 12 - RISK MANAGEMENT

Highland City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other governments in the State of Utah to form the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah State governments. The City pays an annual premium to ULGT for its general insurance coverage.

The City also carries comprehensive general liability insurance coverage through a commercial insurance company. Settled claims from this risk type have not exceeded coverage in any of the past three fiscal years.

NOTE 13 - OPERATING TRANSFER RECONCILIATION

The operating transfers among the funds were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 979,757
Open Space	155,757	-
Debt Service	971,000	-
Capital Projects - Parks	-	147,000
Capital Projects - Roads	267,947	-
Capital Projects - Building	200,000	200,000
Sewer	-	442,778
Storm Sewer	242,778	55,326
Water	-	12,621
	<u>\$ 1,837,482</u>	<u>\$ 1,837,482</u>

The transfer from the general fund to the debt service fund was to cover the costs of the debt payments. The transfers from various funds into the capital projects funds were to pay for the costs of road and building construction during the year.

NOTE 14 - RELATED PARTY TRANSACTIONS

The City Treasurer and the Finance Director are related through marriage as sister-in-law and brother-in-law, respectively.

NOTE 15 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

The City has implemented GASB Statement No. 51 (GASB 51) and GASB Statement No. 54 (GASB 54) during the 2010 fiscal year. Under GASB 51, the City now reports rights of way and public utility easements acquired during the year as intangible assets. These intangible assets have indeterminate useful lives and are therefore, not subject to depreciation. Under GASB 54, governmental fund balances are presented with different classifications that have been used in prior years. A description of these new classifications is found in Note 1 under the Fund Equity heading. Implementation of this statement does not change the total fund balances, rather it changes the manner in which they are reported.

Prior Period Adjustment

The Statement of Activities on pages 13 and 14 shows a prior period adjustment of \$1,754,393. When Governmental Accounting Standards Board Statement No. 33 was first adopted, the City followed the advice of the Utah State Auditor's Office regarding the recognition of property taxes receivable in the months following the end of the City's fiscal year. They advised that the deferral for property taxes receivable after the end of the year should be reversed for the Statement of Activities. In a State Auditor newsletter sent to cities this year, their advice was changed to state that deferred property taxes should be shown the same for the Statement of Activities as it is in the fund statements. The adjustment reflects the property tax income that was recognized in advance of being received on the prior year's financial statements.

SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND, UTAH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Debt Service Fund</u>	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	-	15,360	-	15,360
Restricted Cash	<u>4,156</u>	<u>27,378</u>	<u>9,304</u>	<u>40,838</u>
TOTAL ASSETS	<u>\$ 4,156</u>	<u>\$ 42,738</u>	<u>\$ 9,304</u>	<u>\$ 56,198</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	<u>\$ -</u>	<u>\$ 15,687</u>	<u>\$ -</u>	<u>\$ 15,687</u>
TOTAL LIABILITIES	<u>-</u>	<u>15,687</u>	<u>-</u>	<u>15,687</u>
FUND BALANCE				
Restricted for				
Debt Service	4,156	-	-	4,156
Impact Fees	-	-	-	-
Assigned	<u>-</u>	<u>27,051</u>	<u>9,304</u>	<u>36,355</u>
TOTAL FUND EQUITY	<u>4,156</u>	<u>27,051</u>	<u>9,304</u>	<u>40,511</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,156</u>	<u>\$ 42,738</u>	<u>\$ 9,304</u>	<u>\$ 56,198</u>

CITY OF HIGHLAND, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Debt Service Fund</u>	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Total Nonmajor Governmental Funds</u>
<u>REVENUES</u>				
Charges for Services	\$ -	\$ 227,210	\$ -	\$ 227,210
Interest Income	-	-	10	10
TOTAL REVENUES	<u>-</u>	<u>227,210</u>	<u>10</u>	<u>227,220</u>
<u>EXPENDITURES</u>				
General Government	-	325,159	-	325,159
Streets and Public Works	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service				
Principal	440,000	-	-	440,000
Interest and Finance Charges	530,436	-	-	530,436
TOTAL EXPENDITURES	<u>970,436</u>	<u>325,159</u>	<u>-</u>	<u>1,295,595</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(970,436)	(97,949)	10	(1,068,375)
<u>OTHER FINANCING SOURCES</u>				
Impact Fees	-	-	10,032	10,032
Transfers from Other Funds	971,000	155,757	-	1,126,757
Transfers to Other Funds	-	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	564	57,808	10,042	68,414
BEGINNING FUND BALANCE	<u>3,592</u>	<u>(30,757)</u>	<u>(738)</u>	<u>(27,903)</u>
ENDING FUND BALANCE	<u>\$ 4,156</u>	<u>\$ 27,051</u>	<u>\$ 9,304</u>	<u>\$ 40,511</u>

STATE LEGAL COMPLIANCE REPORT

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

September 21, 2010

**The Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements and have issued my report thereon dated September 21, 2010. As part of my audit, I have audited Highland City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2010. The City received the following major State assistance programs from the State of Utah:

**"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)**

My audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

Public Debt	Other General Issues
Cash Management	Uniform Building Code Standards
Purchasing Requirements	Liquor Law Enforcement
Budgetary Compliance	Justice Court
Truth in Taxation and Property	Impact Fees
Tax Limitations	Asset Forfeiture
Class C Road Funds	Utah Retirement System
Special Districts	Fund Balance

The management of Highland City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

My audit does not provide a legal determination on the City's compliance with these requirements.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above which are described in the accompanying management letter as State Compliance Findings #1 and #2. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Highland City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2010.

The report is intended solely for the information and use of management of the City and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.


Greg Ogden,
Certified Public Accountant

GOVERNMENT AUDITING STANDARDS REPORT

**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**

September 21, 2010

**Honorable Mayor
Members of the City Council
Highland City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 21, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies in internal control over financial reporting. I believe that finding #1 is a significant deficiency. 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.

Compliance and Other Matters

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

I noted certain other matters that I reported to the City's management in the management letter dated September 21, 2010.

This report is intended solely for the information of the City's management, the City Council, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.


Greg Ogden
Certified Public Accountant