

**HIGHLAND CITY, UTAH
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2013

**HIGHLAND CITY, UTAH
TABLE OF CONTENTS**

	<u>Page</u>
FINANCIAL SECTION:	
Independent Auditors’ Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	18
Statement of Net Position – Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Notes to Financial Statements.....	22
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	43



Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of City Council
Highland City
Highland City, Utah

Report on Financial Statements

We 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 (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Telephone (801) 590-2600
Fax (801) 265-9405

5292 So. College Dr., Suite 102
Salt Lake City, Utah 84123

Opinions

In our 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, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Keddington & Christensen, LLC

December 19, 2013

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2013

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, 2013.

Financial Highlights

The assets of Highland City exceeded its liabilities at June 30, 2013 by \$113,852,278 (net position). Of this amount \$3,065,803 (unrestricted net position) may be used to meet the government's ongoing obligations.

Highland City's total net position decreased by \$2,359,994. Elements of the decrease were: 1) Interest payments on debt); 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, 2013 of \$1,876,686 a decrease of \$97,131 in comparison to the prior year. At June 30, 2013 unrestricted fund balance of the general fund was \$1,236,161, or 20.5% 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 the City's financial position and changes in financial position, similar to consolidated financial statements in a private sector business. The statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Net Position presents information on all of Highland City's assets, liabilities, and deferred inflows of resources, with the difference between the three reported as net position. Increases or decreases over time in net position gives an indicator as to whether the financial condition of the City is improving or declining.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., debt interest payment when the fiscal year ends between interest payments).

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.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

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 eight (8) 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.

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.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with nonmajor governmental funds. They are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position is an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$113,708,852 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.

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

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012
Current and other assets	\$ 5,620,097	\$ 5,563,543	\$ 2,865,038	\$ 2,409,439
Capital assets	77,843,524	80,716,579	48,098,269	48,942,653
Total Assets	<u>\$ 83,463,621</u>	<u>\$ 86,280,122</u>	<u>\$ 50,963,307</u>	<u>\$ 51,352,092</u>
Current and other liabilities	\$ 2,323,926	\$ 2,217,922	\$ 253,843	\$ 275,828
Long-term liabilities	11,165,998	11,665,608	5,254,013	5,727,995
Total Liabilities	<u>13,489,924</u>	<u>13,883,530</u>	<u>5,507,856</u>	<u>6,003,823</u>
Deferred inflows of resources	<u>1,576,870</u>	<u>1,532,589</u>	-	-
Net assets:				
Net investment in capital assets	66,677,526	69,050,971	42,944,607	43,308,656
Restricted	104,768	655,080	819,149	550,222
Unrestricted	<u>1,614,533</u>	<u>1,157,952</u>	<u>1,691,695</u>	<u>1,489,391</u>
Total Net Position	<u>68,396,827</u>	<u>70,864,003</u>	<u>45,455,451</u>	<u>45,348,269</u>
Total Liabilities, deferred inflows of Resources, and Net Position	<u>\$ 83,463,621</u>	<u>\$ 86,280,122</u>	<u>\$ 50,963,307</u>	<u>\$ 51,352,092</u>

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012
Revenues:				
Program revenues:				
Charges for services	\$ 2,573,917	\$ 2,871,995	\$ 4,040,623	\$ 4,011,418
Operating grants and contributions	9,693	10,035	-	-
Capital grants and contributions	1,292,693	1,037,630	459,650	242,350
General revenues:				
Property and uniform vehicle taxes	1,909,750	1,955,803	-	-
Other Taxes	2,660,938	2,523,392	-	-
Other	31,547	55,957	15,763	14,442
Gain (loss) on disposition of assets	11,732	-	-	-
Total Revenues	8,490,270	8,454,812	4,516,036	4,268,210
Expenses:				
General government	1,915,383	1,674,594	-	-
Public safety	3,024,762	2,950,662	-	-
Streets and public improvements	3,877,880	3,798,706	-	-
Parks and recreation	999,897	976,014	-	-
Cemetery	112,005	104,149	-	-
Garbage	562,627	539,253	-	-
Interest on long-term debt	464,892	502,013	-	-
Water	-	-	905,639	833,000
Pressurized irrigation	-	-	1,448,442	1,421,266
Storm sewer	-	-	400,047	337,936
Sewer	-	-	1,654,726	1,531,942
Total Expenses	10,957,446	10,545,391	4,408,854	4,124,144
Increase (Decrease) in net position before transfers	(2,467,176)	(2,090,579)	107,182	144,066
Transfers	-	-	-	-
Increase in Net Position	(2,467,176)	(2,090,579)	107,182	144,066
Net Position - Beginning	70,864,003	73,194,022	45,348,269	45,292,224
Adjustment related to implementation of new accounting standard (see Note 14)	-	(239,440)	-	(88,021)
Net Position - Ending	\$ 68,396,827	\$ 70,864,003	\$ 45,455,451	\$ 45,348,269

Governmental activities. As noted in the table above, governmental activities decreased the City's net assets by \$2,467,176. Key elements of the decrease were as follows:

1. Interest payments on long-term debt.
2. Increased payments for public safety expenses.
3. Increased expenditures for road maintenance projects.

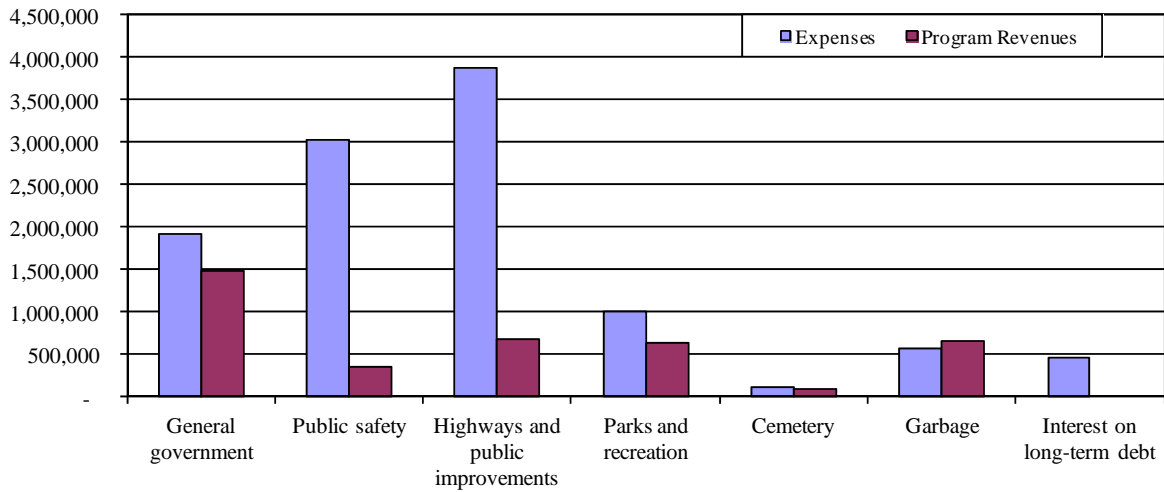
HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

Business-type activities. As noted previously in the table, business-type activities decreased the City's net assets by \$41,244. Key elements of the decrease were as follows:

1. Increased costs to provide culinary water, pressurized irrigation, storm sewer, and sewer services to the City's residents.
2. No significant increases to fees charged for the aforementioned services.

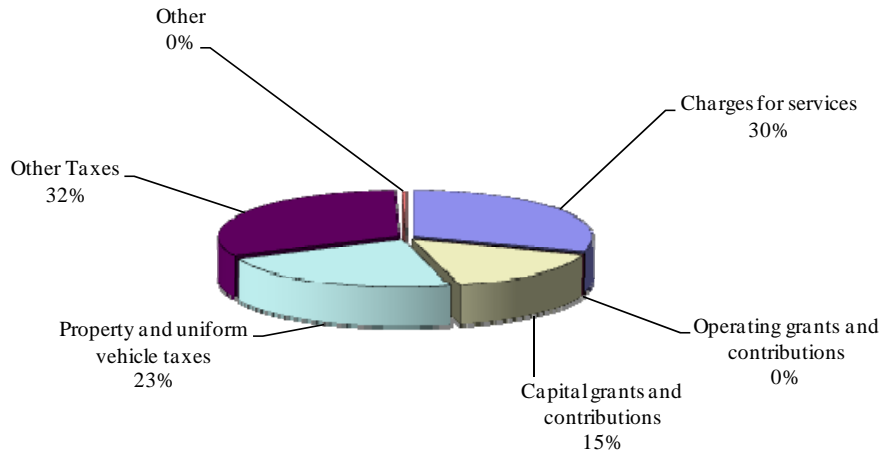
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

Expenses and Program Revenues - Governmental Activities



The following chart displays the governmental activities program revenues by type.

Revenues by Source - Governmental Activities

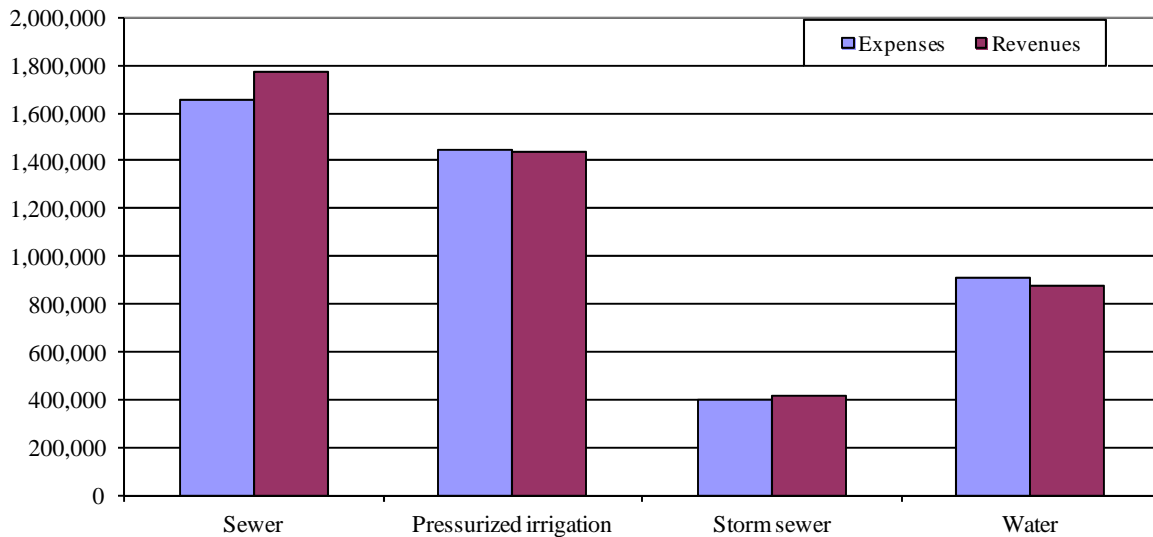


**HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013**

Business-type Activities

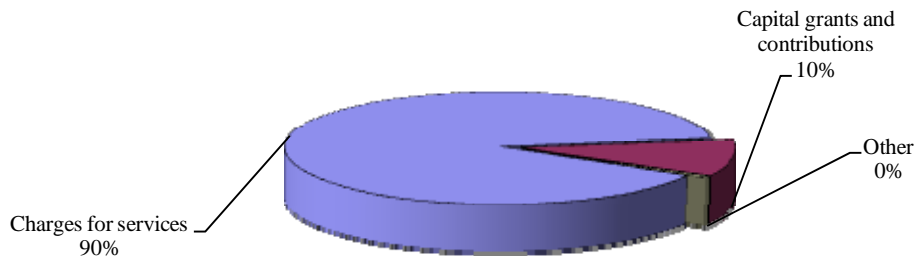
The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self-supporting and the chart depicts the relationship of revenues to expenses.

Expenses and Program Revenues - Business-type Activities



The following chart displays the business-type activities revenues by type.

Revenues by Source - Business-type Activities



HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

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, 2013, the City's governmental funds reported combined ending fund balances of \$1,876,686, which was a decrease of \$97,131 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2013, unrestricted fund balance of the general fund was \$1,280,280. A comparison of the unrestricted fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unrestricted fund balance represented 21.2% of total general fund expenditures. The City's unrestricted general fund balance increased \$242,296 during the fiscal year ended June 30, 2013.

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

Culinary Water Fund-Unrestricted net assets at June 30, 2013 amounted to \$992,552 an increase of \$279,566 from the previous year. Operating revenues were \$876,437 and operating expenses were \$905,639.

Pressurized Irrigation fund-Unrestricted net assets at June 30, 2013 amounted to a deficit of \$33,779, a decrease of \$67,609 from the previous year. Operating revenues were \$1,237,757 and operating expenses were \$1,236,159.

Sewer fund-Unrestricted net assets at June 30, 2013 amounted to a deficit of \$859,207, an increase of \$270,975 from the previous year. Operating revenues were \$1,511,711 and operating expenses were \$1,654,726.

Storm sewer fund- Unrestricted net assets at June 30, 2013 amounted to \$95,504 an decrease of \$138,858 from the previous year. Operating revenues were \$414,718 and operating expenses were \$400,047.

General Fund Budgetary Highlights

During the fiscal year, the general funds original budget was amended from \$8,077,356 (\$6,036,856 expenditures and \$2,040,500 transfers) to a final budget total of \$7,432,137 (\$6,221,744 expenditures and \$1,210,393 transfers). This year's budgeted revenue increased from the prior year on the anticipation of increased tax revenues, however, after the original budget was approved, the increase in taxes was rejected and the final budget was, therefore, reduced. Expenses increased due largely to increased public safety expenditures.

Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2013 was \$125,941,793 (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 \$3,719,111, which is primary as a result of depreciation during the year.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

Highland City's Capital Assets

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012
Land	\$ 39,607,624	\$ 39,607,624	\$ 534,455	\$ 534,455
Buildings	14,080,927	14,080,927	1,157,289	1,157,289
Improvements other than buildings	67,895,235	67,895,235	32,929,299	32,929,299
Machinery and equipment	1,932,162	1,946,968	2,046,752	2,046,752
Construction in progress	981,496	250,032	275,000	-
Water shares	-	-	23,356,934	23,339,985
Total	<u>124,497,444</u>	<u>123,780,786</u>	<u>60,299,729</u>	<u>60,007,780</u>
Less accumulated depreciation	(46,653,920)	(43,064,207)	(12,201,460)	(11,063,455)
Total Capital Assets	<u>\$ 77,843,524</u>	<u>\$ 80,716,579</u>	<u>\$ 48,098,269</u>	<u>\$ 48,944,325</u>

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

Long-term debt. On June 30, 2012 the City had a total bonded debt outstanding of \$14,145,979. Of this amount \$3,234,897 was considered general obligation debt and was backed by the full faith and credit of the City.

Highland City's Outstanding Debt

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012
General obligation bonds	\$ -	\$ -	\$ 3,234,897	\$ 3,663,831
Revenue bonds	10,911,082	11,417,945	-	-
Other long term debt	<u>254,916</u>	<u>247,663</u>	<u>1,918,765</u>	<u>1,970,166</u>
Total	<u>\$ 11,165,998</u>	<u>\$ 11,665,608</u>	<u>\$ 5,153,662</u>	<u>\$ 5,633,997</u>

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 \$764,383,463, 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 \$764,383,463 for water systems, artificial lighting systems or sewer systems. On June 30, 2013 the City's limitation was \$30,575,339 and the additional limitation was \$61,150,677, the current general obligation bonds are \$3,234,897.

Economic Factors and Next Year's Budgets and Rates

Economic trends of the state and region are better than the national indices and continue to show modest improvement. Home construction is up and the economy is improving at a moderate pace; as a result the revenues were budgeted slightly higher than the current year. These and other factors were considered in preparing Highland City's budget for the 2013-2014 fiscal year. We are hoping the economy continues to rebound in 2013-2014. During the current fiscal year, unassigned fund balance in the general fund increased by \$286,415. The general fund unrestricted fund balance of \$1,280,280 represented 21.2% of general fund revenues which is within the range of 5% to 25% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for capital projects.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2013

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

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 1,335,060	\$ 1,911,252	\$ 3,246,312
Receivables:			
Accounts	1,440,943	134,637	1,575,580
Taxes	2,097,187	-	2,097,187
Internal Balances	-	-	-
Restricted cash and cash equivalents	273,907	819,149	1,093,056
Land held for resale	473,000	-	473,000
Capital Assets:			
Non-depreciable Capital Assets	40,589,120	24,166,389	64,755,509
Depreciable Capital Assets (net)	37,254,404	23,931,880	61,186,284
Total Assets	<u>\$ 83,463,621</u>	<u>\$ 50,963,307</u>	<u>\$ 134,426,928</u>
Liabilities:			
Accounts payable	\$ 420,819	\$ 192,448	\$ 613,267
Accrued liabilities	42,709	8,257	50,966
Accrued interest payable	157,385	53,138	210,523
Developer and customer deposits	169,244	-	169,244
Unearned revenues	1,533,769	-	1,533,769
Noncurrent Liabilities:			
Due within one year	609,395	398,720	1,008,115
Due in more than one year	10,556,603	4,855,293	15,411,896
Total Liabilities	<u>13,489,924</u>	<u>5,507,856</u>	<u>18,997,780</u>
Deferred Inflows of Resources			
Unearned property tax revenue	1,576,870	-	1,576,870
Total Deferred Inflows of Resources	<u>1,576,870</u>	<u>-</u>	<u>1,576,870</u>
Total Liabilities and Deferred Inflows of Resources	<u>15,066,794</u>	<u>5,507,856</u>	<u>20,574,650</u>
Net Position:			
Net investment in capital assets	66,677,526	42,944,607	109,622,133
Restricted for:			
Debt Service / park construction	104,768	6,696	111,464
Impact fees	-	792,236	792,236
American Fork Canyon Debris Basin	-	20,217	20,217
Unrestricted	1,614,533	1,691,695	3,306,228
Total Net Position	<u>68,396,827</u>	<u>45,455,451</u>	<u>113,852,278</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 83,463,621</u>	<u>\$ 50,963,307</u>	<u>\$ 134,426,928</u>

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 1,915,383	\$ 1,483,857	\$ -	\$ -	\$ (431,526)	\$ -	\$ (431,526)
Public safety	3,024,762	287,279	9,693	53,838	(2,673,952)	-	(2,673,952)
Streets and public works	3,877,880	38,618	-	634,549	(3,204,713)	-	(3,204,713)
Parks and recreation	999,897	29,699	-	604,306	(365,892)	-	(365,892)
Cemetery	112,005	81,340	-	-	(30,665)	-	(30,665)
Garbage	562,627	653,124	-	-	90,497	-	90,497
Interest	464,892	-	-	-	(464,892)	-	(464,892)
Total Governmental Activities	10,957,446	2,573,917	9,693	1,292,693	(7,081,143)	-	(7,081,143)
Business-type Activities:							
Sewer	1,654,726	1,511,711	-	259,448	-	116,433	116,433
Pressurized irrigation	1,448,442	1,237,757	-	200,202	-	(10,483)	(10,483)
Storm sewer	400,047	414,718	-	-	-	14,671	14,671
Water	905,639	876,437	-	-	-	(29,202)	(29,202)
Total Business-type Activities	4,408,854	4,040,623	-	459,650	-	91,419	91,419
Total Government	\$ 15,366,300	\$ 6,614,540	\$ 9,693	\$ 1,752,343	(7,081,143)	91,419	(6,989,724)
General Revenues:							
Taxes:							
Property					1,745,146	-	1,745,146
Vehicle					164,604	-	164,604
Sales					1,691,767	-	1,691,767
Franchise					969,171	-	969,171
Unrestricted investment earnings					8,978	15,763	24,741
Gain on disposal of assets					11,732	-	11,732
Miscellaneous					22,569	-	22,569
Total General Revenues					4,613,967	15,763	4,629,730
Changes in Net Assets					(2,467,176)	107,182	(2,359,994)
Net Position, Beginning - Restated, see Note 13					70,864,003	45,348,269	116,212,272
Net Position, Ending					\$ 68,396,827	\$ 45,455,451	\$ 113,852,278

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Roads</u>	<u>Capital Projects Building</u>	<u>Capital Projects Parks</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:							
Cash and cash equivalents	\$ 482,533	\$ 3,187	\$ -	\$ -	\$ 469,115	\$ 380,225	\$ 1,335,060
Restricted cash and cash equivalents	169,244	-	-	-	104,663	-	273,907
Receivables:							
Accounts	7,248	-	-	-	-	4,484	11,732
Taxes	2,097,187	-	-	-	-	-	2,097,187
Exaction fees	-	-	653,467	371,778	403,966	-	1,429,211
Due from other funds	624,322	-	-	-	-	-	624,322
Property held for resale	-	-	473,000	-	-	-	473,000
Total Assets	<u>\$ 3,380,534</u>	<u>\$ 3,187</u>	<u>\$ 1,126,467</u>	<u>\$ 371,778</u>	<u>\$ 977,744</u>	<u>\$ 384,709</u>	<u>\$ 6,244,419</u>
Liabilities:							
Accounts payable	\$ 316,672	\$ -	\$ 59,709	\$ -	\$ 8,892	\$ 35,546	\$ 420,819
Accrued liabilities	37,468	-	-	-	-	5,241	42,709
Due to other funds	-	-	544,102	80,220	-	-	624,322
Developer bonds held	169,244	-	-	-	-	-	169,244
Unearned revenue	-	-	653,467	371,778	508,524	-	1,533,769
Total Liabilities	<u>523,384</u>	<u>-</u>	<u>1,257,278</u>	<u>451,998</u>	<u>517,416</u>	<u>40,787</u>	<u>2,790,863</u>
Deferred Inflows of Resources							
Unearned property tax revenue	<u>1,576,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,576,870</u>
Total Deferred Inflows of Resources	<u>1,576,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,576,870</u>
Fund Balances:							
Nonspendable:							
Property held for resale	-	-	473,000	-	-	-	473,000
Restricted for:							
Debt service / park construction	-	-	-	-	104,768	-	104,768
Committed to:							
Beacon Hills park	-	-	-	-	147,824	-	147,824
Assigned to:							
Debt service	-	3,187	-	-	-	-	3,187
Capital projects & opens space funds	-	-	-	-	207,736	343,922	551,658
Unassigned	<u>1,280,280</u>	<u>-</u>	<u>(603,811)</u>	<u>(80,220)</u>	<u>-</u>	<u>-</u>	<u>596,249</u>
Total Fund Balances	<u>1,280,280</u>	<u>3,187</u>	<u>(130,811)</u>	<u>(80,220)</u>	<u>460,328</u>	<u>343,922</u>	<u>1,876,686</u>
Total Liabilities, Deferred Inflows of and Resources, and Fund Balance	<u>\$ 3,380,534</u>	<u>\$ 3,187</u>	<u>\$ 1,126,467</u>	<u>\$ 371,778</u>	<u>\$ 977,744</u>	<u>\$ 384,709</u>	<u>\$ 6,244,419</u>

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Total Fund Balances - Governmental Funds	\$	1,876,686
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		77,843,524
Deferred charges, for long term debt are not financial resources and, therefore, are not reported in the funds		-
Interest expense is not due and payable in the current period and therefore is not recorded in the funds.		(157,385)
Long-term liabilities, including bonds, capital leases, and notes are not due and payable in the current period and therefore, are not reported in the funds.		<u>(11,165,998)</u>
Total Net Assets - Governmental Activities	\$	<u>68,396,827</u>

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013

	General Fund	Debt Service	Capital Projects Roads	Capital Projects Building	Capital Projects Parks	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 4,570,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,570,688
Licenses and permits	501,575	-	-	-	-	-	501,575
Intergovernmental	572,238	-	-	-	-	-	572,238
Impact fees	-	-	72,004	53,838	584,295	20,011	730,148
Charges for services	1,428,419	-	19,928	-	-	336,831	1,785,178
Fines and forfeitures	287,279	-	-	-	-	-	287,279
Interest	1,495	-	-	-	5,636	1,847	8,978
Miscellaneous	22,569	-	-	-	-	-	22,569
Total Revenues	7,384,263	-	91,932	53,838	589,931	358,689	8,478,653
Expenditures:							
Current:							
General government	1,332,183	-	-	-	-	378,113	1,710,296
Public safety	2,829,980	-	-	-	-	-	2,829,980
Streets and public works	630,131	-	440,238	-	-	-	1,070,369
Parks and recreation	613,326	-	-	-	3,500	-	616,826
Cemetery	66,497	-	-	-	-	-	66,497
Garbage	562,627	-	-	-	-	-	562,627
Capital outlay	8,647	-	-	-	731,464	20,093	760,204
Debt service:							
Principal	-	500,000	-	-	-	-	500,000
Interest	-	471,046	3,414	695	-	-	475,155
Total Expenditures	6,043,391	971,046	443,652	695	734,964	398,206	8,591,954
Excess (deficiency) of revenues over (under) expenditures	1,340,872	(971,046)	(351,720)	53,143	(145,033)	(39,517)	(113,301)
Other Financing Sources (Uses):							
Sale of capital assets	10,645	-	-	-	5,525	-	16,170
Transfers in	-	973,000	448,098	-	-	159,221	1,580,319
Transfers out	(1,197,319)	-	-	-	(383,000)	-	(1,580,319)
Total Other Financing Sources (Uses)	(1,186,674)	973,000	448,098	-	(377,475)	159,221	16,170
Net Change in Fund Balances	154,198	1,954	96,378	53,143	(522,508)	119,704	(97,131)
Fund Balances, Beginning	1,126,082	1,233	(227,189)	(133,363)	982,836	224,218	1,973,817
Fund Balances, Ending	\$ 1,280,280	\$ 3,187	\$ (130,811)	\$ (80,220)	\$ 460,328	\$ 343,922	\$ 1,876,686

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	(97,131)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay		760,204
Depreciation expense		(3,628,821)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
Asset deletions		(43,546)
Depreciation deletions		39,108
<p>Amortization of bond premiums, reported on the Statement of Activities, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Bond premiums		6,863
<p>Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of bond principal are expenditures in the governmental funds, but reduce liabilities in the Statement of Net Assets.</p>		
Payment of bond principal		500,000
<p>Expenses are recognized in the governmental funds when paid or due; however, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenses are paid or due. This adjustment reflects the changes due to accrued interest on bonds payable and compensated absences.</p>		
Accrued interest		3,400
Compensated absences		(7,253)
Changes in net assets of governmental activities	\$	<u>(2,467,176)</u>

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For The Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		
Revenues:				
Taxes	\$ 5,243,946	\$ 4,521,131	\$ 4,570,688	\$ 49,557
Licenses and permits	562,500	585,000	501,575	(83,425)
Intergovernmental	560,000	560,000	572,238	12,238
Charges for services	1,363,000	1,426,646	1,428,419	1,773
Fines and forfeitures	278,000	282,000	287,279	5,279
Interest	1,000	1,000	1,495	495
Miscellaneous	25,000	25,000	22,569	(2,431)
Total Revenues	<u>8,033,446</u>	<u>7,400,777</u>	<u>7,384,263</u>	<u>(16,514)</u>
Expenditures:				
Current:				
General government	1,296,220	1,364,018	1,332,183	31,835
Public safety	2,860,244	2,860,244	2,829,980	30,264
Streets and public works	603,395	663,885	630,131	33,754
Parks and recreation	673,254	687,854	613,326	74,528
Cemetery	73,757	73,757	66,497	7,260
Garbage	520,986	562,986	562,627	359
Capital outlay	9,000	9,000	8,647	353
Total Expenditures	<u>6,036,856</u>	<u>6,221,744</u>	<u>6,043,391</u>	<u>178,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,996,590</u>	<u>1,179,033</u>	<u>1,340,872</u>	<u>161,839</u>
Other Financing Sources (Uses):				
Sale of capital assets	-	-	10,645	10,645
Transfers out	(2,040,500)	(1,210,393)	(1,197,319)	13,074
Total Other Financing Sources (Uses)	<u>(2,040,500)</u>	<u>(1,210,393)</u>	<u>(1,186,674)</u>	<u>23,719</u>
Net Change in Fund Balances	<u>\$ (43,910)</u>	<u>\$ (31,360)</u>	<u>154,198</u>	<u>\$ 185,558</u>
Fund Balances, Beginning			<u>1,126,082</u>	
Fund Balances, Ending			<u>\$ 1,280,280</u>	

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Assets:					
Current Assets:					
Cash and cash equivalents	\$ 741,659	\$ 57,382	\$ 1,003,483	\$ 108,728	\$ 1,911,252
Restricted cash and cash equivalents	792,236	6,696	-	20,217	819,149
Accounts receivable	54,475	11,552	59,019	9,591	134,637
Total Current Assets	1,588,370	75,630	1,062,502	138,536	2,865,038
Noncurrent Assets:					
Capital assets:					
Water shares	-	21,719,085	1,637,849	-	23,356,934
Land	26,540	277,450	107,132	123,333	534,455
Construction in process	-	-	-	275,000	275,000
Buildings	-	663,667	493,622	-	1,157,289
Infrastructure	8,920,565	13,600,601	7,805,420	2,602,713	32,929,299
Machinery and equipment	184,643	147,928	1,398,013	316,168	2,046,752
Less accumulated depreciation	(3,100,595)	(4,353,791)	(3,832,911)	(914,163)	(12,201,460)
Total Noncurrent Assets	6,031,153	32,054,940	7,609,125	2,403,051	48,098,269
Total Assets	\$ 7,619,523	\$ 32,130,570	\$ 8,671,627	\$ 2,541,587	\$ 50,963,307
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 113,778	\$ 34,936	\$ 41,849	\$ 1,885	\$ 192,448
Accrued liabilities	2,380	1,453	1,944	2,480	8,257
Accrued interest payable	-	53,138	-	-	53,138
Compensated absences	12,174	7,191	8,915	6,953	35,233
Notes payable	-	58,487	-	-	58,487
Bonds payable - current	-	305,000	-	-	305,000
Total Current Liabilities	128,332	460,205	52,708	11,318	652,563
Noncurrent Liabilities:					
Compensated absences	23,688	12,691	17,242	11,497	65,118
Notes Payable	-	1,860,278	-	-	1,860,278
Bonds payable	-	2,929,897	-	-	2,929,897
Total Noncurrent Liabilities	23,688	4,802,866	17,242	11,497	4,855,293
Total Liabilities	152,020	5,263,071	69,950	22,815	5,507,856
Net Position:					
Invested in capital assets, net of related debt	6,031,153	26,901,278	7,609,125	2,403,051	42,944,607
Restricted for impact fees					
Impact fees	792,236	-	-	-	792,236
Debt service	-	6,696	-	-	6,696
American Fork Canyon Debris Basin	-	-	-	20,217	20,217
Unrestricted	644,114	(40,475)	992,552	95,504	1,691,695
Total Net Position	7,467,503	26,867,499	8,601,677	2,518,772	45,455,451
Total Liabilities and Net Position	\$ 7,619,523	\$ 32,130,570	\$ 8,671,627	\$ 2,541,587	\$ 50,963,307

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – PROPRIETARY FUNDS
For The Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Operating Revenues:					
Charges for services	\$ 1,507,019	\$ 1,237,757	\$ 723,642	\$ 414,718	\$ 3,883,136
Connection fees	4,692	-	147,245	-	151,937
Miscellaneous	-	-	5,550	-	5,550
Total Operating Revenues	1,511,711	1,237,757	876,437	414,718	4,040,623
Operating Expenses:					
Salaries and benefits	184,092	107,173	130,568	175,240	597,073
Operations	1,151,930	735,181	471,307	104,747	2,463,165
Depreciation	318,704	393,805	303,764	120,060	1,136,333
Total Operating Expenses	1,654,726	1,236,159	905,639	400,047	4,196,571
Operating Income (Loss)	(143,015)	1,598	(29,202)	14,671	(155,948)
Nonoperating Revenues (Expenses):					
Impact fees	259,448	51,776	-	-	311,224
Accrued interest - reversed	-	148,426	-	-	148,426
Interest income	7,845	1,371	5,004	1,543	15,763
Interest expense	-	(212,283)	-	-	(212,283)
Total Nonoperating Revenues (Expenses)	267,293	(10,710)	5,004	1,543	263,130
Income (Loss)	124,278	(9,112)	(24,198)	16,214	107,182
Transfers in	-	125,000	-	-	125,000
Transfers out	(125,000)	-	-	-	(125,000)
Changes in Net Assets	(722)	115,888	(24,198)	16,214	107,182
Net Position, Beginning	7,468,225	26,831,630	8,625,875	2,502,558	45,428,288
Adjustment related to implementation of new accounting standards (see Note 14)	-	(80,019)	-	-	(80,019)
Net Position, Ending	\$ 7,467,503	\$ 26,867,499	\$ 8,601,677	\$ 2,518,772	\$ 45,455,451

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For The Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Cash Flows From Operating Activities:					
Cash received from customers	\$ 1,466,299	\$ 1,240,838	\$ 871,237	\$ 415,870	\$ 3,994,244
Cash received from other entities	-	-	5,550	-	5,550
Cash payments to suppliers for goods and services	(1,077,136)	(731,588)	(449,869)	(104,447)	(2,363,040)
Cash payments to employees and professional contractors for services	(181,083)	(105,192)	(130,854)	(173,530)	(590,659)
Net cash provided (used) by operating activities	208,080	404,058	296,064	137,893	1,046,095
Cash Flows From Non-Capital Financing Activities:					
Transfers from other funds		125,000			125,000
Transfers to other funds	(125,000)				(125,000)
Net cash provided (used) by non-capital financing activities	(125,000)	125,000	-	-	-
Cash Flows From Capital and Related Financing Activities:					
Principal payments on bonds	-	(423,390)	-	-	(423,390)
Interest and fees paid on bonds and notes payable	-	(191,572)	-	-	(191,572)
Principal payments on notes payable	-	(51,401)	-	-	(51,401)
Receipt of impact fees	259,448	51,776	-	-	311,224
Purchase of capital assets	-	(16,949)	-	(275,000)	(291,949)
Net cash provided (used) by capital and related financing activities	259,448	(631,536)	-	(275,000)	(647,088)
Cash Flows From Investing Activities:					
Interest on investments	7,845	1,371	5,004	1,543	15,763
Net cash provided (used) by investing activities	7,845	1,371	5,004	1,543	15,763
Net Increase (Decrease) In Cash	350,373	(101,107)	301,068	(135,564)	414,770
Cash At Beginning Of Year	1,183,522	165,185	702,415	264,509	2,315,631
Cash At End Of Year	\$ 1,533,895	\$ 64,078	\$ 1,003,483	\$ 128,945	\$ 2,730,401
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (143,015)	\$ 1,598	\$ (29,202)	\$ 14,671	\$ (155,948)
Adjustments to reconcile operating income (loss) to net cash from (used) by operating activities:					
Depreciation	318,704	393,805	303,764	120,060	1,136,333
(Increase) decrease in assets:					
Accounts receivable	(45,412)	3,081	350	1,152	(40,829)
Increase (decrease) in liabilities:					
Accounts payable	74,794	3,593	21,438	300	100,125
Accrued liabilities	(216)	37	(113)	353	61
Compensated absences	3,225	1,944	(173)	1,357	6,353
Net cash provided (used) by operating activities	\$ 208,080	\$ 404,058	\$ 296,064	\$ 137,893	\$ 1,046,095
Noncash investing, capital, and financing activities:					
Contributions of capital assets	-	-	-	-	-
Addition of capital assets due to notes payable	-	-	-	-	-

The notes to the financial statements are an integral part of this statement.

HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Highland City, Utah (the City) was incorporated in 1977 and operates under a council-city manager form of government. The governing body consists of five elected council members and a mayor. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager. The City provides the following services: general administrative services, public safety, highway and public works, parks and recreations, cemetery, garbage, and utilities (sewer, pressurized irrigation, storm sewer, and culinary water).

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City is discussed below.

(A) The Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB pronouncement. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency and accountability. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations.

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 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 operation 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.

The City is not a component unit of any other entity. The City's basic financial statements include all City operations.

(B) Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's general administrative services, public safety, highway and public works, parks and recreations, cemetery, and garbage are classified as governmental activities. The City's sewer, pressurized irrigation, storm sewer, and water services are classified as business-type activities.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Government-Wide and Fund Financial Statements (Continued)

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information on all of the nonfiduciary activities of the City 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 intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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 revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than 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, franchise taxes, licenses, interest and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Government-Wide and Fund Financial Statements (Continued)

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

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 those accounted for in another fund. Principal sources of revenue are taxes, licenses and permits and intergovernmental revenues. Primary expenses are for general government, public safety, streets and public works, parks and recreation, cemetery and garbage.

The *Debt Service Fund* accounts for the expenditures required for the City's debt service.

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 *Capital Projects Parks Fund* accounts for the construction and improvement of parks 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 activities of the City's pressurized irrigation distribution system.

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

Activities of these three funds include administration, operations and maintenance of the sewer, pressurized irrigation, and water 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 effect of interfund activity has generally been eliminated from the government-wide financial statements in accordance with GAAP.

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 the enterprise funds are charges to customers of the system. 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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Budgetary Data

Annual budgets are prepared and adopted, in accordance with State law, by the City Council on or before June 22 for the following fiscal year, beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in several different funds, including the General Fund, Special Revenue Fund, Capital Project Funds, Debt Service Fund, and Enterprise Funds. Annual budgets are also adopted for capital projects which may include activities which overlap several fiscal years.

Utah State law prohibits the appropriation of unreserved General Fund balance until it exceeds 5% of the General Fund revenues. Until the unreserved fund balance is greater than the above amount, it cannot be budgeted, but is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. When an unreserved fund balance is greater than 25% of the next year's budgeted revenues, the excess must be appropriated within the following two years.

Once adopted, the budget can be amended by subsequent City Council action. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance, in which case a public hearing must be held. 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.

Expenditures in the Capital Projects Fund are budgeted annually on a project-by-project basis. Although it is the intention of the City that each project be funded by a specific revenue source, the adopted budget reflects only total anticipated revenues by source.

(D) Tax Revenues

On or before June 22 of each year, the City sets the property tax rate for various municipal purposes. If the City intends to increase property tax revenues above the tax rate of the previous year, state law requires the City to provide public notice to property owners and hold public hearings. When these special public hearings are necessary, the adoption of the final budget must be done before August 17. All property taxes levied by the City are assessed and collected by Utah County. Taxes are levied as of January 1 and are due November 30; any delinquent taxes are subject to a penalty. Unless the delinquent taxes and penalties are paid before January 15, a lien is attached to the property, and the amount of taxes and penalties bears interest from January 1 until paid. Tax liens are placed on a property on January 1 following the due date of unpaid taxes. If after five years, delinquent taxes have not been paid, the County sells the property at a tax sale. Tax collections are remitted to the City from the County on a monthly basis.

Sales taxes and telephone franchise taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

Franchise taxes are collected by natural gas, electric utilities, and cable television companies and remitted to the City periodically.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Cash, Cash Equivalents and Investments

The City considers all cash and investments with original maturities of three months or less to be cash and cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents are defined as the cash and cash equivalent accounts and the restricted cash and cash equivalents accounts.

Investments consist of accounts at the Utah Public Treasurer’s Investment Trust (the State Treasurer’s Pool). Investments of the City are stated at cost, which approximates fair value.

(F) Restricted Assets

Assets whose use is restricted for construction, debt service or by other agreement are segregated on the government-wide and proprietary fund financial statements. When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

(G) Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The government reports infrastructure assets on a network or subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

(G) Capital Assets (continued)

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives as follows:

Assets	Years
Buildings and structures	20 to 50
Improvements and infrastructure	10 to 50
Machinery, equipment and vehicles	5 to 15

(H) Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

Receivables at June 30, 2013, consisted of property tax, franchise tax, sales tax, grants and utility customer accounts (billings for user charged services). Taxes and grants are deemed collectible in full. Utility charges have an allowance of \$21,000.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Long-Term Obligations

In the government-wide financial statements and proprietary fund types, 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 are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(J) 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. 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.

(K) Deferred Outflows/Inflows of Resources

Beginning with 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These Statements provide financial reporting guidance to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. They also establish accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of these new Statements resulted in a restatement of the District's government-wide financial statement of net position beginning balance and an adjustment to the Pressurized Irrigation fund's net position (see Note 13).

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unearned property tax revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These amounts account for property taxes levied on January 1, 2013 for the 2013-2014 fiscal year.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(L) Equity Classification

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

- (1) *Net investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (2) *Restricted net position* – consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- (3) *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “Net investment in capital assets”.

In accordance with GASBS No. 54, the City classifies fund balances in the governmental funds as follows: Nonspendable, Restricted, Committed, Assigned or Unassigned.

- (1) *Nonspendable fund balance* classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- (2) *Restricted fund balance* classifications are reported as restricted if, (a) externally imposed by creditor, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- (3) *Committed fund balance* classification include those funds that can only be used for specific purposed pursuant to constraints imposed by formal action (Ordinances and Resolutions) of the City council, which is government’s highest level of decision making authority.
- (4) *Assigned fund balance* classification includes amounts that are constrained by the government’s intent to use the funds for specific purposes, but are neither restricted nor committed, as established by the Finance Director, City Council, or City Administrator. Also includes all remaining amounts that are reported in governmental funds, other than the general fund that are not classified as nonspendable, restricted nor committed or in the General Fund, that are intended to be used for specific purposes. The assigned designation may be reversed by the Finance Director, City Council, or City Administrator.
- (5) *Unassigned fund balance* classification is the residual classification for the General Fund or funds with deficit fund balances. This classification represents fund balance that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes within the General Fund.

Proprietary Fund equity is classified the same as in the government-wide statements.

When committed, assigned, or unassigned resources are available for use, it is the City’s policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) Estimates and Assumptions

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

NOTE 2 CASH 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, which approximate fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents" and "restricted cash and cash equivalents," which includes cash accounts that are separately held by several of the City's funds.

The City's deposit and investment policy is to follow the Utah Money Management Act; however, the City does not have a separate deposit and investment policy that addresses specific types of deposit and investment risks to which the City is exposed.

Components of cash and investments (including interest earning deposits) at June 30, 2013 are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Years to Maturity (2)</u>
Cash on deposit	\$ 412,082	\$ 59,495	N/A	N/A
Investment (3):				
Utah State Treasurer's Investment Pool	<u>4,301,365</u>	<u>4,279,873</u>	N/A	N/A
Total cash and cash equivalents	<u>\$ 4,713,447</u>	<u>\$ 4,339,368</u>		
Portfolio weighted average maturity				N/A

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest Rate Risk** is estimated using the weighted average days to maturity.

(3) All investments are considered cash equivalents on the financial statements.

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

Custodial credit risk – deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, \$162,082 of the City's \$412,082 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risks of investments is to comply with the Utah 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 and Poors; banker acceptance 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 by the Act.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City manages its exposure by investing mainly in the Utah Public Treasurer's Investment Fund and by adhering to the Utah Money Management Act. The Act requires that the remaining term to maturity may not exceed the period of availability of the funds to be invested.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

The City invests in the Public Treasurer's Investment Fund (PTIF) which is a voluntary external Local Governmental Investment Pool managed by the Utah State Treasurer's Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The maximum weighted average life of the portfolio does not exceed 90 days.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available at the Utah State Treasurer's Office.

For the year ended June 30, 2013, the City had investments of \$4,279,873 with the PTIF. The fair value of these investments was \$4,301,365. The difference between the fair value and carrying value of the investment with the PTIF is deemed immaterial for allocation among the different funds, and therefore, the carrying value is deemed to be the fair value at June 30, 2013.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

The composition of “interfund balances” as of June 30, 2013 is as follows:

	Interfund Receivables	Interfund Payables
Governmental activities		
General Fund	\$ 624,322	\$ -
Capital Improvements - Roads	-	544,102
Capital Improvements - Buildings	-	80,220
	\$ 624,322	\$ 624,322

The due to/from other funds are the result of individual funds’ cash flow needs. These accounts at the fund financial statement level have been eliminated at the government-wide financial statement level (Statement of Net Position). Balances are not expected to be paid off within one year.

Interfund Transfers

The purpose of the transfers was to provide cash flows and pay operating expenses. The transfers among the funds for the year ended June 30, 2013 were as follows:

	In	Out
Governmental activities		
General Fund	\$ -	\$ 1,197,319
Highland Open Space	159,221	-
Debt service fund	973,000	-
Capital Improvements - Parks	-	383,000
Capital Improvements - Roads	448,098	-
	\$ 1,580,319	\$ 1,580,319
Business activities		
Sewer	\$ -	\$ 125,000
Presurized Irrigation	125,000	-
	\$ 125,000	\$ 125,000

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 RESTRICTED CASH AND CASH EQUIVALENTS

Certain cash and cash equivalents are restricted to use as follows as of June 30, 2013:

	<u>Amount</u>
Governmental activities	
Construction bonds	\$ 169,244
Park construction	<u>104,663</u>
Total governmental activities	<u>273,907</u>
Business-type activities	
Restricted for impact fees	792,236
Debt service	6,696
Construction of water basin	<u>20,217</u>
Total business-type activities	<u>819,149</u>
Total restricted cash and cash equivalents	<u><u>\$ 1,093,056</u></u>

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,607,624	\$ -	\$ -	\$ 39,607,624
Construction in progress	250,032	731,464	-	981,496
Total capital assets, not being depreciated	39,857,656	731,464	-	40,589,120
Capital assets, being depreciated:				
Buildings and structures	14,080,927	-	-	14,080,927
Improvements and infrastructure	67,895,235	-	-	67,895,235
Machinery, equipment and vehicles	1,946,968	28,740	(43,546)	1,932,162
Total capital assets, being depreciated	83,923,130	28,740	(43,546)	83,908,324
Less accumulated depreciation for:				
Buildings and structures	(1,763,089)	(354,568)	-	(2,117,657)
Improvements and infrastructure	(39,992,918)	(3,105,384)	-	(43,098,302)
Machinery, equipment and vehicles	(1,308,200)	(168,869)	39,108	(1,437,961)
Total accumulated depreciation	(43,064,207)	(3,628,821)	39,108	(46,653,920)
Total capital assets, net of accumulated depreciation	40,858,923	(3,600,081)	(4,438)	37,254,404
Governmental activities capital assets, net	\$ 80,716,579	\$ (2,868,617)	\$ (4,438)	\$ 77,843,524

Governmental activities depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 221,507
Public Safety	194,062
Streets and Public Works	2,805,954
Parks and recreation	361,790
Cemetery	45,508
Total depreciation expense - governmental activities	\$ 3,628,821

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS (Continued)

The Business-type activities property, plant and equipment consist of the following at June 30, 2013:

	Balance June 30, 2012	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2013
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 534,455	\$ -	\$ -	\$ 534,455
Water Shares	23,339,985	291,949	-	23,631,934
Total capital assets, not being depreciated	23,874,440	291,949	-	24,166,389
Capital assets, being depreciated:				
Buildings and structures	1,157,289	-	-	1,157,289
Improvements and infrastructure	32,929,299	-	-	32,929,299
Machinery, equipment and vehicles	2,046,752	-	-	2,046,752
Total capital assets, being depreciated	36,133,340	-	-	36,133,340
Less accumulated depreciation for:				
Buildings and structures	(360,052)	(40,120)	-	(400,172)
Improvements and infrastructure	(9,793,334)	(972,588)	-	(10,765,922)
Machinery, equipment and vehicles	(911,741)	(123,625)	-	(1,035,366)
Total accumulated depreciation	(11,065,127)	(1,136,333)	-	(12,201,460)
Total capital assets, net of accumulated depreciation	25,068,213	(1,136,333)	-	23,931,880
Business-type activities capital assets, net	\$ 48,942,653	\$ (844,384)	\$ -	\$ 48,098,269

Business-type depreciation expense was charged to functions/programs as follows:

Business-type activities	
Sewer	\$ 318,704
Pressurized Irrigation	393,805
Storm Drain	120,060
Water	303,764
Total depreciation expense - business-type activities	\$ 1,136,333

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 GRANTS

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the City's independent auditors and other governmental auditors. Any disallowed claims resulting from such an audit could become a liability of the General Fund or other applicable funds. Based on prior experience, the City administration believes such disallowance, if any, would be immaterial.

NOTE 7 DEVELOPER AND CUSTOMER DEPOSITS

Developer and customer deposits are principally deposits from customers that are held by the City for water connections or for construction, or other projects until such time for refund is warranted.

NOTE 8 UNEARNED PROPERTY TAXES

In conjunction with GASB pronouncement 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" the City has accrued property tax receivable and unearned property tax revenue in the General Fund in the amount of \$1,576,870.

Property taxes recorded in the governmental funds are recorded using the modified accrual basis of accounting, wherein revenues are recognized when they are both measurable and available (expected to be received within 60 days). Property taxes attach as an enforceable lien on property as of the first day of January. Taxes are levied on October 1, and then are due and payable at November 30. Since the property tax levied on October 1, 2013 was not expected to be received within 60 days after the year ended June 30, 2013, the City was required to record both receivable and unearned revenue of the estimated amount of the total property tax to be levied on October 1, 2013.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2013:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable					
Revenue bonds	\$ 11,315,000	\$ -	\$ (500,000)	\$ 10,815,000	\$ 525,000
Plus: unamortized premiums	102,945	-	(6,863)	96,082	-
Total bonds payable	<u>11,417,945</u>	<u>-</u>	<u>(506,863)</u>	<u>10,911,082</u>	<u>525,000</u>
Compensated absences	247,663	75,076	(67,823)	254,916	84,395
Governmental activities long-term liabilities	<u>11,665,608</u>	<u>75,076</u>	<u>(574,686)</u>	<u>11,165,998</u>	<u>609,395</u>
Business-type Activities:					
Bonds payable					
General obligation bonds	3,608,390	-	(423,390)	3,185,000	305,000
Plus: unamortized premiums	55,441	-	(5,544)	49,897	-
Total bonds payable	<u>3,663,831</u>	<u>-</u>	<u>(428,934)</u>	<u>3,234,897</u>	<u>305,000</u>
Notes payable	1,970,166	-	(51,401)	1,918,765	58,487
Compensated absences	93,998	45,543	(39,190)	100,351	35,233
Business-type activities long-term liabilities	<u>5,727,995</u>	<u>45,543</u>	<u>(519,525)</u>	<u>5,254,013</u>	<u>398,720</u>
	<u>\$ 17,393,603</u>	<u>\$ 120,619</u>	<u>\$ (1,094,211)</u>	<u>\$ 16,420,011</u>	<u>\$ 1,008,115</u>

Governmental Activities:

Revenue Bonds

Series 2006 Sales and Franchise Tax Revenue Bonds, original issue of \$6,000,000, principal due in annual installments beginning September 2007, interest at 4.00% to 4.35% due in semi-annual installments beginning March 2007, with the final payment due September 2026. The bonds were issued to finance the costs associated with construction of police and fire public safety buildings.

\$ 4,705,000

Series 2007 Sales and Franchise Tax Revenue Bonds, original issue of \$7,315,000, principal due in annual installments beginning September 2008, interest at 4.00% to 5.25% due in semi-annual installments beginning September 2007, with the final payment due September 2027. The bonds were issued to finance the costs associated with acquisition, construction and equipping park improvements and related improvements.

6,110,000

Total Tax Revenue Bonds - Governmental Activities

\$ 10,815,000

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT (Continued)

Business-type Activities

General Obligation Bonds

Series 2009 General Obligation Refunding Bonds, original issue of \$4,310,000, principal payments due in annual installments beginning May 2010, interest at 2.75% to 4.125% due in semi-annual installments beginning November 2009 with the final payment due May 2022. The bonds were issued to refund the outstanding portion of the 1998 General Obligation Refunding Bonds.

\$ 3,185,000

Total General Obligation Bonds - Business-type Activities

\$ 3,185,000

Notes Payable

Note payable to the Provo River Users Association for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$615,833, interest at 4.00%, approximately 22% of original principal is due in two equal installments in July 2010 and March 2011 along with accrued interest. Remaining principal and interest to be paid in annual installments beginning March 2012 with final payment due March 2035.

\$ 461,082

Assessment payable to the Highland Conservation District for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$1,563,945, principal and interest at 2.65% due in installments beginning November 2010 with final installment due November 2035.

1,457,683

Total Notes Payable - Business-type Activities

\$ 1,918,765

All of the City's Sales Tax Revenue Bonds are payable solely by a pledge and assignment of their associated revenue sources. Total future sales tax of \$10,815,000 has been pledged through 2028. The current revenue recognized during the period for pledged Franchise and Sales Tax Revenue bonds was \$2,458,679 compared to principal and interest of \$971,404 paid during the year which equals a coverage ratio of 2.53.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT (Continued)

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	Governmental Activities Franchise and Sales Tax Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2014	525,000	448,954
2015	545,000	425,516
2016	570,000	401,091
2017	600,000	375,454
2018	625,000	347,742
2019-2023	3,555,000	1,315,774
2024-2028	4,395,000	483,974
	<u>\$ 10,815,000</u>	<u>\$ 3,798,505</u>

<u>Year Ending June 30,</u>	Business-type Activities General Obligation Bonds	
	<u>Principal</u>	<u>Interest</u>
2014	305,000	122,068
2015	315,000	112,538
2016	325,000	102,300
2017	340,000	90,112
2018	350,000	76,512
2019-2022	1,550,000	160,048
	<u>\$ 3,185,000</u>	<u>\$ 663,578</u>

NOTE 10 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. This insurance covers all of these risks except natural disasters.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 RETIREMENT PLANS

Plan Description

The City contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, all of which are cost-sharing multiple-employer defined benefit pension plans. These plans are administered by the Utah Retirement Systems (the Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds 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 (the 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 (the 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 Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

The City is legally obligated to contribute to the retirement systems as long as they have employees meeting membership requirements. All required contributions were paid within the applicable periods.

Funding Policy

The City is required to contribute a percentage of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49. The contribution rates were as follows:

	<u>Employee Paid</u>	<u>Paid by Employer for Employee</u>	<u>Employer Contribution Rate</u>
<u>July 2012 - June 2013</u>			
Contributory System:			
Local Governmental Division Tier 2	N/A	N/A	12.740%
Noncontributory System:			
Local Governmental Division Tier 1	N/A	N/A	16.040%

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 RETIREMENT PLANS

The City's actual contributions were as follows:

<u>System</u>	<u>Year Ended June 30,</u>	<u>Employee paid contributions</u>	<u>Employer paid for employee contributions</u>	<u>Employer Contributions</u>	<u>Salary subject to retirement contributions</u>
Contributory System:					
Local Governmental Division	2013	\$ -	\$ -	\$ 3,765	\$ 43,984
Noncontributory System:					
Local Governmental Division 1	2013	\$ -	\$ -	\$ 210,002	\$ 1,297,778
	2012	-	-	191,998	1,394,322
	2011	-	-	157,126	1,124,293
Defined Contribution System					
457 Plan	2013	\$ 41,602	\$ 225		
	2012	59,653	147,283		
	2011	56,869	125,533		
401(k) Plan	2013	\$ 23,636	\$ 182,055		
	2012	47,435	44,297		
	2011	39,521	41,195		
Roth IRA Plan	2013	\$ 2,058	\$ -		
	2012	1,966	-		
	2011	1,093	-		

NOTE 12 COMMITMENTS AND AGREEMENTS

The City has commitments to reimburse developers related to the Town Center project in the aggregate amount of \$810,467, which will be ultimately resolved after exaction fees are received in the Capital Projects Parks, Capital Projects Road, and Capital Projects Building funds.

As of June 30, 2013 the City had construction commitments outstanding of \$93,501 relating to the Beacon Hills Park and Detention Basin Project. Retainage held by the City for this project at June 30, 2013 was \$50,324.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 RESTATEMENT AND ADJUSTMENT OF NET POSITION

As a result of implementing GASB Statement Nos. 63 and 65, bond issuance costs, which were previously deferred and amortized over time, are now required to be expensed in the period in which they were incurred. In the year of implementation, the City is required to remove the previously deferred amounts and restate the earliest Net Position presented. The effects of implementing these standards are shown in the comparative Changes in Net Position in the Management’s Discussion and Analysis (page 6) as taking effect in the year ended June 30, 2012. The adjustments related to these new standards in the Basic Financial Statements in the Statement of Activities (page 13), and the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds (page 20) in the Pressurized Irrigation Fund column are shown below for the year ended June 30, 2013:

<u>Statement of Activities (page 13)</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Originally presented: Net Position - Beginning	71,088,478	45,428,288
Removal of deferred bond issuance costs	<u>(224,475)</u>	<u>(80,019)</u>
Restated Net Position - Beginning	<u><u>70,864,003</u></u>	<u><u>45,348,269</u></u>

SUPPLEMENTAL INFORMATION

HIGHLAND CITY, UTAH
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Capital Projects</u>	
Assets:				
Cash and cash equivalents	\$ 48,487	\$ 78,811	\$ 252,927	\$ 380,225
Receivables:				
Accounts	4,484	-	-	4,484
Total Assets	<u>\$ 52,971</u>	<u>\$ 78,811</u>	<u>\$ 252,927</u>	<u>\$ 384,709</u>
Liabilities:				
Accounts payable	\$ 35,546	\$ -	\$ -	\$ 35,546
Accrued liabilities	5,241	-	-	5,241
Total Liabilities	<u>40,787</u>	<u>-</u>	<u>-</u>	<u>40,787</u>
Fund Balances:				
Assigned	12,184	78,811	252,927	343,922
Total Fund Balances	<u>12,184</u>	<u>78,811</u>	<u>252,927</u>	<u>343,922</u>
Total Liabilities and Fund Balances	<u>\$ 52,971</u>	<u>\$ 78,811</u>	<u>\$ 252,927</u>	<u>\$ 384,709</u>

HIGHLAND CITY, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
GOVERNMENTAL FUNDS – NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Capital Projects</u>		
Revenues:					
Charges for services	\$ 259,076	\$ -	\$ 77,755	\$ 336,831	
Impact fees	-	20,011	-	20,011	
Interest income	266	409	1,172	1,847	
Total Revenues	<u>259,342</u>	<u>20,420</u>	<u>78,927</u>	<u>358,689</u>	
Expenditures:					
Current:					
General government	378,113	-	-	378,113	
Capital outlay	20,093	-	-	20,093	
Total Expenditures	<u>398,206</u>	<u>-</u>	<u>-</u>	<u>398,206</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(138,864)</u>	<u>20,420</u>	<u>78,927</u>	<u>(39,517)</u>	
Other Financing Sources:					
Transfers in	159,221	-	-	159,221	
Total Other Financing Sources	<u>159,221</u>	<u>-</u>	<u>-</u>	<u>159,221</u>	
Net Change in Fund Balances	20,357	20,420	78,927	119,704	
Fund Balances, Beginning	<u>(8,173)</u>	<u>58,391</u>	<u>174,000</u>	<u>224,218</u>	
Fund Balances, Ending	<u>\$ 12,184</u>	<u>\$ 78,811</u>	<u>\$ 252,927</u>	<u>\$ 343,922</u>	

HIGHLAND CITY, UTAH
SUPPLEMENTARY REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**HIGHLAND CITY, UTAH
SUPPLEMENTARY REPORTS
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on and on Internal Controls Over Compliance in accordance with the <i>State of Utah Legal Compliance Audit Guide</i>	3



Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

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

Honorable Mayor and
Members of the City Council
Highland City Corporation
Highland, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City Corporation, Utah (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keddington & Christensen, LLC

December 19, 2013



Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROLS OVER
COMPLIANCE IN ACCORDANCE WITH THE
STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE**

Honorable Mayor and
Members of City Council
Highland City Corporation
Highland, Utah

REPORT ON COMPLIANCE

We have audited Highland City Corporation's (the City) compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2013.

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

- Cash Management
- Budgetary Compliance
- Fund Balance
- Justice Courts
- Impact Fees
- Utah Retirement System
- Transfers from Utility Enterprise Funds
- Government Records Access Management Act
- Conflicts of Interest

The City received the following major State assistance program from the State of Utah:

- B&C Road Funds

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the City's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the City and its major programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion

In our opinion, the City complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

Purpose of Report

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

Keddington & Christensen, LLC

December 19, 2013