

Supplemental

Continuing Disclosure Memorandum

Summary of Debt Structure and Financial Information
SEC Rule 15c2-12

For

City of Highland, Utah

Filed with
Electronic Municipal Market Access (“EMMA”)
emma.msrb.org

Submitted and dated as of January 27, 2012
(Submission required by January 31, 2012)



FINANCE DEPARTMENT
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Phone 756-5751 ~ Fax 756-6903

January 23, 2012

Via electronic submission to www.emma.msrb.org
Attn Municipal Disclosure

Re: Continuing Disclosure Undertaking of the City of Highland, Utah County, Utah

To Whom It May Concern:

In accordance with the provisions of paragraph (b) (5) (i) (A) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City of Highland, Utah County, Utah (the "City" and sometimes referred to herein as the "Issuer"), hereby files with you the enclosed (i) General Purpose Financial Statements for the Fiscal Year Ended June 30, 2011 (the "2011 GPFS"); and (ii) the Supplemental Continuing Disclosure Memorandum of the City dated January 31, 2012 (the "SCDM"). This letter, the 2011 GPFS, and the SCDM constitute the annual financial information and operating data concerning the City to be filed in compliance with the Issuer's obligation under that certain agreement entered into in connection with the offering of the following securities described in the following Official Statements:

| <u>Securities</u> | <u>Official Statement</u> |
|--|--|
| CUSIP: 430818 AF 1; AG 9; AH 7; AJ 3; AK 0; AL 8; AM 6 AN 4; AP 9; AR 5; AS 3; AU 8; AV 6 dated August 15, 2006 | \$6,000,000 Highland City, Utah County, Utah Sales and Franchise Tax Revenue Bonds Series 2006, dated August 15, 2006 |
| CUSIP: 430818 BA 1; BB 9; BC 7; BD 5; BE 3; BF 0; BG 8; BH 6 BJ 2; BK 9; BL 7; BM 5; BN 3; BP 8; BQ 6; BR 4 | \$7,315,000 Highland City, Utah County, Utah Sales and Franchise Tax Revenue Bonds Series 2007, dated June 19, 2007 |
| CUSIP: 430047 BM 1; BN 9; BP 4; BQ 2; BR 0; BS 8 BT 6; BU 3; BV 1; BW 9; BX 7 | \$4,310,000 Highland City, Utah County, Utah General Obligation Refunding Bonds Series 2009, dated March 17, 2009 |

No event described in paragraph (b) (5) (i) (c) of the Rule has occurred that is required to be disclosed with respect to any of the above-described securities.

Sincerely,

A handwritten signature in blue ink that reads "Lynn W. Ruff". The signature is written in a cursive style with a large initial 'L'.

Lynn W. Ruff, Finance Director, CPA, CGFM
City of Highland, Utah County, Utah

cc: Zions Bank Public Finance, Salt Lake City, Utah

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GENERAL

Contact Person for the City

As of the date of this Supplemental Continuing Disclosure Memorandum, the chief contact person for the City of Highland, Utah County, Utah (the “City”) is:

Lynn Ruff, Finance Director
lynn@highlandcity.org

Highland City
5378 W 10400 N
Highland UT 84003
801.763.6112 | f 801.756.6903

When used herein the terms “Fiscal Year[s] 2011” or “Fiscal Year[s] End[ed][ing] June 30, 20YY” shall refer to the year beginning on July 1 and ending on June 30 of the year indicated

The Issues

The City is providing continuing disclosure on the following *three* issues:

1.

\$4,310,000
City of Highland, Utah
General Obligation Refunding Bonds, Series 2009

Bonds dated and issued on: March 17, 2009
CUSIP numbers on the bonds are provided below.

The 2009 Bonds, as defined herein, were awarded pursuant to competitive bidding to BMO Capital Markets GKST, Inc., Chicago, Illinois, at a “true interest rate” of 3.64%. Zions Bank Public Finance, Salt Lake City, Utah, acted as Financial Advisor.

Background Information. The \$4,310,000 General Obligation Refunding Bonds, Series 2009, dated March 17, 2009 (the “2009 Bonds”), were issued as fully-registered bonds in book-entry only form, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC is currently acting as securities depository for the 2009 Bonds.

Payment Dates. Principal of and interest on the 2009 Bonds (interest payable May 1 and November 1 of each year) are payable by Zions Bank, Corporate Trust Department, Salt Lake City, Utah (“Zions Bank”), as Paying Agent, to the registered owners thereof, currently DTC.

Optional Redemption. The 1998 Bonds maturing on or prior to May 1, 2018, are not subject to call and redemption prior to maturity. The 2009 Bonds maturing on and after May 1, 2019 are subject to redemption prior to maturity in whole or in part at the option of the City on November 1, 2018 or on any date thereafter, from such maturities or parts thereof as shall be selected by the City at the redemption price of 100% of the principal amount to be redeemed plus accrued interest (if any) thereon to the redemption date. 100% of the principal amount of the 2009 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, but without premium.

Current Maturity Schedule.

Current principal outstanding: \$3,775,000

Original issue amount: \$4,310,000

Dated: March 17, 2009

Due: May 1, as shown below

| Due May 1 | CUSIP 430047 | Principal Amount | Original Interest Rate | | Due May 1 | CUSIP 430047 | Principal Amount | Original Interest Rate |
|--------------|-----------------|---------------------|------------------------------|--|--------------|-----------------|---------------------|------------------------------|
| 2012..... | BM 1 | \$290,000 | 2.75% | | 2018..... | BT 6 | \$350,000 | 4.00% |
| 2013..... | BN 9 | 300,000 | 3.00 | | 2019..... | BU 3 | 365,000 | 4.00 |
| 2014..... | BP 4 | 305,000 | 3.125 | | 2020..... | BV 1 | 380,000 | 4.00 |
| 2015..... | BQ 2 | 315,000 | 3.25 | | 2021..... | BW 9 | 395,000 | 4.00 |
| 2016..... | BR 0 | 325,000 | 3.75 | | 2022..... | BX 7 | 410,000 | 4.125 |
| 2017... | BS 8 | 340,000 | 4.00 | | | | | |

Bank Qualified Obligations. The City designated the 2009 Bonds as “qualified tax–exempt obligations” pursuant to the small issuer exception provided by Section 265(b)(3) of the Internal Revenue Code of 1986, relating to the deductibility of certain financial institutions’ interest expense allocable to tax–exempt interest.

Security. The 2009 Bonds are general obligations of the City payable from the proceeds of ad valorem taxes to be levied annually without limitation as to rate or amount on all of the taxable property in the City, fully sufficient to pay the 2009 Bonds as to both principal and interest.

2.

\$6,000,000

City of Highland, Utah

Sales and Franchise Tax Revenue Bonds, Series 2006

Bonds dated: issued on: August 15, 2006

CUSIP numbers on the bonds are provided below.

The 2006 Bonds, as defined herein, were awarded pursuant to competitive bidding to PNC Capital Markets LLC, Philadelphia, Pennsylvania, at a “true interest rate” of 4.19%. Zions Bank Public Finance, Salt Lake City, Utah, acted as Financial Advisor.

Background Information. The \$6,000,000 Sales and Franchise Tax Revenue Bonds, Series 2006, dated August 15, 2006 (the “2006 Bonds”), were issued as fully–registered bonds in book–entry only form, registered in the name of Cede & Co., as nominee for DTC. DTC is currently acting as securities depository for the 2006 Bonds.

Payment Dates. Principal of and interest on the 2006 Bonds (interest payable March 1 and September 1 of each year) are payable by Zions Bank, as Paying Agent, to the registered owners thereof, currently DTC.

Optional Redemption. The 2006 Bonds maturing on or before September 1, 2016, are not subject to optional redemption prior to maturity. The 2006 Bonds maturing on or after September 1, 2017, are subject to redemption at the option of the City on September 1, 2016, and on any date thereafter prior to maturity, in whole or in part, from such maturities or parts thereof as may be selected by the City at a redemption price equal to 100% of the principal amount of the 2006 Bonds to be redeemed, plus accrued interest thereon to the redemption date.

Mandatory Sinking Fund Redemption. The 2006 Bonds maturing on September 1, 2022 and September 1, 2025 are subject to mandatory sinking fund redemption at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date of redemption, but without premium, on the dates and in the principal amounts as follows:

| <u>Mandatory Sinking Fund Redemption Date</u> | <u>Sinking Fund Requirements</u> |
|---|--------------------------------------|
| September 1, 2021 | \$355,000 |
| September 1, 2022 (final maturity)..... | <u>375,000</u> |
| Total..... | <u>\$730,000</u> |
| September 1, 2024 | \$410,000 |
| September 1, 2025 (final maturity)..... | <u>435,000</u> |
| Total | <u>\$845,000</u> |

Current Maturity Schedule.

Current principal outstanding: \$4,945,000

Original issue amount: \$6,000,000

Dated: August 15, 2006

Due: September 1, as shown below

\$3,370,000 Serial Bonds

| Due Sept. 1 | CUSIP 430818 | Principal Amount | Original Interest Rate | | Due Sept. 1 | CUSIP 430818 | Principal Amount | Original Interest Rate |
|----------------|-----------------|---------------------|------------------------------|--|----------------|-----------------|---------------------|------------------------------|
| 2012..... | AF 1 | \$240,000 | 4.25% | | 2019..... | AN 4 | \$320,000 | 4.10% |
| 2013..... | AG 9 | 250,000 | 4.25 | | 2020..... | AP 9 | 335,000 | 4.15 |
| 2014..... | AH 7 | 260,000 | 4.25 | | 2023..... | AS 3 | 380,000 | 4.30 |
| 2015..... | AJ 3 | 270,000 | 4.25 | | 2026..... | AV 6 | 435,000 | 4.35 |
| 2016..... | AK 0 | 280,000 | 4.25 | | | | | |
| 2017..... | AL 8 | 295,000 | 4.00 | | | | | |
| 2018..... | AM 6 | 305,000 | 4.05 | | | | | |

\$730,000 4.30% Term Bond due September 1, 2022 (CUSIP 430818 AR 5)

\$845,000 4.35% Term Bond due September 1, 2025 (CUSIP 430818 AU 8)

Bank Qualified Obligations. The City designated the 2006 Bonds as “qualified tax–exempt obligations” pursuant to the small issuer exception provided by Section 265(b)(3) of the Internal Revenue Code of 1986, relating to the deductibility of certain financial institutions’ interest expense allocable to tax–exempt interest.

Security. The 2006 Bonds are special limited obligations of the City, payable solely from and secured by a pledge of the revenues, moneys, securities and funds pledged therefor in the Indenture. The revenues consist of the Pledged Taxes. No assurance can be given that the Pledged Taxes will remain sufficient for the payment of principal and interest on the 2006 Bonds and the City is limited by Utah law in its ability to increase the rate of such taxes. The 2006 Bonds do not constitute a general obligation indebtedness or a pledge of the ad valorem taxing power or full faith and credit of the City, and are not obligations of the State of Utah or any other agency or other political subdivision or entity of the State of Utah. The City

will not mortgage or grant any security interest in all or any portion of the improvements financed or re-financed with the proceeds of the 2006 Bonds to secure payment of the 2006 Bonds.

Credit Enhancement. Payment of the principal of and interest on the 2006 Bonds when due are insured by a municipal bond insurance policy issued by Ambac Assurance.

3.

\$7,315,000
City of Highland, Utah
Sales and Franchise Tax Revenue Bonds, Series 2007

Bonds dated and issued on: June 19, 2007
CUSIP numbers on the bonds are provided below.

The 2007 Bonds, as defined herein, were awarded pursuant to competitive bidding to Stifel Nicolaus and Company, Inc., Minneapolis, Minnesota, at a “true interest rate” of 4.19%. Zions Bank Public Finance, Salt Lake City, Utah, acted as Financial Advisor.

Background Information. The \$7,315,000 Sales and Franchise Tax Revenue Bonds, Series 2007, dated June 19, 2007 (the “2007 Bonds”), were issued as fully-registered bonds in book-entry only form, registered in the name of Cede & Co., as nominee for DTC. DTC is currently acting as securities depository for the 2007 Bonds.

Payment Dates. Principal of and interest on the 2007 Bonds (interest payable March 1 and September 1 of each year) are payable by Zions Bank, to the registered owners thereof, currently DTC.

Optional Redemption. The 2007 Bonds maturing on or before September 1, 2017, are not subject to optional redemption prior to maturity. The 2007 Bonds maturing on or after September 1, 2018, are subject to redemption at the option of the City on September 1, 2017, and on any date thereafter prior to maturity, in whole or in part, from such maturities or parts thereof as may be selected by the City at a redemption price equal to 100% of the principal amount of the 2007 Bonds to be redeemed, plus accrued interest thereon to the redemption date.

Current Maturity Schedule.

Current principal outstanding: \$6,370,000

Original issue amount: \$7,315,000

Dated: June 19, 2007

Due: September 1, as shown below

| Due Sept. 1 | CUSIP 430818 | Principal Amount | Original Interest Rate | | Due Sept. 1 | CUSIP 430818 | Principal Amount | Original Interest Rate |
|----------------|-----------------|---------------------|------------------------------|--|----------------|-----------------|---------------------|------------------------------|
| 2012..... | BA 1 | \$260,000 | 4.50% | | 2020..... | BJ 2 | \$375,000 | 4.05 % |
| 2013..... | BB 9 | 275,000 | 4.50 | | 2021..... | BK 9 | 385,000 | 4.05 |
| 2014..... | BC 7 | 285,000 | 4.50 | | 2022..... | BL 7 | 395,000 | 4.125 |
| 2015..... | BD 5 | 300,000 | 4.50 | | 2023..... | BM 5 | 425,000 | 4.15 |
| 2016..... | BE 3 | 320,000 | 4.50 | | 2024..... | BN 3 | 430,000 | 4.15 |
| 2017..... | BF 0 | 330,000 | 5.25 | | 2025..... | BP 8 | 445,000 | 4.20 |
| 2018..... | BG 8 | 350,000 | 4.00 | | 2026..... | BQ 6 | 480,000 | 4.20 |
| 2019..... | BH 6 | 360,000 | 4.00 | | 2027..... | BR 4 | 955,000 | 4.25 |

Bank Qualified Obligations. The City designated the 2007 Bonds as “qualified tax-exempt obligations” pursuant to the small issuer exception provided by Section 265(b)(3) of the Internal Revenue Code

of 1986, relating to the deductibility of certain financial institutions' interest expense allocable to tax-exempt interest.

Security. The 2007 Bonds are special limited obligations of the City, payable solely from and secured by a pledge of the revenues, moneys, securities and funds pledged therefor in the Indenture. The revenues consist of the Pledged Taxes. No assurance can be given that the Pledged Taxes will remain sufficient for the payment of principal and interest on the 2007 Bonds and the City is limited by Utah law in its ability to increase the rate of such taxes. The 2007 Bonds do not constitute a general obligation indebtedness or a pledge of the ad valorem taxing power or full faith and credit of the City, and are not obligations of the State of Utah or any other agency or other political subdivision or entity of the State of Utah. The City will not mortgage or grant any security interest in all or any portion of the improvements financed or re-financed with the proceeds of the 2007 Bonds to secure payment of the 2007 Bonds.

Credit Enhancement. Payment of the principal of and interest on the 2007 Bonds when due are insured by a municipal bond insurance policy issued by CIFG Assurance.

DEBT STRUCTURE OF THE CITY OF HIGHLAND, UTAH

Outstanding Municipal Debt

Outstanding General Obligation Bonded Indebtedness

| Series | Purpose | Original Principal Amount | Final Maturity Date | Current Principal Outstanding |
|--|-----------------|---------------------------------|------------------------|-------------------------------------|
| 2009 (1)..... | Refunding | \$4,310,000 | May 1, 2022 | \$3,775,000 |
| 1996B (2)..... | Secondary water | 1,400,000 | July 1, 2021 | <u>123,390</u> |
| Sub-totals | | | | 3,898,390 |
| Less: revenue supported general obligation debt (3) | | | | <u>(3,898,390)</u> |
| Total outstanding direct general obligation debt (supported by ad valorem taxes) | | | | <u>\$ 0</u> |

- (1) Rated "AA" by S&P, as of the date of this Supplemental Continuing Disclosure Memorandum.
- (2) Purchased by the State of Utah, Board of Water Resources at a 0% interest rate. Not rated, no rating applied for.
- (3) Although the 2009 Bonds and the 1996B Bonds (collectively, the "GO Bonds") are general obligation bonds of the City, for which ad valorem taxes may be levied, the City expects to pay the GO Bonds from other legally available revenues of the City. The GO Bonds are anticipated to be retired by water revenues, or other legally available moneys of the City.

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Outstanding Sales and Franchise Tax Revenue Bonded Indebtedness

| <u>Series</u> | <u>Purpose</u> | <u>Original Principal Amount</u> | <u>Final Maturity Date</u> | <u>Current Principal Outstanding</u> |
|---------------|-----------------------|--|--------------------------------|--|
| 2007 (1)..... | Recreation/land | \$7,315,000 | September 1, 2027 | \$ 6,370,000 |
| 2006 (2)..... | Police/Fire Buildings | 6,000,000 | September 1, 2026 | <u>4,945,000</u> |
| Total | | | | <u>\$11,315,000</u> |

- (1) Rated "AA-" by S&P, as of the date of OFFICIAL STATEMENT. These bonds are insured by CIFG.
(2) Rated "AA-" by S&P, as of the date of this OFFICIAL STATEMENT. These bonds are insured by Ambac As-
surance.

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Debt Service Schedule of Outstanding General Obligation Bonds By Fiscal Year

| Fiscal Year Ending June 30 | \$4,310,000 Series 2009 | | \$1,400,000 Series 1996B (1) | | Totals | | |
|----------------------------------|----------------------------|--------------------|---------------------------------|------------------|--------------------|--------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Total Principal | Total Interest | Total Debt Service |
| 2011..... | \$ 280,000 | \$ 146,744 | \$ 0 | \$ 0 | 280,000 | 146,744 | \$ 426,744 |
| 2012..... | 290,000 | 139,044 | 0 | 0 | 290,000 | 139,044 | 429,044 |
| 2013..... | 300,000 | 131,069 | 0 | 0 | 300,000 | 131,069 | 431,069 |
| 2014..... | 305,000 | 122,069 | 0 | 0 | 305,000 | 122,069 | 427,069 |
| 2015..... | 315,000 | 112,538 | 0 | 0 | 315,000 | 112,538 | 427,538 |
| 2016..... | 325,000 | 102,300 | 0 | 0 | 325,000 | 102,300 | 427,300 |
| 2017..... | 340,000 | 90,113 | 0 | 0 | 340,000 | 90,113 | 430,113 |
| 2018..... | 350,000 | 76,513 | 123,390 | 98,095 | 473,390 | 174,608 | 647,998 |
| 2019..... | 365,000 | 62,513 | – | – | 365,000 | 62,513 | 427,513 |
| 2020..... | 380,000 | 47,913 | – | – | 380,000 | 47,913 | 427,913 |
| 2021..... | 395,000 | 32,713 | – | – | 395,000 | 32,713 | 427,713 |
| 2022..... | 410,000 | 16,913 | – | – | 410,000 | 16,913 | 426,913 |
| Totals..... | \$4,055,000 | \$1,080,438 | \$ 123,390 | \$ 98,095 | \$4,178,390 | \$1,178,533 | \$ 5,356,923 |

(1) Purchased by the State of Utah Board of Water Resources at 3.60% per annum, with principal and interest due July 1, 2018.

Debt Service Schedule of Outstanding Sales and Franchise Tax Revenue Bonds By Fiscal Year

| Fiscal Year Ending June 30 | \$7,315,000 Series 2007 | | \$6,000,000 Series 2006 | | Totals | | |
|----------------------------------|----------------------------|--------------------|----------------------------|--------------------|---------------------|--------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Total Principal | Total Interest | Total Debt Service |
| | 2011..... | \$ 240,000 | \$ 289,169 | \$ 220,000 | \$ 224,285 | \$ 460,000 | \$ 513,454 |
| 2012..... | 250,000 | 278,144 | 230,000 | 214,723 | 480,000 | 492,867 | 972,867 |
| 2013..... | 260,000 | 266,669 | 240,000 | 204,735 | 500,000 | 471,404 | 971,404 |
| 2014..... | 275,000 | 254,631 | 250,000 | 194,323 | 525,000 | 448,954 | 973,954 |
| 2015..... | 285,000 | 242,031 | 260,000 | 183,485 | 545,000 | 425,516 | 970,516 |
| 2016..... | 300,000 | 228,869 | 270,000 | 172,223 | 570,000 | 401,092 | 971,092 |
| 2017..... | 320,000 | 214,919 | 280,000 | 160,535 | 600,000 | 375,454 | 975,454 |
| 2018..... | 330,000 | 199,056 | 295,000 | 148,685 | 625,000 | 347,741 | 972,741 |
| 2019..... | 350,000 | 183,394 | 305,000 | 136,609 | 655,000 | 320,003 | 975,003 |
| 2020..... | 360,000 | 169,194 | 320,000 | 123,873 | 680,000 | 293,067 | 973,067 |
| 2021..... | 375,000 | 154,400 | 335,000 | 110,361 | 710,000 | 264,761 | 974,761 |
| 2022..... | 385,000 | 139,010 | 355,000 (1) | 95,778 | 740,000 | 234,788 | 974,788 |
| 2023..... | 395,000 | 123,067 | 375,000 (1) | 80,083 | 770,000 | 203,150 | 973,150 |
| 2024..... | 425,000 | 106,101 | 380,000 | 63,850 | 805,000 | 169,951 | 974,951 |
| 2025..... | 430,000 | 88,360 | 410,000 (2) | 46,763 | 840,000 | 135,123 | 975,123 |
| 2026..... | 445,000 | 70,093 | 435,000 (2) | 28,384 | 880,000 | 98,477 | 978,477 |
| 2027..... | 480,000 | 50,668 | 435,000 | 9,461 | 915,000 | 60,129 | 975,129 |
| 2028..... | 955,000 | 20,294 | — | — | 955,000 | 20,294 | 975,294 |
| Totals..... | \$6,860,000 | \$3,078,067 | \$5,395,000 | \$2,198,156 | \$12,255,000 | \$5,276,223 | \$ 17,531,223 |

(1) Mandatory sinking fund principal payments from a \$730,000 4.30% term bond due September 1, 2022.

(2) Mandatory sinking fund principal payments from a \$845,000 4.35% term bond due September 1, 2025.

Other Financial Considerations

Other than the City's outstanding general obligation and revenue bonds, the City has no other debt outstanding.

Overlapping And Underlying General Obligation Debt

| <u>Taxing Entity</u> | <u>2011 Taxable Value (1)</u> | <u>City's Portion of Tax- able Value</u> | <u>City's Per- centage</u> | <u>Entity's General Obligation Debt</u> | <u>City's Portion of G.O. Debt</u> |
|--|---------------------------------------|--|------------------------------------|---|--|
| Overlapping: | | | | | |
| State of Utah | \$193,023,216,539 | \$846,033,259 | 0.4% | \$3,487,680,000 | \$13,950,720 |
| CUWCD (2) | 112,903,951,239 | 846,033,259 | 0.7 | 282,744,348 | 1,979,210 |
| Alpine School Dist... | 15,413,689,007 | 846,033,259 | 5.5 | 357,220,000 | 19,647,100 |
| Utah County | 25,506,101,757 | 846,033,259 | 3.3 | 4,220,000 | <u>139,260</u> |
| Total overlapping | | | | | <u>35,716,290</u> |
| Underlying: | | | | | |
| Total underlying | | | | | <u>0</u> |
| Total overlapping and underlying general obligation debt | | | | | <u>\$35,716,290</u> |
| Total overlapping general obligation debt (excluding the State) (3) | | | | | \$21,765,570 |
| Total direct general obligation bonded indebtedness (4) | | | | | <u>0</u> |
| Total direct and overlapping general obligation debt (excluding the State) (3) | | | | | <u>\$21,765,570</u> |

- (1) 2010 taxable values are preliminary and subject to change. Taxable value used in this table *excludes* the taxable value used to determine uniform fees on tangible personal property.
- (2) Central Utah Water Conservancy District ("CUWCD") outstanding general obligation bonds are limited ad valorem tax bonds. By law CUWCD may levy a tax rate of up to .000400 to pay for operation and maintenance expenses and any outstanding limited ad valorem tax bonds.
- (3) The State's general obligation debt is not included in overlapping debt because the State currently levies no property tax for payment of general obligation bonds.
- (4) Does not include general obligation debt of the City expected to be paid from other revenue sources.

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Debt Ratios

The following table sets forth the ratios of general obligation debt that is expected to be paid from taxes levied specifically for such debt and not from other revenues over the taxable value of property within the City, the estimated market value of such property and the population of the City. *The City expects to repay all its current outstanding general obligation debt from revenues of the City other than property taxes specifically levied for such debt.* The State's general obligation debt is not included in the debt ratios because the State currently levies no property tax for payment of general obligation debt.

| | To 2011 Estimated Taxable Value (1) | To 2011 Estimated Market Value (2) | To 2010 Population Estimate Per Capita (3) |
|--|--|---|---|
| Direct General Obligation Debt (4) | 0.00% | 0.00% | \$ 0 |
| Direct and Overlapping General Obligation Debt | 2.57 | 1.55 | 1,402 |

- (1) Based on an estimated 2011 Taxable Value of \$846,003,259, which value *excludes* the taxable value used to determine uniform fees on tangible personal property.
- (2) Based on an estimated 2011 Market Value of \$1,407,682,350, which value *excludes* the taxable value used to determine uniform fees on tangible personal property.
- (3) Based on City population of 15,523 by the 2010 U.S. Census Bureau.
- (4) Based on outstanding direct general obligation debt of \$0 (excluding general obligation debt expected to be paid from other revenue sources).

General Obligation Legal Debt Limit And Additional Debt Incurring Capacity

The general obligation indebtedness of the City is limited by State law to 12% of taxable property in the City (4% for general purposes and an additional 8% for sewer, water and electric purposes) as computed from the last equalized assessment rolls for State or County purposes prior to incurring the debt. The legal debt limit and additional debt incurring capacity of the City are based on the estimated fair market value for 2011 and the calculated valuation value from 2010 uniform fees, and are calculated as follows:

| | | | |
|--|------------------------------------|----------------------|------------------------|
| Estimated 2011 "Fair Market Value" | | | \$1,407,682,350 |
| 2010 Valuation from Uniform Fees (1) | | | <u>54,592,156</u> |
| Estimated 2009 "Fair Market Value for Debt Incurring Capacity" | | | <u>\$1,462,274,506</u> |
| | 8% Sewer, Water and Electric | 4% Other Purposes | 12% Total |
| "Fair Market Value" x .08 | \$116,981,960 | \$ 0 | \$116,981,960 |
| "Fair Market Value" x .04 | <u>0</u> | <u>58,490,980</u> | <u>58,490,980</u> |
| Total debt incurring capacity..... | 116,981,960 | 58,490,980 | 175,472,941 |
| Less: current outstanding general obligation debt | <u>(3,898,390)</u> | <u>(0)</u> | <u>(3,898,390)</u> |
| Additional debt incurring capacity..... | <u>\$113,083,570</u> | <u>\$58,490,980</u> | <u>\$171,574,551</u> |

- (1) For debt incurring capacity only, in computing the fair market value of taxable property in the City, the value of all motor vehicles and state-assessed commercial vehicles (which value is determined by dividing the uniform fee revenue by 1.5%) will be included as a part of the fair market value of the taxable property in the City.

No Defaulted Obligations

The City has never failed to pay principal of and interest on its financial obligations when due.

INFORMATION SPECIFIC TO THE SALES AND FRANCHISE TAX REVENUE BONDS

Pledged Taxes

The Pledged Taxes for the past 10 Fiscal year is as follows.

| Fiscal Year Ended June 30 | Historical Collections of Pledged Taxes | | | % Increase (Decrease) from Prior Year |
|------------------------------|---|--------------------------------|---------------------------|---|
| | Local Sales and Use Tax | Energy Sales and Use Tax | Total Pledged Taxes | |
| 2011..... | \$1,503,543 | \$653,605 | \$2,157,148 | 4.2% |
| 2010 | 1,463,203 | 606,940 | 2,070,143 | (0.7) |
| 2009 | 1,486,793 | 597,896 | 2,084,689 | (8.9) |
| 2008 | 1,643,181 | 644,809 | 2,287,990 | 11.2 |
| 2007 | 1,576,737 | 480,288 | 2,057,025 | 13.8 |
| 2006 | 1,262,101 | 545,323 | 1,807,424 | 32.0 |
| 2005 | 925,329 | 443,773 | 1,369,101 | 1.7 |
| 2004 | 916,673 | 428,948 | 1,345,621 | 32.7 |
| 2003 | 724,051 | 290,019 | 1,014,070 | 2.2 |
| 2002 (1)..... | 707,165 | 285,228 | 992,393 | 4.8 |

(1) Does *not* include a one-time 2002 Winter Olympic Games related sales tax allocation of \$43,381.90.

(Source: The City.)

(The remainder of this page has been intentionally left blank.)

HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE

The following table shows the debt service requirement for the 2007 Bonds and the Outstanding Parity Bonds, the historical Pledged Sales and Use Taxes and the historical debt service coverage for the relevant Fiscal Year with respect to such Bonds (based on the assumptions contained therein).

| Fiscal Year Ending June 30 | The Bonds | | | Pledged Sales and Use Taxes (1) | Debt Service Coverage (2) |
|----------------------------------|----------------------|--------------------------------|--------------------------|--|------------------------------------|
| | 2007 Bonds | Outstanding Parity Bonds | Total Debt Service | | |
| Historical: | | | | | |
| 2005..... | \$ 0 | \$ 0 | \$ 0 | \$ 1,369,101 | – X |
| 2006..... | 0 | 0 | 0 | 1,807,424 | – |
| 2007..... | 0 | 138,655 | 138,655 | 2,057,025 | 14.8 |
| 2008..... | 220,531 | 445,529 | 666,059 | 2,287,990 | 3.4 |
| 2009..... | 534,981 | 442,135 | 977,116 | 2,084,689 | 2.1 |
| 2010..... | 529,744 | 443,423 | 973,166 | 2,070,143 | 2.1 |
| 2011..... | 529,169 | 444,285 | 973,454 | 2,157,148 | 2.2 |
| 2012..... | 528,144 | 444,723 | 972,866 | | |
| 2013..... | 526,669 | 444,735 | 971,404 | | |
| 2014..... | 529,631 | 444,323 | 973,954 | | |
| 2015..... | 527,031 | 443,485 | 970,516 | | |
| 2016..... | 528,869 | 442,223 | 971,091 | | |
| 2017..... | 534,919 | 440,535 | 975,454 | | |
| 2018..... | 529,056 | 443,685 | 972,741 | | |
| 2019..... | 533,394 | 441,609 | 975,003 | | |
| 2020..... | 529,194 | 443,873 | 973,066 | | |
| 2021..... | 529,400 | 445,361 | 974,761 | | |
| 2022..... | 524,010 | 450,778 | 974,788 | | |
| 2023..... | 518,067 | 455,083 | 973,149 | | |
| 2024..... | 531,101 | 443,850 | 974,951 | | |
| 2025..... | 518,360 | 456,763 | 975,123 | | |
| 2026..... | 515,093 | 463,384 | 978,476 | | |
| 2027..... | 530,668 | 444,461 | 975,129 | | |
| 2028..... | 975,294 | – | 975,294 | | |
| Totals..... | \$ 10,467,811 | \$ 8,036,575 | \$ 18,504,386 | | |

(1) There is no assurance that Pledged Sales and Use Taxes in each year will equal or exceed such amount.

(2) Multiple of which Pledged Sales and Use Taxes exceed Total Debt Service.

FINANCIAL INFORMATION REGARDING THE CITY OF HIGHLAND, UTAH

Sources Of General Fund Revenues

Set forth below are brief descriptions of the various sources of revenues available to the City's general fund. The percentage of total general fund revenues represented by each source is based on the City's audited June 30, 2011 fiscal year period.

Taxes—Approximately 63% of general fund revenues are from taxes.

Charges for Services—Approximately 20% of general fund revenues are collected from fines and forfeitures.

Intergovernmental Revenue—Approximately 8% of general fund revenues are from state sources.

Licenses and Permits—Approximately 5% of general fund revenues are from licenses and permits.

Fines and Forfeitures—Approximately 4% of general fund revenues are collected from fines and forfeitures.

Miscellaneous Revenue—Less than 1% of general fund revenues are from miscellaneous revenues.

Interest—Less than 1% of general fund revenues are from interest income.

Five-Year Financial Summary

The summaries contained herein were extracted from the City's basic financial statements for fiscal years 2011 through 2007. The summaries itself have not been audited.

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Highland City

Total Statement of Net Assets

(This summary has not been audited)

| | June 30 | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 1,811,445 | \$ 1,147,607 | \$ 2,400,296 | \$ 6,228,991 | \$ 15,203,495 |
| Receivables: | | | | | |
| Accounts..... | 1,657,619 | - | - | - | - |
| Taxes..... | 2,013,453 | - | - | - | - |
| Accounts receivable, net of allowance for uncollectibles..... | - | 4,971,625 | 5,186,812 | 2,922,739 | 2,650,941 |
| Total current assets..... | 5,482,517 | 6,119,232 | 7,587,108 | 9,151,730 | 17,854,436 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents..... | 338,545 | 168,601 | 27,383 | 5,452,850 | 13,572,925 |
| Prepaid expenses..... | 91,270 | - | - | - | - |
| Deferred charges..... | 327,461 | - | - | - | - |
| Land held for resale..... | 506,716 | - | - | - | - |
| Capital assets: | | | | | |
| Non depreciable..... | 64,660,839 | 62,481,811 | 64,551,004 | 70,162,267 | 44,627,427 |
| Depreciable assets (net of depreciation)..... | 69,689,586 | 74,844,583 | 76,114,459 | 66,081,103 | 37,221,928 |
| Total noncurrent assets..... | 135,614,417 | 137,494,995 | 140,692,846 | 141,696,220 | 95,422,280 |
| Total assets..... | 141,096,934 | 143,614,227 | 148,279,954 | 150,847,950 | 113,276,716 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expense..... | 410,510 | 1,217,680 | 1,956,429 | 2,146,660 | 2,372,572 |
| Accrued liabilities..... | 104,714 | - | - | - | - |
| Accrued interest payable..... | 601,250 | - | - | - | - |
| Contingent liability..... | - | - | - | 70,000 | 20,000 |
| Developer and customer deposits..... | 87,531 | - | - | - | - |
| Unearned revenue..... | 3,137,005 | 3,821,022 | 2,055,193 | - | - |
| Total current liabilities..... | 4,341,010 | 5,038,702 | 4,011,622 | 2,216,660 | 2,392,572 |
| Noncurrent liabilities: | | | | | |
| Due within one year..... | 965,123 | 933,694 | 911,086 | 1,014,845 | 743,212 |
| Due in more than one year..... | 17,304,555 | 15,843,122 | 16,655,292 | 16,564,532 | 17,360,056 |
| Total noncurrent liabilities..... | 18,269,678 | 16,776,816 | 17,566,378 | 17,579,377 | 18,103,268 |
| Total liabilities..... | 22,610,688 | 21,815,518 | 21,578,000 | 19,796,037 | 20,495,840 |
| Net Assets: | | | | | |
| Invested in capital assets, net of related debt..... | 116,155,129 | 120,888,829 | 123,475,449 | 118,985,144 | 77,184,006 |
| Restricted for: | | | | | |
| Future development..... | 203,007 | - | - | - | - |
| Impact fees..... | 338,545 | - | - | - | - |
| Community improvements..... | - | 212,177 | 47,582 | 2,083,766 | 4,756,623 |
| Debt service..... | - | - | - | 3,834,031 | - |
| Unrestricted..... | 1,789,565 | 697,703 | 3,178,923 | 6,148,972 | 10,840,247 |
| Total net assets..... | \$118,486,246 | \$121,798,709 | \$126,701,954 | \$131,051,913 | \$ 92,780,876 |

(Source: Information taken from the City's audited basic financial statements. This summary itself has not been audited.)

Highland City

Statement of Activities (1)

Total Primary Government

(This summary has not been audited)

| | Net (Expense) Revenue and Changes in Net Assets | | | | |
|---------------------------------------|---|-----------------------|-----------------------|-----------------------|----------------------|
| | Fiscal Year Ended June 30 | | | | |
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Governmental activities: | | | | | |
| General government..... | \$ (603,424) | \$ (1,818,851) | \$ (2,359,368) | \$ (2,225,236) | \$ (1,716,785) |
| Public safety..... | (2,276,665) | (1,589,603) | (1,714,616) | (1,417,430) | (425,248) |
| Streets and public works..... | (2,533,068) | (3,206,103) | (3,176,525) | 4,277,709 | 2,430,052 |
| Parks and recreation..... | (583,282) | 144,029 | (1,228,911) | (421,866) | 491,703 |
| Cemetery..... | (70,862) | 1,974 | 49,537 | 72,289 | (73,016) |
| Garbage..... | 78,315 | 59,798 | 40,423 | 19,978 | 43,327 |
| Interest on long-term debt..... | (652,730) | (552,909) | (569,871) | (509,207) | (285,212) |
| Total governmental activities..... | <u>(6,641,716)</u> | <u>(6,961,665)</u> | <u>(8,959,331)</u> | <u>(203,763)</u> | <u>464,821</u> |
| Business-type activities: | | | | | |
| Water..... | 70,910 | (198,038) | (351,929) | 643,551 | 2,179,498 |
| Sewer..... | (83,632) | (217,247) | (348,444) | 589,403 | 535,321 |
| Pressurized irrigation..... | (308,359) | (78,769) | 176,590 | 560,303 | 6,244,441 |
| Storm sewer..... | (116,015) | (106,388) | (110,888) | 745,842 | 87,458 |
| Total business-type activities..... | <u>(437,096)</u> | <u>(600,442)</u> | <u>(634,671)</u> | <u>2,539,099</u> | <u>9,046,718</u> |
| Total primary government..... | <u>(7,078,812)</u> | <u>(7,562,107)</u> | <u>(9,594,002)</u> | <u>2,335,336</u> | <u>9,511,539</u> |
| General revenues: | | | | | |
| Property taxes..... | 1,686,835 | 1,760,012 | 1,714,656 | 1,637,031 | 1,589,906 |
| Vehicle taxes..... | 165,262 | 175,778 | 171,962 | 163,790 | 154,949 |
| Sales taxes..... | 1,503,543 | 1,463,203 | 1,486,793 | 1,643,181 | 1,576,737 |
| Franchise taxes..... | 931,548 | 887,486 | 876,377 | 927,733 | 739,716 |
| Unrestricted investment earnings..... | 11,394 | 17,644 | 140,266 | 1,016,007 | 1,056,162 |
| Miscellaneous..... | 208,305 | 109,132 | 147,739 | 84,395 | 40,888 |
| Special item—land sale..... | — | — | 706,250 | — | — |
| Total general revenues..... | <u>4,506,887</u> | <u>4,413,255</u> | <u>5,244,043</u> | <u>5,472,137</u> | <u>5,158,358</u> |
| Change in net assets..... | <u>(2,571,925)</u> | <u>(3,148,852)</u> | <u>(4,349,959)</u> | <u>7,807,473</u> | <u>14,669,897</u> |
| Change in accounting method..... | — | — | — | 30,463,564 | — |
| Net assets—beginning..... | 121,798,709 | 126,701,954 | 131,051,913 | 92,780,876 | 78,110,979 |
| Prior period adjustments..... | (740,538) | (1,754,393) | — | — | — |
| Net assets—ending..... | <u>\$ 118,486,246</u> | <u>\$ 121,798,709</u> | <u>\$ 126,701,954</u> | <u>\$ 131,051,913</u> | <u>\$ 92,780,876</u> |

(1) This report is presented in summary format concerning the single item of “Net (Expense) Revenue and Changes in Net Assets” and is not intended to be complete. For a detailed itemized report see “HIGHLAND CITY, UTAH’S BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR 2011.”

(Source: Information taken from the City’s audited basic financial statements. This summary itself has not been audited.)

Highland City

Balance Sheet—Governmental Fund Types

General Fund

(This summary has not been audited)

| | Fiscal Year Ended June 30 | | | | |
|---|----------------------------------|-------------|--------------|--------------|--------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Assets | | | | | |
| Cash and cash equivalents..... | \$ 90,298 | \$ — | \$ 772,345 | \$ 1,145,702 | \$ 1,234,704 |
| Accounts receivable..... | 23,086 | 66,754 | 757,595 | 56,597 | 48,048 |
| Taxes receivable..... | 2,013,453 | 2,033,247 | 2,110,028 | 2,059,398 | 1,827,232 |
| Restricted cash..... | — | — | 3,592 | 526,308 | 396,871 |
| Exaction fees receivable..... | — | — | 2,055,193 | — | — |
| Due from other funds..... | 957,866 | 1,064,598 | 691,553 | — | — |
| Total assets..... | \$3,084,703 | \$3,164,599 | \$6,390,306 | \$3,788,005 | \$3,506,855 |
| Liabilities and fund equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable..... | \$ 228,013 | \$ 365,342 | \$ 1,069,989 | \$ 508,213 | \$ 333,750 |
| Development bonds held..... | 87,531 | 224,946 | 282,259 | 353,370 | 442,974 |
| Unearned revenue..... | 1,489,148 | 1,661,271 | 3,809,586 | 1,674,848 | 1,542,200 |
| Accrued liabilities..... | 104,714 | — | — | — | — |
| Compensated absences..... | — | 93,475 | 108,956 | 92,173 | 77,758 |
| Due to other funds..... | — | — | 691,553 | — | — |
| Total liabilities..... | 1,909,406 | 2,345,034 | 5,962,343 | 2,628,604 | 2,396,682 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Class B & C Roads..... | 203,007 | 84,414 | — | 526,308 | 396,871 |
| Debt service..... | — | — | 3,592 | — | — |
| Assigned to: | | | | | |
| Equipment replacement..... | 9,020 | — | — | — | — |
| Library..... | 13,465 | — | — | — | — |
| Community improvements..... | — | — | — | — | 21,500 |
| Unassigned..... | 949,805 | 735,151 | 424,371 | 633,093 | 691,802 |
| Total equity and other credits..... | 1,175,297 | 819,565 | 427,963 | 1,159,401 | 1,110,173 |
| Total liabilities, equity and other credits.... | \$3,084,703 | \$3,164,599 | \$6,390,306 | \$3,788,005 | \$3,506,855 |

(Source: Information taken from the City's audited basic financial statements. This summary itself has not been audited.)

Highland City

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund Types—General Fund

(This summary has not been audited)

| | Fiscal Year Ended June 30 | | | | |
|---|----------------------------------|-------------|--------------|-------------|-------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Revenues: | | | | | |
| Taxes..... | \$ 4,287,188 | \$4,286,479 | \$ 4,170,243 | \$4,239,087 | \$3,720,744 |
| Licenses and permits..... | 336,152 | 208,053 | 138,152 | 386,930 | 775,195 |
| Intergovernmental..... | 573,697 | 545,877 | 506,596 | 545,664 | 435,742 |
| Charges for services..... | 1,373,782 | 1,427,160 | 1,335,457 | 1,095,651 | 952,953 |
| Fines and forfeitures..... | 257,710 | 271,578 | 276,861 | 287,949 | 277,146 |
| Interest..... | 2,452 | 4,137 | 47,414 | 72,143 | 78,144 |
| Miscellaneous..... | 21,499 | 50,444 | 77,739 | 76,409 | 40,888 |
| Total revenues..... | 6,852,480 | 6,793,728 | 6,552,462 | 6,703,833 | 6,280,812 |
| Expenditures: | | | | | |
| General government..... | 1,272,033 | 1,516,794 | 1,586,363 | 1,579,018 | 1,606,168 |
| Public safety..... | 2,382,419 | 2,161,381 | 2,263,213 | 2,230,710 | 1,978,584 |
| Streets and public works..... | 536,223 | 573,255 | 637,114 | 778,927 | 660,778 |
| Parks and recreation..... | 653,048 | 786,271 | 1,144,133 | 581,191 | 413,530 |
| Cemetery..... | 97,145 | 91,815 | 91,935 | 128,176 | 113,688 |
| Garbage..... | 524,130 | 526,332 | 528,352 | 505,503 | 447,663 |
| Debt service: | | | | | |
| Principal..... | 70,219 | 66,245 | 62,495 | 58,957 | 55,620 |
| Interest and finance charges..... | 8,679 | 12,653 | 16,403 | 19,941 | 23,278 |
| Capital outlay..... | - | 15,676 | 60,794 | - | - |
| Total expenditures..... | 5,543,896 | 5,750,422 | 6,390,802 | 5,882,423 | 5,299,309 |
| Excess of revenues over (under) expenditures..... | 1,308,584 | 1,043,306 | 161,660 | 821,410 | 981,503 |
| Other financing sources (uses): | | | | | |
| Sale of land..... | - | - | 706,250 | - | - |
| Operating transfers in..... | 70,000 | - | - | - | - |
| Operating transfers in..... | (1,204,650) | (979,757) | (1,271,295) | (772,182) | (670,228) |
| Total other financing sources (uses)..... | (1,134,650) | (979,757) | (565,045) | (772,182) | (670,228) |
| Excess of revenues and other financing sources over expenditures and other financing (uses)..... | 173,934 | 63,549 | (403,385) | 49,228 | 311,275 |
| Fund balance at beginning of year..... | 819,565 | 756,016 | 1,159,401 | 1,110,173 | 798,898 |
| Prior period adjustments..... | 181,798 | - | - | - | - |
| Fund balance at end of year..... | \$ 1,175,297 | \$ 819,565 | \$ 756,016 | \$1,159,401 | \$1,110,173 |

(Source: Information taken from the City's audited basic financial statements. This summary itself has not been audited.)

Historical City Tax Rates

The maximum rate of levy applicable to the City for general fund operations authorized by State law is .007000 per dollar of taxable value of taxable property within the City.

| | Maximum Limit | Tax Rate | | | | |
|--------------------|------------------|----------------|----------------|----------------|----------------|----------------|
| | | 2011 | 2010 | 2009 | 2008 | 2007 |
| General Fund | .007000 | .001743 | .001686 | .001554 | .001348 | .001223 |
| Library | | <u>.000261</u> | <u>.000262</u> | <u>.000250</u> | <u>.000217</u> | <u>.000197</u> |
| Total levy | | <u>.002004</u> | <u>.001948</u> | <u>.001804</u> | <u>.001565</u> | <u>.001420</u> |

Comparative Total Property Tax Rates Within Utah County

| Tax Levying Entity | Total Tax Rate Within Taxing Area (1) | | | | |
|--------------------------------|---------------------------------------|---------|----------|---------|---------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Alpine School District: | | | | | |
| Alpine City | .012488 | .011187 | .010289 | .009499 | .009312 |
| American Fork City | .013412 | .012591 | .011591 | .010896 | .010474 |
| Cedar Fort Town | .011834 | .011246 | .010424 | .009768 | .009193 |
| Cedar Hills City | .013771 | .012955 | .011936 | .011066 | .010877 |
| Draper City (2) | .017240 | .015810 | .014406 | .012782 | .012604 |
| Eagle Mountain City | .013867 | .012556 | .010544 | .009678 | .009402 |
| Fairfield Town | .012398 | .011856 | .011039 | .010501 | .011115 |
| Highland City | .012622 | .011909 | .010972 | .010035 | .009681 |
| Lehi City | .013150 | .012582 | .011410 | .010379 | .010103 |
| Lindon City | .012698 | .011834 | .010854 | .009766 | .009651 |
| City of Orem | .012508 | .011710 | .010855 | .010059 | .009944 |
| Pleasant Grove City | .012874 | .012046 | .011111 | .010276 | .009869 |
| City of Provo (3) | .013433 | .012329 | .011451 | .010570 | .010475 |
| Saratoga Springs City | .013738 | .012705 | .011604 | .010489 | .009194 |
| Vineyard Town | .012867 | .011776 | .010863 | .010272 | .009746 |
| Unincorporated Areas (4) | .014263 | .013502 | .012665 | .015230 | .010267 |
| Provo City School District: | | | | | |
| City of Provo | .011774 | .010815 | .010549 | .009727 | .008777 |
| Nebo School District: | | | | | |
| Elk Ridge City | .013769 | .013382 | .012647 | .011309 | .011107 |
| Genola Town | .012105 | .011558 | .013256 | .011511 | .010436 |
| Goshen Town | .012129 | .011868 | .011282 | .009867 | .009793 |
| Mapleton City | .014718 | .014304 | .013389 | .012196 | .011412 |
| Payson City | .012471 | .012160 | .011517 | .010713 | .010626 |
| City of Provo (3) | .013991 | .013282 | .012611 | .011663 | - |
| Salem City | .013318 | .013809 | .011532 | .010611 | .010619 |
| Santaquin City | .012978 | .013139 | .011875 | .010975 | .010888 |
| Spanish Fork City | .012735 | .012565 | .0131380 | .010574 | .010596 |
| Springville City | .013652 | .013536 | .012263 | .011354 | .010857 |
| Woodland Hills City | .016617 | .016101 | .014834 | .013141 | .012302 |
| Unincorporated Areas (4) | .016944 | .017315 | .015496 | .012879 | .012327 |

- (1) These tax rates represent a taxing district within the city or town with the highest combined total tax rates of all overlapping taxing districts.
- (2) A portion of the city is also located in Salt Lake County.
- (3) A small portion of the city lies within Alpine School District and Nebo School District.
- (4) These tax rates represent a taxing district within the unincorporated municipalities within the County with the highest combined total tax rates of all overlapping taxing districts.

(Source: Reports from the Utah State Tax Commission.)

Taxable, Fair Market And Market Values Of Property

| <u>Year</u> | <u>Taxable Value (1)</u> | <u>% Change Over Prior Year</u> | <u>Fair Market/Market Value (2)</u> | <u>% Change Over Prior Year</u> |
|---------------|--------------------------|---------------------------------|-------------------------------------|---------------------------------|
| 2011 (3)..... | \$ 846,033,259 | (1.2)% | \$1,407,682,350 | (1.1)% |
| 2010 (3)..... | 856,214,846 | (11.2) | 1,423,967,938 | (10.2) |
| 2009 | 964,183,799 | (11.1) | 1,585,674,295 | (16.2) |
| 2008 | 1,084,972,737 | (1.8) | 1,893,126,282 | (2.4) |
| 2007 | 1,105,314,689 | 20.7 | 1,938,845,747 | 22.0 |

- (1) Taxable values were calculated by reducing the fair market/market value of primary residential property by 45%, representing a partial property tax exemption for such property.
- (2) Does not include valuation from Uniform Fees.
- (3) Preliminary; subject to change. Utah State Tax Commission.

(Source: Property Tax Division, Utah State Tax Commission (as to Taxable Value only).)

See “Historical Summaries Of Taxable Value Of Property” below.

(The remainder of this page has been intentionally left blank.)

Historical Summaries Of Taxable Values Of Property

| | 2011 | | 2010 | 2009 | 2008 | 2007 |
|---|----------------------|--------------|------------------|------------------|------------------|------------------|
| | Taxable Value (1) | % of T.V. | Taxable Value | Taxable Value | Taxable Value | Taxable Value |
| <i>Set by State Tax Commission (Centrally Assessed)</i> | | | | | | |
| Total centrally assessed..... | \$ 22,882,469 | 2.7 % | \$ 23,564,819 | \$ 20,098,781 | \$ 18,591,034 | \$ 15,813,456 |
| <i>Set by County Assessor (Locally Assessed)</i> | | | | | | |
| Real property: | | | | | | |
| Primary residential..... | 686,460,000 | 81.1 | 693,920,446 | 759,599,495 | 987,738,797 | 1,018,755,757 |
| Other residential..... | 65,335,000 | 7.7 | 66,510,323 | 98,279,443 | 3,200,397 | 2,734,811 |
| Commercial and industrial..... | 56,100,000 | 6.6 | 56,983,858 | 65,247,331 | 51,559,342 | 42,439,843 |
| FAA..... | 201,700 | 0.0 | 201,700 | 201,744 | 211,071 | 219,244 |
| Unimproved non FAA..... | 8,550,000 | 1.0 | 8,528,731 | 14,563,272 | 18,030,272 | 19,446,255 |
| Agricultural..... | 415,895 | 0.0 | 416,774 | 434,673 | 430,730 | 412,266 |
| Total real property..... | 817,062,595 | 96.6 | 826,561,832 | 938,325,958 | 1,061,170,609 | 1,084,008,176 |
| Personal property: | | | | | | |
| Primary mobile homes..... | 0 | 0.0 | 0 | 0 | 4,425 | 4,425 |
| Secondary mobile homes..... | 0 | 0.0 | 0 | 0 | 0 | 0 |
| Other business personal..... | 6,088,195 | 0.7 | 6,088,195 | 5,759,060 | 5,206,669 | 5,488,632 |
| Total personal property..... | 6,088,195 | 0.7 | 6,088,195 | 5,759,060 | 5,211,094 | 5,493,057 |
| Total locally assessed..... | 823,150,790 | 97.3 | 832,650,027 | 944,085,018 | 1,066,381,703 | 1,089,501,233 |
| Total taxable value..... | \$ 846,033,259 | 100.0 % | \$ 856,214,846 | \$ 964,183,799 | \$ 1,084,972,737 | \$ 1,105,314,689 |

(1) Preliminary; subject to change.

(Source: Property Tax Division, Utah State Tax Commission.)

Tax Collection Record

| Tax Year End 12/31 | (1) Total Taxes Levied | (2) Treasurer's Relief | Net Taxes Assessed | Current Collections | (3) Deliq., Personal Property and Miscellaneous Collections | (4) Total Collections | % of Current Collections to Net Taxes Assessed | % of Total Collections to Net Taxes Assessed |
|--------------------|------------------------|------------------------|--------------------|---------------------|---|-----------------------|--|--|
| 2010 | \$1,667,030 | \$7,158 | \$1,659,872 | \$1,512,255 | \$167,092 | \$1,679,347 | 91.1% | 101.1% |
| 2009 | 1,738,011 | 7,562 | 1,730,449 | 1,554,769 | 185,951 | 1,740,720 | 89.8 | 100.6 |
| 2008 | 1,697,227 | 7,257 | 1,689,970 | 1,479,228 | 138,974 | 1,618,202 | 87.5 | 95.8 |
| 2007 | 1,569,382 | 5,537 | 1,563,845 | 1,387,808 | 147,953 | 1,535,761 | 88.7 | 98.2 |
| 2006 | 1,272,981 | 4,327 | 1,268,654 | 1,125,908 | 100,538 | 1,226,446 | 88.7 | 96.7 |

- (1) Excludes redevelopment agencies valuation. However, the City has no redevelopment agency.
- (2) Treasurer's Relief includes abatements. These Treasurer's Relief items are levied against the property, but are never collected and paid to the entity.
- (3) Delinquent Collections include interest; sales of real and personal property; and miscellaneous delinquent collections.
- (4) The City collected Uniform Fees (fees-in-lieu payments) for tax year of 2010 of \$167,525; for tax year of 2009 of \$173,262; for tax year 2008 of \$167,461; for tax year 2007 of \$157,739; and for tax year 2006 of \$142,352; from tax equivalent property associated with motor vehicles, watercraft, recreational vehicles, and all other tangible personal property required to be registered with the State.

(Source: Taken from Utah County's audited financial statements for the indicated years.)

Some of the Largest Taxpayers

| Taxpayer | Type of Business | 2011 Taxable Value (1) | % of the City's 2011 Prel. Taxable Value |
|---------------------------|---------------------------|------------------------|--|
| Westroc Inc. | Sand and gravel | \$ 9,610,767 | 1.1% |
| High Noon LC..... | Real estate | 7,930,400 | 0.9 |
| PacifiCorp. | Electric utility | 7,476,021 | 0.9 |
| Lone Peak Village LC..... | Commercial real estate | 5,878,900 | 0.7 |
| Kohler's Food Store..... | Supermarket | 4,131,326 | 0.5 |
| Patterson Homes Inc..... | Real estate | 3,641,568 | 0.4 |
| Alpine County Club..... | Building and real estate | 3,626,429 | 0.4 |
| Qwest..... | Information/communication | 2,286,600 | 0.3 |
| Questar Gas..... | Natural gas utility | 2,077,867 | 0.2 |
| Individual..... | Individual/real estate | <u>2,028,600</u> | 0.2 |
| Totals..... | | <u>\$46,688,478</u> | 5.8% |

- (1) Taxable Value used in this table excludes all tax equivalent property associated with motor vehicles, watercraft, recreational vehicles, and all other tangible personal property required to be registered with the State. See in this section "Taxable, Fair Market And Market Value Of Property" above.

(Source: Utah County Assessor.)

HIGHLAND CITY, UTAH'S BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR 2011

Included with this supplement are the City's audit financial statements in accordance with Government Auditing Standards and the State of Utah Legal Compliance Audit Guide for Fiscal Year 2011.

Additionally, the City's present and historical financial statements may be found on the "world wide web" at the State of Utah, State Auditor's internet site at:

sao.utah.gov/lgReports.html

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**HIGHLAND CITY, UTAH
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2011

**HIGHLAND CITY, UTAH
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INDEPENDENT AUDITOR'S REPORT

Jensen & Keddington, P.C.
Certified Public Accountants

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

Jeffery B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

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 (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2011, and the respective changes in financial position, and where applicable, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of Highland City, Utah'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 18 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 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 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.

Telephone (801) 262-4554
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5292 So. College Dr., Suite 101
Salt Lake City, Utah 84123

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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jensen & Keddington

November 14, 2011

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2011

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, 2011.

Financial Highlights

The assets of Highland City exceeded its liabilities at June 30, 2011 by \$118,486,246 (net assets). Of this amount \$1,789,566 (unrestricted net assets) may be used to meet the government's ongoing obligations.

Highland City's total net assets decreased by \$3,312,463. 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, 2011 of \$1,070,105 an increase of \$1,069,067 in comparison to the prior year. At June 30, 2011 unrestricted fund balance of the general fund was \$949,805, or 14.1% 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 Assets presents information on all of Highland City's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases over time in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses 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, 2011

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

Fund Financial Statements

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

Governmental funds

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

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

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

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

Proprietary funds

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

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

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, 2011

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 assets are an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$118,486,246 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 assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

| | Governmental Activities 2011 | Governmental Activities 2010 | Business-type Activities 2011 | Business-type Activities 2010 |
|--|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Current and other assets | \$ 4,909,389 | \$ 4,512,333 | \$ 1,837,120 | \$ 1,606,899 |
| Capital assets | 84,286,246 | 88,374,692 | 50,064,179 | 49,120,303 |
| Total Assets | <u>\$ 89,195,635</u> | <u>\$ 92,887,025</u> | <u>\$ 51,901,299</u> | <u>\$ 50,727,202</u> |
| Current and other liabilities | \$ 3,769,869 | \$ 4,585,954 | \$ 571,141 | \$ 452,748 |
| Long-term liabilities | 12,231,744 | 12,590,167 | 6,037,934 | 4,186,649 |
| Total Liabilities | <u>16,001,613</u> | <u>17,176,121</u> | <u>6,609,075</u> | <u>4,639,397</u> |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | \$ 72,054,502 | \$ 76,052,938 | \$ 44,100,627 | \$ 44,835,891 |
| Restricted | 227,015 | 84,414 | 314,537 | 127,763 |
| Unrestricted | 912,505 | (426,448) | 877,060 | 1,124,151 |
| Total Net Assets | <u>\$ 73,194,022</u> | <u>\$ 75,710,904</u> | <u>\$ 45,292,224</u> | <u>\$ 46,087,805</u> |

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2011

| | Governmental Activities 2011 | Governmental Activities 2010 | Business-type Activities 2011 | Business-type Activities 2010 |
|---|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 2,395,337 | \$ 2,166,331 | \$ 3,361,570 | \$ 2,915,152 |
| Operating grants and contributions | 10,036 | 9,863 | - | 120,000 |
| Capital grants and contributions | 1,043,054 | 1,658,574 | 205,560 | 145,273 |
| General revenues: | | | | |
| Property and uniform vehicle taxes | 1,852,097 | 1,935,790 | - | - |
| Other Taxes | 2,435,091 | 2,350,689 | - | - |
| Other | 212,343 | 113,279 | 7,356 | 13,497 |
| Total Revenues | 7,947,958 | 8,234,526 | 3,574,486 | 3,193,922 |
| Expenses: | | | | |
| General government | 1,742,815 | 2,118,005 | - | - |
| Public safety | 2,578,309 | 2,359,437 | - | - |
| Streets and public improvements | 3,420,248 | 3,871,352 | - | - |
| Parks and recreation | 1,027,983 | 1,228,525 | - | - |
| Cemetery | 143,928 | 139,873 | - | - |
| Garbage | 524,130 | 526,332 | - | - |
| Interest on long-term debt | 652,730 | 552,909 | - | - |
| Water | - | - | 723,157 | 959,182 |
| Pressurized irrigation | - | - | 1,229,088 | 1,107,913 |
| Storm sewer | - | - | 367,343 | 319,037 |
| Sewer | - | - | 1,684,638 | 1,394,735 |
| Total Expenses | 10,090,143 | 10,796,433 | 4,004,226 | 3,780,867 |
| Increase (Decrease) in net assets before transfers | (2,142,185) | (2,561,907) | (429,740) | (586,945) |
| Transfers | - | 267,947 | - | (267,947) |
| Increase in Net Assets | (2,142,185) | (2,293,960) | (429,740) | (854,892) |
| Net Assets - Beginning | 75,710,904 | 79,759,257 | 46,087,805 | 46,942,697 |
| Prior Period Adjustment | (374,697) | (1,754,393) | (365,841) | - |
| Net Assets - Ending | \$ 73,194,022 | \$ 75,710,904 | \$ 45,292,224 | \$ 46,087,805 |

Governmental activities. As noted in the table above, governmental activities decreased the City's net assets by \$2,516,882. Key elements of the decrease were as follows:

1. Interest payments on long-term debt.
2. Due to the economic slowdown revenues were down.

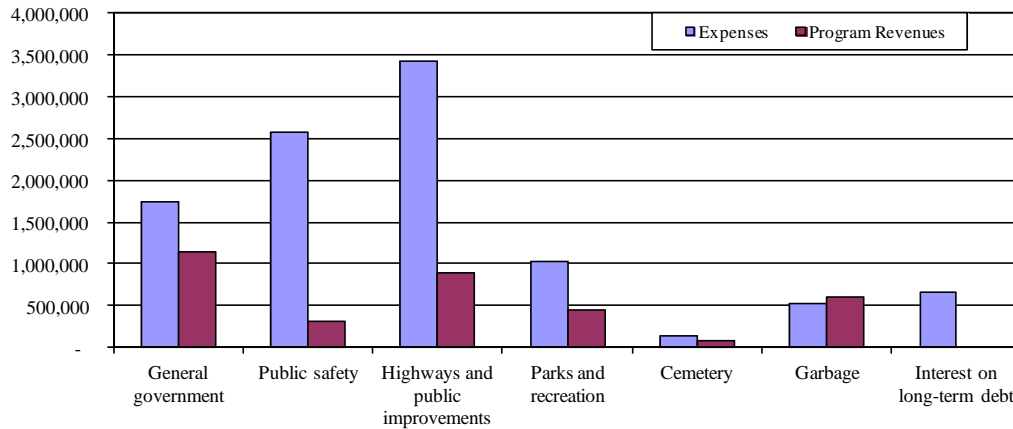
**HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2011**

Business-type activities. As noted previously in the table, business-type activities decreased the City's net assets by \$795,581. Key elements of the decrease were as follows:

1. Additional fees paid Timpanogos Special Service District
2. Purchase of additional water shares.

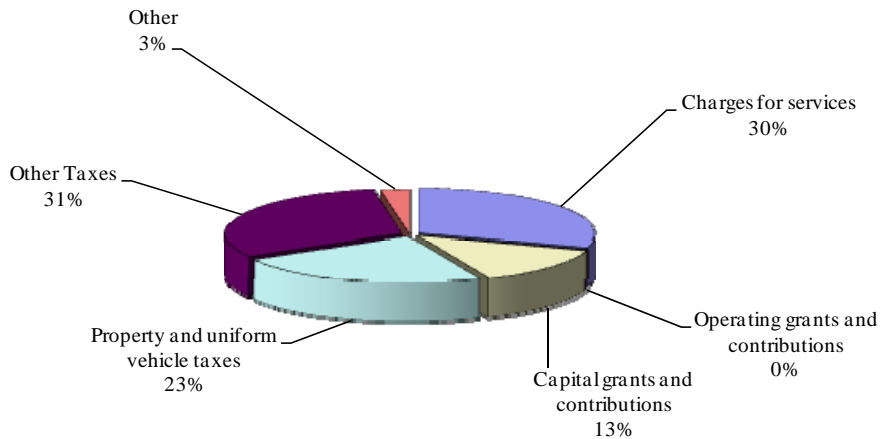
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

Expenses and Program Revenues - Governmental Activities



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

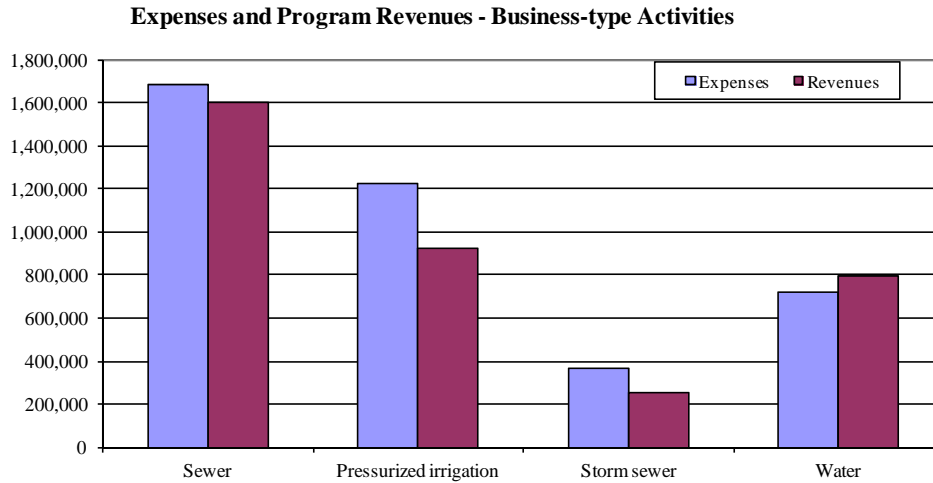
Revenues by Source - Governmental Activities



**HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2011**

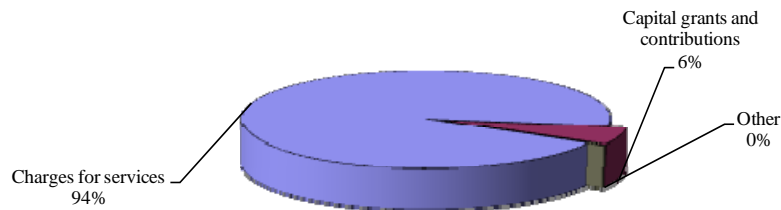
Business-type Activities

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.



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, 2011

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, 2011, the City's governmental funds reported combined ending fund balances of \$1,070,105, which was an increase of \$1,069,067 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2011, unrestricted fund balance of the general fund was \$949,805. 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 14.1% of total general fund expenditures. The City's unrestricted general fund balance increased \$214,654 during the fiscal year ended June 30, 2011.

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, 2011 amounted to \$408,508 an increase of \$213,271 from the previous year. Operating revenues were \$794,067 and operating expenses were \$723,156.

Pressurized Irrigation fund-Unrestricted net assets at June 30, 2011 amounted to (\$237,780), a decrease of \$468,067, from the previous year. Operating revenues were \$897,582 and operating expenses were \$1,047,827.

Storm sewer fund- Unrestricted net assets at June 30, 2011 amounted to \$101,086 an increase of \$68,500 from the previous year. Operating revenues were \$251,328 and operating expenses were \$367,343.

Sewer fund-Unrestricted net assets at June 30, 2011 amounted to \$605,246, a decrease of \$60,795 from the previous year. Operating revenues were \$1,418,593 and operating expenses were \$1,684,639.

General Fund Budgetary Highlights

During the fiscal year, the general funds original budget was amended from \$6,787,111 (\$5,582,461 expenditures and \$1,204,650 transfers) to a final budget total of \$6,864,700 (\$5,651,261 expenditures and \$1,213,439 transfers, an increase of \$77,589. This year's budget was reduced due to a slowdown in revenues and elimination of the contract for park and open space maintenance.

Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2011 was \$134,350,425 (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 \$2,975,969.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2011

Highland City's Capital Assets
(net of depreciation)

| | Governmental Activities 2011 | Governmental Activities 2010 | Business-type Activities 2011 | Business-type Activities 2010 |
|-----------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Land | \$ 39,607,624 | \$ 39,607,624 | \$ 534,455 | \$ 534,455 |
| Buildings | 13,544,573 | 14,006,833 | 1,157,289 | 1,157,289 |
| Improvements other than buildings | 67,459,049 | 67,457,201 | 32,907,218 | 32,813,339 |
| Machinery and equipment | 1,889,368 | 1,874,323 | 2,063,855 | 2,063,855 |
| Construction in progress | 1,188,562 | 1,144,958 | - | 73,031 |
| Water shares | - | - | 23,330,198 | 21,121,743 |
| Total | 123,689,176 | 124,090,939 | 59,993,015 | 57,763,712 |
| Less accumulated depreciation | (39,402,930) | (35,757,085) | (9,928,836) | (8,771,172) |
| Total Capital Assets | <u>\$ 84,286,246</u> | <u>\$ 88,333,854</u> | <u>\$ 50,064,179</u> | <u>\$ 48,992,540</u> |

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

Long-term debt. On June 30, 2011 the City had a total bonded debt outstanding of \$15,864,183. Of this amount \$3,959,375 was considered general obligation debt and was backed by the full faith and credit of the City.

Highland City's Outstanding Debt

| | Governmental Activities 2011 | Governmental Activities 2010 | Business-type Activities 2011 | Business-type Activities 2010 |
|--------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| General obligation bonds | \$ - | \$ - | \$ 3,959,375 | \$ 4,178,390 |
| Revenue bonds | 11,904,808 | 12,255,000 | - | - |
| Other long term debt | 326,936 | 453,903 | 2,004,177 | 30,000 |
| Total | <u>\$ 12,231,744</u> | <u>\$ 12,708,903</u> | <u>\$ 5,963,552</u> | <u>\$ 4,208,390</u> |

The City's total debt increased by a net of \$1,278,003 during the fiscal year as a result of the additional debt for the Provo Reservoir Canal and Highland Conservation District saved shares purchased and decreased due to scheduled principal payments.

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

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$743,087,701, 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 \$743,087,701 for water systems, artificial lighting systems or sewer systems. On June 30, 2011 the City's limitation was \$29,723,508 and the additional limitation was \$59,447,016, the current general obligation bonds are \$3,959,375.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2011

Economic Factors and Next Year's Budgets and Rates

Economic trends of the state and region are better than the national indices but because of the slowdown in home construction and slowdown of the economy the related revenues were budgeted a little higher than the current year but revenues are projected to remain relatively flat. These and other factors were considered in preparing Highland City's budget for the 2010-2011 fiscal year. We are hoping the economy will start to rebound in 2011-2012

During the current fiscal year, unassigned fund balance in the general fund increased by \$214,654. The general fund unrestricted fund balance of \$949,805 represented 13.9% of general fund revenues which is within the range of 5% to 18% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for capital projects.

Request for Information

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

BASIC FINANCIAL STATEMENTS

HIGHLAND CITY, UTAH
STATEMENT OF NET ASSETS
June 30, 2011

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 559,387 | \$ 1,252,058 | \$ 1,811,445 |
| Receivables: | | | |
| Accounts | 1,566,385 | 91,234 | 1,657,619 |
| Taxes | 2,013,453 | - | 2,013,453 |
| Restricted cash and cash equivalents | 24,008 | 314,537 | 338,545 |
| Prepaid expenses | - | 91,270 | 91,270 |
| Deferred charges | 239,440 | 88,021 | 327,461 |
| Land held for resale | 506,716 | - | 506,716 |
| Capital Assets: | | | |
| Non-depreciable Capital Assets | 40,796,186 | 23,864,653 | 64,660,839 |
| Depreciable Capital Assets (net) | 43,490,060 | 26,199,526 | 69,689,586 |
| Total Assets | \$ 89,195,635 | \$ 51,901,299 | \$ 141,096,934 |
| Liabilities: | | | |
| Accounts payable | \$ 270,594 | \$ 139,916 | \$ 410,510 |
| Accrued liabilities | 104,714 | - | 104,714 |
| Accrued interest payable | 170,025 | 431,225 | 601,250 |
| Developer and customer deposits | 87,531 | - | 87,531 |
| Unearned revenue | 3,137,005 | - | 3,137,005 |
| Noncurrent Liabilities: | | | |
| Due within one year | 613,334 | 351,789 | 965,123 |
| Due in more than one year | 11,618,410 | 5,686,145 | 17,304,555 |
| Total Liabilities | 16,001,613 | 6,609,075 | 22,610,688 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 72,054,502 | 44,100,627 | 116,155,129 |
| Restricted for: | | | |
| Future development | 203,007 | - | 203,007 |
| Impact fees | 24,008 | 314,537 | 338,545 |
| Unrestricted | 912,505 | 877,060 | 1,789,565 |
| Total Net Assets | 73,194,022 | 45,292,224 | 118,486,246 |
| Total Liabilities and Net Assets | \$ 89,195,635 | \$ 51,901,299 | \$ 141,096,934 |

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, 2011

| 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 | \$ 1,742,815 | \$ 1,139,391 | \$ - | \$ - | \$ (603,424) | \$ - | \$ (603,424) |
| Public safety | 2,578,309 | 257,710 | 10,036 | 33,898 | (2,276,665) | - | (2,276,665) |
| Streets and public works | 3,420,248 | 284,800 | - | 602,380 | (2,533,068) | - | (2,533,068) |
| Parks and recreation | 1,027,983 | 37,925 | - | 406,776 | (583,282) | - | (583,282) |
| Cemetery | 143,928 | 73,066 | - | - | (70,862) | - | (70,862) |
| Garbage | 524,130 | 602,445 | - | - | 78,315 | - | 78,315 |
| Interest | 652,730 | - | - | - | (652,730) | - | (652,730) |
| Total Governmental Activities | 10,090,143 | 2,395,337 | 10,036 | 1,043,054 | (6,641,716) | - | (6,641,716) |
| Business-type Activities: | | | | | | | |
| Sewer | 1,684,638 | 1,418,593 | - | 182,413 | - | (83,632) | (83,632) |
| Pressurized irrigation | 1,229,088 | 897,582 | - | 23,147 | - | (308,359) | (308,359) |
| Storm sewer | 367,343 | 251,328 | - | - | - | (116,015) | (116,015) |
| Water | 723,157 | 794,067 | - | - | - | 70,910 | 70,910 |
| Total Business-type Activities | 4,004,226 | 3,361,570 | - | 205,560 | - | (437,096) | (437,096) |
| Total Government | \$ 14,094,369 | \$ 5,756,907 | \$ 10,036 | \$ 1,248,614 | (6,641,716) | (437,096) | (7,078,812) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| | | | | | 1,686,835 | - | 1,686,835 |
| | | | | | 165,262 | - | 165,262 |
| | | | | | 1,503,543 | - | 1,503,543 |
| | | | | | 931,548 | - | 931,548 |
| | | | | | 4,038 | 7,356 | 11,394 |
| | | | | | 208,305 | - | 208,305 |
| Total General Revenues | | | | | 4,499,531 | 7,356 | 4,506,887 |
| Changes in Net Assets | | | | | (2,142,185) | (429,740) | (2,571,925) |
| Net Assets, Beginning | | | | | 75,710,904 | 46,087,805 | 121,798,709 |
| Prior period adjustment | | | | | (374,697) | (365,841) | (740,538) |
| Net Assets, Ending | | | | | \$ 73,194,022 | \$ 45,292,224 | \$ 118,486,246 |

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

HIGHLAND CITY, UTAH
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

| | <u>General Fund</u> | <u>Debt Service</u> | <u>Capital Projects Roads</u> | <u>Capital Projects Building</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------|---------------------------------------|--|--|---|
| Assets: | | | | | | |
| Cash and cash equivalents | \$ 90,298 | \$ 892 | \$ - | \$ - | \$ 468,197 | \$ 559,387 |
| Restricted cash and cash equivalents | - | - | - | - | 24,008 | 24,008 |
| Receivables: | | | | | | |
| Accounts | 23,086 | - | - | - | - | 23,086 |
| Taxes | 2,013,453 | - | - | - | - | 2,013,453 |
| Exaction fees | - | - | 705,631 | 401,455 | 436,213 | 1,543,299 |
| Due from other funds | 957,866 | - | - | - | - | 957,866 |
| Property held for resale | - | - | 506,716 | - | - | 506,716 |
| Total Assets | <u>\$ 3,084,703</u> | <u>\$ 892</u> | <u>\$ 1,212,347</u> | <u>\$ 401,455</u> | <u>\$ 928,418</u> | <u>\$ 5,627,815</u> |
| Liabilities: | | | | | | |
| Accounts payable | \$ 228,013 | \$ - | \$ 15,734 | \$ - | \$ 26,847 | \$ 270,594 |
| Accrued liabilities | 104,714 | - | - | - | - | 104,714 |
| Due to other funds | - | - | 771,601 | 186,265 | - | 957,866 |
| Developer bonds held | 87,531 | - | - | - | - | 87,531 |
| Unearned revenue | 1,489,148 | - | 705,631 | 401,455 | 540,771 | 3,137,005 |
| Total Liabilities | <u>1,909,406</u> | <u>-</u> | <u>1,492,966</u> | <u>587,720</u> | <u>567,618</u> | <u>4,557,710</u> |
| Fund Balances: | | | | | | |
| Nonspendable: | | | | | | |
| Property held for resale | - | - | 506,716 | - | - | 506,716 |
| Restricted for: | | | | | | |
| Impact fees | - | - | - | - | 24,008 | 24,008 |
| B & C roads | 203,007 | - | - | - | - | 203,007 |
| Committed to: | | | | | | |
| Beacon Hills park | - | - | - | - | 340,000 | 340,000 |
| Assigned to: | | | | | | |
| Equipment replacement | 9,020 | - | - | - | - | 9,020 |
| Library | 13,465 | - | - | - | - | 13,465 |
| Debt service | - | 892 | - | - | - | 892 |
| Unassigned | 949,805 | - | (787,335) | (186,265) | (3,208) | (27,003) |
| Total Fund Balances | <u>1,175,297</u> | <u>892</u> | <u>(280,619)</u> | <u>(186,265)</u> | <u>360,800</u> | <u>1,070,105</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,084,703</u> | <u>\$ 892</u> | <u>\$ 1,212,347</u> | <u>\$ 401,455</u> | <u>\$ 928,418</u> | <u>\$ 5,627,815</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 ASSETS
June 30, 2011

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

| | | |
|---|-----------|--------------------------|
| Total Fund Balances - Governmental Funds | \$ | 1,070,105 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 84,286,246 |
| Deferred charges, for long term debt are not financial resources and, therefore, are not reported in the funds | | 239,440 |
| Interest expense is not due and payable in the current period and therefore is not recorded in the funds. | | (170,025) |
| 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>(12,231,744)</u> |
| Total Net Assets - Governmental Activities | \$ | <u>73,194,022</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, 2011

| | General Fund | Debt Service | Capital Projects Roads | Capital Projects Building | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------|------------------------------|---------------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | | | |
| Taxes | \$ 4,287,188 | \$ - | \$ - | \$ - | \$ - | \$ 4,287,188 |
| Licenses and permits | 336,152 | - | - | - | - | 336,152 |
| Intergovernmental | 573,697 | - | - | - | - | 573,697 |
| Impact fees | - | - | 38,719 | 33,898 | 406,776 | 479,393 |
| Charges for services | 1,373,782 | - | 236,184 | - | 244,904 | 1,854,870 |
| Fines and forfeitures | 257,710 | - | - | - | - | 257,710 |
| Interest | 2,452 | - | - | - | 1,736 | 4,188 |
| Miscellaneous | 21,499 | - | 30,230 | 156,578 | - | 208,307 |
| Total Revenues | 6,852,480 | - | 305,133 | 190,476 | 653,416 | 8,001,505 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 1,272,033 | - | - | - | 182,687 | 1,454,720 |
| Public safety | 2,382,419 | - | - | - | - | 2,382,419 |
| Streets and public works | 536,223 | - | 68,610 | - | - | 604,833 |
| Parks and recreation | 653,048 | - | - | - | 35,871 | 688,919 |
| Cemetery | 97,145 | - | - | - | - | 97,145 |
| Garbage | 524,130 | - | - | - | - | 524,130 |
| Capital outlay | - | - | - | 75,648 | 115,164 | 190,812 |
| Debt service: | | | | | | |
| Principal | 70,219 | 460,000 | - | - | - | 530,219 |
| Interest | 8,679 | 513,264 | 5,112 | 93,843 | - | 620,898 |
| Total Expenditures | 5,543,896 | 973,264 | 73,722 | 169,491 | 333,722 | 7,094,095 |
| Excess (deficiency) of revenues over (under) expenditures | 1,308,584 | (973,264) | 231,411 | 20,985 | 319,694 | 907,410 |
| Other Financing Sources (Uses): | | | | | | |
| Transfers in | 70,000 | 970,000 | 200,000 | 34,650 | - | 1,274,650 |
| Transfers out | (1,204,650) | - | - | - | (70,000) | (1,274,650) |
| Total Other Financing Sources (Uses) | (1,134,650) | 970,000 | 200,000 | 34,650 | (70,000) | - |
| Net Change in Fund Balances | 173,934 | (3,264) | 431,411 | 55,635 | 249,694 | 907,410 |
| Fund Balances, Beginning | 819,565 | 4,156 | (712,030) | (241,900) | 131,247 | 1,038 |
| Prior Period Adjustment | 181,798 | - | - | - | (20,141) | 161,657 |
| Fund Balances, Ending | \$ 1,175,297 | \$ 892 | \$ (280,619) | \$ (186,265) | \$ 360,800 | \$ 1,070,105 |

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, 2011

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

| | | |
|--|-----------|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 907,410 |
| <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 | | 201,363 |
| Depreciation expense | | (3,652,352) |
| <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 | | (66,772) |
| Depreciation deletions | | 6,507 |
| <p>Amortization of deferred charges and 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> | | |
| Deferred charges | | 4,033 |
| 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 | | 530,219 |
| <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 | | (42,729) |
| Compensated absences | | (36,727) |
| Changes in net assets of governmental activities | \$ | (2,142,185) |

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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------------|---------------------------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Revenues: | | | | |
| Taxes | \$ 4,101,703 | \$ 4,201,703 | \$ 4,287,188 | \$ 85,485 |
| Licenses and permits | 231,500 | 302,750 | 336,152 | 33,402 |
| Intergovernmental | 510,000 | 560,000 | 573,697 | 13,697 |
| Charges for services | 1,444,800 | 1,381,800 | 1,373,782 | (8,018) |
| Fines and forfeitures | 285,000 | 295,000 | 257,710 | (37,290) |
| Interest | 4,000 | 4,000 | 2,452 | (1,548) |
| Miscellaneous | 130,000 | 30,000 | 21,499 | (8,501) |
| Total Revenues | <u>6,707,003</u> | <u>6,775,253</u> | <u>6,852,480</u> | <u>77,227</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,268,223 | 1,327,023 | 1,272,033 | 54,990 |
| Public safety | 2,380,944 | 2,390,944 | 2,382,419 | 8,525 |
| Streets and public works | 606,699 | 606,699 | 536,223 | 70,476 |
| Parks and recreation | 681,900 | 681,900 | 653,048 | 28,852 |
| Cemetery | 84,951 | 84,951 | 97,145 | (12,194) |
| Garbage | 479,744 | 479,744 | 524,130 | (44,386) |
| Debt service: | | | | |
| Principal | 71,000 | 71,000 | 70,219 | 781 |
| Interest | 9,000 | 9,000 | 8,679 | 321 |
| Total Expenditures | <u>5,582,461</u> | <u>5,651,261</u> | <u>5,543,896</u> | <u>107,365</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>1,124,542</u> | <u>1,123,992</u> | <u>1,308,584</u> | <u>184,592</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 70,000 | 70,000 | 70,000 | - |
| Transfers out | (1,204,650) | (1,213,439) | (1,204,650) | 8,789 |
| Total Other Financing Sources (Uses) | <u>(1,134,650)</u> | <u>(1,143,439)</u> | <u>(1,134,650)</u> | <u>8,789</u> |
| Net Change in Fund Balances | <u>\$ (10,108)</u> | <u>\$ (19,447)</u> | <u>173,934</u> | <u>\$ 193,381</u> |
| Fund Balances, Beginning | | | 819,565 | |
| Prior Period Adjustment | | | <u>181,798</u> | |
| Fund Balances, Ending | | | <u>\$ 1,175,297</u> | |

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

HIGHLAND CITY, UTAH
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2011

| | Business-type Activities - Enterprise Funds | | | | Total |
|--|--|-----------------------------------|---------------------|-------------------------------------|----------------------|
| | Sewer | Pressurized Irrigation | Water | Nonmajor Storm Sewer | |
| Assets: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 721,803 | \$ 68,578 | \$ 351,133 | \$ 110,544 | \$ 1,252,058 |
| Restricted cash and cash equivalents | 314,537 | - | - | - | 314,537 |
| Accounts receivable | 13,823 | 25,550 | 38,495 | 13,366 | 91,234 |
| Prepaid expenses | 13,545 | 45,215 | 32,510 | - | 91,270 |
| Total Current Assets | 1,063,708 | 139,343 | 422,138 | 123,910 | 1,749,099 |
| Noncurrent Assets: | | | | | |
| Deferred charges | - | 88,021 | - | - | 88,021 |
| Capital assets: | | | | | |
| Water shares | - | 21,692,349 | 1,637,849 | - | 23,330,198 |
| Land | 26,540 | 277,450 | 107,132 | 123,333 | 534,455 |
| Buildings | - | 663,667 | 493,622 | - | 1,157,289 |
| Infrastructure | 8,920,565 | 13,600,601 | 7,805,420 | 2,580,632 | 32,907,218 |
| Machinery and equipment | 201,746 | 147,928 | 1,398,013 | 316,168 | 2,063,855 |
| Less accumulated depreciation | (2,476,579) | (3,564,106) | (3,218,002) | (670,149) | (9,928,836) |
| Total Noncurrent Assets | 6,672,272 | 32,905,910 | 8,224,034 | 2,349,984 | 50,152,200 |
| Total Assets | \$ 7,735,980 | \$ 33,045,253 | \$ 8,646,172 | \$ 2,473,894 | \$ 51,901,299 |
| Liabilities: | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | \$ 110,537 | \$ 21,437 | \$ 3,726 | \$ 4,216 | \$ 139,916 |
| Accrued interest payable | - | 431,225 | - | - | 431,225 |
| Compensated absences | 9,242 | 2,148 | 2,839 | 4,257 | 18,486 |
| Notes payable | - | 43,303 | - | - | 43,303 |
| Bonds payable - current | - | 290,000 | - | - | 290,000 |
| Total Current Liabilities | 119,779 | 788,113 | 6,565 | 8,473 | 922,930 |
| Noncurrent Liabilities: | | | | | |
| Compensated absences | 24,146 | 10,334 | 7,065 | 14,351 | 55,896 |
| Notes Payable | - | 1,960,874 | - | - | 1,960,874 |
| Bonds payable | - | 3,669,375 | - | - | 3,669,375 |
| Total Noncurrent Liabilities | 24,146 | 5,640,583 | 7,065 | 14,351 | 5,686,145 |
| Total Liabilities | 143,925 | 6,428,696 | 13,630 | 22,824 | 6,609,075 |
| Net Assets: | | | | | |
| Invested in capital assets, net of related debt | 6,672,272 | 26,854,337 | 8,224,034 | 2,349,984 | 44,100,627 |
| Restricted for impact fees | 314,537 | - | - | - | 314,537 |
| Unrestricted | 605,246 | (237,780) | 408,508 | 101,086 | 877,060 |
| Total Net Assets | 7,592,055 | 26,616,557 | 8,632,542 | 2,451,070 | 45,292,224 |
| Total Liabilities and Net Assets | \$ 7,735,980 | \$ 33,045,253 | \$ 8,646,172 | \$ 2,473,894 | \$ 51,901,299 |

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 ASSETS – PROPRIETARY FUNDS
For The Year Ended June 30, 2011

| | Business-type Activities - Enterprise Funds | | | | Total |
|---|---|---------------------------|---------------------|----------------------------|----------------------|
| | Sewer | Pressurized Irrigation | Water | Nonmajor Storm Sewer | |
| Operating Revenues: | | | | | |
| Charges for services | \$ 1,414,600 | \$ 759,674 | \$ 687,961 | \$ 251,328 | \$ 3,113,563 |
| Connection fees | 3,993 | - | 99,156 | - | 103,149 |
| Miscellaneous | - | 137,908 | 6,950 | - | 144,858 |
| Total Operating Revenues | <u>1,418,593</u> | <u>897,582</u> | <u>794,067</u> | <u>251,328</u> | <u>3,361,570</u> |
| Operating Expenses: | | | | | |
| Salaries and benefits | 253,514 | 82,015 | 121,393 | 132,830 | 589,752 |
| Operations | 1,107,245 | 570,842 | 294,574 | 102,888 | 2,075,549 |
| Depreciation | 323,880 | 394,970 | 307,189 | 131,625 | 1,157,664 |
| Total Operating Expenses | <u>1,684,639</u> | <u>1,047,827</u> | <u>723,156</u> | <u>367,343</u> | <u>3,822,965</u> |
| Operating Income (Loss) | <u>(266,046)</u> | <u>(150,245)</u> | <u>70,911</u> | <u>(116,015)</u> | <u>(461,395)</u> |
| Nonoperating Revenues (Expenses): | | | | | |
| Impact fees | 182,413 | 19,951 | - | - | 202,364 |
| Interest income | 4,361 | 1,535 | 1,173 | 287 | 7,356 |
| Interest expense | - | (181,261) | - | - | (181,261) |
| Total Nonoperating Revenues (Expenses) | <u>186,774</u> | <u>(159,775)</u> | <u>1,173</u> | <u>287</u> | <u>28,459</u> |
| Income (Loss) Before Contributions | <u>(79,272)</u> | <u>(310,020)</u> | <u>72,084</u> | <u>(115,728)</u> | <u>(432,936)</u> |
| Capital Contributions | <u>-</u> | <u>3,196</u> | <u>-</u> | <u>-</u> | <u>3,196</u> |
| Changes in Net Assets | <u>(79,272)</u> | <u>(306,824)</u> | <u>72,084</u> | <u>(115,728)</u> | <u>(429,740)</u> |
| Net Assets, Beginning | 7,789,956 | 27,104,329 | 8,606,294 | 2,587,226 | 46,087,805 |
| Prior period adjustment | <u>(118,629)</u> | <u>(180,948)</u> | <u>(45,836)</u> | <u>(20,428)</u> | <u>(365,841)</u> |
| Net Assets, Ending | <u>\$ 7,592,055</u> | <u>\$ 26,616,557</u> | <u>\$ 8,632,542</u> | <u>\$ 2,451,070</u> | <u>\$ 45,292,224</u> |

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, 2011

| | Business-type Activities - Enterprise Funds | | | | Total |
|---|--|-----------------------------------|-------------------|-------------------------------------|---------------------|
| | Sewer | Pressurized Irrigation | Water | Nonmajor Storm Sewer | |
| Cash Flows From Operating Activities: | | | | | |
| Cash received from customers | \$ 1,393,882 | \$ 742,365 | \$ 787,596 | \$ 250,056 | \$ 3,173,899 |
| Cash received from other entities | - | 137,908 | 6,950 | - | 144,858 |
| Cash payments to suppliers for goods and services | (1,131,617) | (615,773) | (337,928) | (28,408) | (2,113,726) |
| Cash payments to employees and professional contractors for services | (232,885) | (70,085) | (123,140) | (119,260) | (545,370) |
| Net cash provided (used) by operating activities | 29,380 | 194,415 | 333,478 | 102,388 | 659,661 |
| Cash Flows From Non-Capital Financing Activities: | | | | | |
| Advances from other funds | 164,937 | - | - | - | 164,937 |
| Net cash provided (used) by non-capital financing activities | 164,937 | - | - | - | 164,937 |
| Cash Flows From Capital and Related Financing Activities: | | | | | |
| Principal payments on bonds | - | (280,000) | - | - | (280,000) |
| Interest and fees paid on bonds | - | (168,126) | - | - | (168,126) |
| Principal payments on notes payable | - | (174,801) | - | - | (174,801) |
| Receipt of impact fees | 182,413 | 19,951 | - | - | 202,364 |
| Purchase of capital assets | - | - | (120,166) | - | (120,166) |
| Net cash provided (used) by capital and related financing activities | 182,413 | (602,976) | (120,166) | - | (540,729) |
| Cash Flows From Investing Activities: | | | | | |
| Interest on investments | 4,361 | 1,535 | 1,173 | 287 | 7,356 |
| Net cash provided (used) by investing activities | 4,361 | 1,535 | 1,173 | 287 | 7,356 |
| Net Increase (Decrease) In Cash | 381,091 | (407,026) | 214,485 | 102,675 | 291,225 |
| Cash At Beginning Of Year | 655,249 | 475,604 | 136,648 | 7,869 | 1,275,370 |
| Cash At End Of Year | \$ 1,036,340 | \$ 68,578 | \$ 351,133 | \$ 110,544 | \$ 1,566,595 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ (266,046) | \$ (150,245) | \$ 70,911 | \$ (116,015) | \$ (461,395) |
| Adjustments to reconcile operating income (loss) to net cash from (used) by operating activities: | | | | | |
| Depreciation | 323,880 | 394,970 | 307,189 | 131,625 | 1,157,664 |
| (Increase) decrease in assets: | | | | | |
| Accounts receivable | (24,711) | (17,309) | 479 | (1,272) | (42,813) |
| Prepaid expenses | (13,545) | (45,215) | (32,510) | - | (91,270) |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable | (10,827) | 284 | (10,844) | 74,480 | 53,093 |
| Compensated absences | 20,629 | 11,930 | (1,747) | 13,570 | 44,382 |
| Net cash provided (used) by operating activities | \$ 29,380 | \$ 194,415 | \$ 333,478 | \$ 102,388 | \$ 659,661 |
| Noncash investing, capital, and financing activities: | | | | | |
| Contributions of capital assets | - | 3,196 | - | - | 3,196 |
| Addition of capital assets due to notes payable | - | 2,178,979 | - | - | 2,178,979 |

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 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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, and the City has chosen to do so. 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 14 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.

HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

The government-wide financial statements (i.e., the *Statement of Net Assets* 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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 required to be 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 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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *Program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

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.

(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 18% 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.

Annual budgets for the General Fund, Special Revenue Fund, Debt Service Fund and Capital Projects Funds were legally adopted by the City and are prepared on the modified-accrual method of accounting. Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of actual versus such budgets for governmental funds.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Budgetary Data (Continued)

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.

(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

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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) Unearned Revenue

Unearned revenue arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the revenue is recognized.

(I) 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).

Advances between funds as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Other receivables at June 30, 2011, consisted of property tax, franchise tax, sales tax, grants and accounts (billings for user charged services). Taxes and grants are deemed collectible in full. Utility charges have an allowance of \$24,988.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) 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, discounts, and issuance costs 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.

(K) Compensated Absences

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

(L) Equity Classification

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

- (1) *Invested in capital assets, net of related debt* – 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 assets* – 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 assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as 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 restricted by enabling legislation. Also reported 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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(L) Equity Classification (Continued)

- (3) *Committed fund balance* classification include those funds that can only be used for specific purposed pursuant to constraints imposed by formal action 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. 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.
- (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.

(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.

(N) Prior Period Adjustments

The City's statement of net assets for governmental activities and business-type activities has been adjusted due to land held for resale, compensated absences, sales tax revenue, utility billings, and the irrigation bond. Land held for resale in the Capital Projects Roads Fund of \$536,354 was recorded as accounts receivable and capital assets in the statement of net assets, therefore an adjustment was made to reduce capital assets and net assets, beginning balance. Compensated absences are not recorded in the governmental funds until payment is due, therefore an adjustment of \$85,196 was made to reduce the compensated absences liability and increase fund balance in the General Fund. The accrued compensated absences are recorded as part of "due within one year" on the statement of net assets. Sales tax revenue of \$149,121 was recorded in current fiscal year, but the amount was revenue earned for the June 2010 period, therefore an adjustment to decrease current year sales tax revenue and increase fund balance was done in the General Fund. Utilities are billed to customers prior to services being performed, therefore an adjustment of \$52,519, \$118,629, \$61,038, \$20,428, and \$45,836 were made to reduce accounts receivable and fund balance/net assets in the General Fund, Sewer, Pressurized Irrigation, Storm Sewer, and Water Funds, respectively. The irrigation bond was accruing interest using the simple method rather than compounding, therefore and adjustment of \$119,910 was made to increase accrued interest and decrease net assets in the Pressurized Irrigation Fund.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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, 2011, \$0 of the City's \$239,689 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.

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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

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 Treasures' Office.

For the year ended June 30, 2011, the City had investments of \$2,012,686 with the PTIF. The fair value of these investments was \$2,023,644. The PTIF pool has not been rated.

NOTE 3 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of "interfund balances" as of June 30, 2011 is as follows:

| | Interfund Receivables | Interfund Payables |
|----------------------------------|----------------------------------|-------------------------------|
| Governmental activities | | |
| General Fund | \$ 957,866 | \$ - |
| Capital Improvements - Roads | - | 771,601 |
| Capital Improvements - Buildings | - | 186,265 |
| | \$ 957,866 | \$ 957,866 |

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 Assets). Balances are not expected to be paid off within one year.

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, 2011 were as follows:

| | In | Out |
|----------------------------------|--------------|--------------|
| Governmental activities | | |
| General Fund | \$ 70,000 | \$ 1,204,650 |
| Highland Open Space | - | 70,000 |
| Debt service fund | 970,000 | - |
| Capital Improvements - Roads | 200,000 | - |
| Capital Improvements - Buildings | 34,650 | - |
| | \$ 1,274,650 | \$ 1,274,650 |

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, 2011:

| | Amount |
|---|------------|
| Governmental activities | |
| Restricted for impact fees | 24,008 |
| Total governmental activities | 24,008 |
| Business-type activities | |
| Restricted for impact fees | 314,537 |
| Total business-type activities | 314,537 |
| Total restricted cash and cash equivalents | \$ 338,545 |

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

| | Balance June 30, 2010 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2011 |
|--|--------------------------|-------------------------|-------------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 39,607,624 | \$ - | \$ - | \$ 39,607,624 |
| Construction in progress | 1,144,958 | 69,658 | (26,054) | 1,188,562 |
| Total capital assets, not being depreciated | 40,752,582 | 69,658 | (26,054) | 40,796,186 |
| Capital assets, being depreciated: | | | | |
| Buildings and structures | 14,006,833 | 74,094 | (536,354) | 13,544,573 |
| Improvements and infrastructure | 67,457,201 | 42,566 | (40,718) | 67,459,049 |
| Machinery, equipment and vehicles | 1,874,323 | 15,045 | - | 1,889,368 |
| Total capital assets, being depreciated | 83,338,357 | 131,705 | (577,072) | 82,892,990 |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | (1,052,893) | (355,098) | - | (1,407,991) |
| Improvements and infrastructure | (33,793,207) | (3,093,761) | - | (36,886,968) |
| Machinery, equipment and vehicles | (910,985) | (203,493) | 6,507 | (1,107,971) |
| Total accumulated depreciation | (35,757,085) | (3,652,352) | 6,507 | (39,402,930) |
| Total capital assets, net of accumulated depreciation | 47,581,272 | (3,520,647) | (570,565) | 43,490,060 |
| Governmental activities capital assets, net | \$ 88,333,854 | \$ (3,450,989) | \$ (596,619) | \$ 84,286,246 |

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS (Continued)

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

Governmental activities:

| | |
|---|---------------------|
| General government | \$ 257,104 |
| Public Safety | 194,062 |
| Streets and Public Works | 2,810,393 |
| Parks and recreation | 344,010 |
| Cemetery | 46,783 |
| | 46,783 |
| Total depreciation expense - governmental activities | \$ 3,652,352 |

The Business-type activities property, plant and equipment consist of the following at June 30, 2011:

| | Balance June 30, 2010 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2011 |
|--|----------------------------------|---------------------------------|---------------------------------|----------------------------------|
| Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 534,455 | \$ - | \$ - | \$ 534,455 |
| Construction in progress | 73,031 | - | (73,031) | - |
| Water Shares | 21,121,743 | 2,208,455 | - | 23,330,198 |
| | 21,121,743 | 2,208,455 | - | 23,330,198 |
| Total capital assets, not being depreciated | 21,729,229 | 2,208,455 | (73,031) | 23,864,653 |
| Capital assets, being depreciated: | | | | |
| Buildings and structures | 1,157,289 | - | - | 1,157,289 |
| Improvements and infrastructure | 32,813,339 | 93,279 | - | 32,906,618 |
| Machinery, equipment and vehicles | 2,063,855 | - | - | 2,063,855 |
| | 2,063,855 | - | - | 2,063,855 |
| Total capital assets, being depreciated | 36,034,483 | 93,279 | - | 36,127,762 |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | (279,782) | (40,120) | - | (319,902) |
| Improvements and infrastructure | (7,848,613) | (968,274) | - | (8,816,887) |
| Machinery, equipment and vehicles | (642,776) | (148,671) | - | (791,447) |
| | (642,776) | (148,671) | - | (791,447) |
| Total accumulated depreciation | (8,771,171) | (1,157,065) | - | (9,928,236) |
| Total capital assets, net of accumulated depreciation | 27,263,312 | (1,063,786) | - | 26,199,526 |
| Business-type activities capital assets, net | \$ 48,992,541 | \$ 1,144,669 | \$ (73,031) | \$ 50,064,179 |

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS (Continued)

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

Business-type activities

| | |
|--|---------------------|
| Sewer | \$ 323,880 |
| Pressurized Irrigation | 394,370 |
| Storm Drain | 131,625 |
| Water | 307,190 |
| | 307,190 |
| Total depreciation expense - business-type activities | \$ 1,157,065 |

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 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 a unearned property tax revenue in the General Fund in the amount of \$1,489,148.

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, 2011 was not expected to be received within 60 days after the year ended June 30, 2011, the City was required to record a receivable and unearned revenue of the estimated amount of the total property tax to be levied on October 1, 2011.

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, 2011:

| | <u>June 30,</u> <u>2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30,</u> <u>2011</u> | <u>Due Within</u> <u>One Year</u> |
|---|--------------------------------|---------------------|-----------------------|--------------------------------|--------------------------------------|
| Governmental Activities: | | | | | |
| Bonds payable | | | | | |
| Revenue bonds | \$ 12,255,000 | \$ - | \$ (460,000) | \$ 11,795,000 | \$ 480,000 |
| Plus: unamortized premiums | 116,671 | - | (6,863) | 109,808 | - |
| Total bonds payable | <u>12,371,671</u> | <u>-</u> | <u>(466,863)</u> | <u>11,904,808</u> | <u>480,000</u> |
| Note payable | | | | | |
| Cemetery mortgage | 144,652 | - | (70,219) | 74,433 | 74,433 |
| Compensated absences | 215,776 | 97,130 | (60,403) | 252,503 | 58,901 |
| Governmental activities long-term liabilities | <u>12,732,099</u> | <u>97,130</u> | <u>(597,485)</u> | <u>12,231,744</u> | <u>613,334</u> |
| Business-type Activities: | | | | | |
| Bonds payable | | | | | |
| General obligation bonds | 4,178,390 | - | (280,000) | 3,898,390 | 290,000 |
| Plus: unamortized premiums | 66,529 | - | (5,544) | 60,985 | - |
| Total bonds payable | <u>4,244,919</u> | <u>-</u> | <u>(285,544)</u> | <u>3,959,375</u> | <u>290,000</u> |
| Notes payable | - | 2,178,979 | (174,802) | 2,004,177 | 43,303 |
| Compensated absences | 30,000 | 62,175 | (17,793) | 74,382 | 18,486 |
| Business-type activities long-term liabilities | <u>4,274,919</u> | <u>2,241,154</u> | <u>(478,139)</u> | <u>6,037,934</u> | <u>351,789</u> |
| | <u>\$ 17,007,018</u> | <u>\$ 2,338,284</u> | <u>\$ (1,075,624)</u> | <u>\$ 18,269,678</u> | <u>\$ 965,123</u> |

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT (Continued)

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. \$ 5,175,000

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. 6,620,000

Total Tax Revenue Bonds - Governmental Activities \$ 11,795,000

Note Payable

Cemetery mortgage payable, original amount \$766,281, principal and interest at 6.00% due in annual installments beginning January 1998 with final payment due January 2012. The note was issued to purchase land for cemetery expansion and is secured by a trust deed. 74,433

Total Notes Payable - Governmental Activities \$ 74,433

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. 3,775,000

Series 1996B General Obligation Refunding Bonds, original issue of \$1,400,000. Principal of \$1,276,610 was paid in a prior years, remaining principal and accrued interest at an annual rate of 3.60% of remaining principal balance is due in July 2018. The bonds were issued to acquire and construct an irrigation water 123,390

Total General Obligation Bonds - Business-type Activities \$ 3,898,390

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. \$ 483,096

Assessment payable to the Highland Conservation District for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$1,563,146, principal and interest at 1.26% due in installments beginning November 2010 with final installment due November 2035. 1,521,081

Total Notes Payable - Business-type Activities \$ 2,004,177

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 \$16,557,775 has been pledged through 2031. The current revenue recognized during the period for pledged Franchise and Sales Tax Revenue bonds was \$1,347,938 compared to principal and interest of \$973,453 which equals a coverage ratio of 1.38.

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, 2011, are as follows:

| Year Ending June 30, | Governmental Activities Franchise and Sales Tax Revenue Bonds | |
|---------------------------------|--|---------------------|
| | Principal | Interest |
| | Principal | Interest |
| 2012 | \$ 480,000 | \$ 492,866 |
| 2013 | 500,000 | 471,404 |
| 2014 | 525,000 | 448,954 |
| 2015 | 545,000 | 425,516 |
| 2016 | 570,000 | 401,091 |
| 2017-2021 | 3,270,000 | 1,601,028 |
| 2022-2026 | 4,035,000 | 841,493 |
| 2027-2031 | 1,870,000 | 80,423 |
| | \$ 11,795,000 | \$ 4,762,775 |

| Year Ending June 30, | Business-type Activities General Obligation Bonds | |
|---------------------------------|--|-------------------|
| | Principal | Interest |
| | Principal | Interest |
| 2012 | \$ 290,000 | \$ 139,044 |
| 2013 | 300,000 | 131,068 |
| 2014 | 305,000 | 122,068 |
| 2015 | 315,000 | 112,538 |
| 2016 | 325,000 | 102,300 |
| 2017-2021 | 1,953,390 | 309,760 |
| 2022-2026 | 410,000 | 16,912 |
| | \$ 3,898,390 | \$ 933,690 |

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

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.

NOTE 11 RETIREMENT PLANS

Cost Sharing Defined Benefits Pension 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 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.

Funding policy: In the Local Governmental Noncontributory Retirement System, Highland City is required to contribute a percent of plan members' covered salary to the system. The City was required to contribute 13.37% to the Local Government Noncontributory Retirement System. The contribution rates are the actuarially determined rates. The contribution requirements of the systems are authorized by statute and specified by the board.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 RETIREMENT PLANS (Continued)

Cost Sharing Defined Benefits Pension Plans (Continued)

The City's contributions to the Local Government Noncontributory Retirement System for the years ended June 30, 2011, 2010, and 2009 were \$157,126, \$167,939, and \$188,276, respectively. The salaries subject to retirement contributions for the same periods were \$1,124,293, \$1,390,002, and \$1,620,275, respectively. The contributions were equal to the required contributions for each year.

401(k) Defined Contribution Plans

The City sponsors a defined contribution plan under Internal Revenue Code 401(k) through the Utah State Retirement Systems. Contributions may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement. Employer paid contributions for the years ended June 30, 2011, 2010, and 2009 were \$41,195, \$95,227, and \$78,667, respectively. The 401(k) defined contribution monies are not available to the City or its general creditors. Therefore, no assets or liabilities of the 401(k) defined contribution plan are reflected in the financial statements.

457 Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. Employer paid contributions for the years ended June 30, 2011, 2010, and 2009 were \$125,533, \$157,195, and \$167,697.

NOTE 12 CONTINGENT LIABILITIES

The City is a defendant in various claims and suits arising from the ordinary course of business. The City has an insurance policy, which covers any adverse judgment as it applies to lawsuits up to \$5,000,000. There has been no significant change in insurance coverage during the year ended June 30, 2011, nor during the past three fiscal years have the amounts of settlements exceeded insurance coverage.

NOTE 13 COMMITMENTS AND AGREEMENTS

The City has commitments to reimburse developers related to the Town Center project in the aggregate amount of \$850,009, which will be ultimately resolved after exaction fees are received in the Capital Projects Parks, Capital Projects Road, and Capital Projects Building funds.

SUPPLEMENTAL INFORMATION

HIGHLAND CITY, UTAH
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

| | <u>Special Revenue</u> | <u>Capital Projects</u> | | <u>Total</u> |
|--|-----------------------------|---------------------------------------|---------------------------------|--|
| | <u>Open Space Trust</u> | <u>Capital Projects Parks</u> | <u>Northwest Annexation</u> | <u>Nonmajor Governmental Funds</u> |
| Assets: | | | | |
| Cash and cash equivalents | \$ 11,049 | \$ 457,148 | \$ - | \$ 468,197 |
| Restricted cash and cash equivalents | - | - | 24,008 | 24,008 |
| Receivables: | | | | |
| Exaction fees | - | 436,213 | - | 436,213 |
| Total Assets | <u>\$ 11,049</u> | <u>\$ 893,361</u> | <u>\$ 24,008</u> | <u>\$ 928,418</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 11,997 | \$ 14,850 | \$ - | \$ 26,847 |
| Unearned revenue | - | 540,771 | - | 540,771 |
| Total Liabilities | <u>11,997</u> | <u>555,621</u> | <u>-</u> | <u>567,618</u> |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Impact fees | - | - | 24,008 | 24,008 |
| Committed to: | | | | |
| Beacon Hills park | - | 340,000 | - | 340,000 |
| Unassigned | (948) | (2,260) | - | (3,208) |
| Total Fund Balances | <u>(948)</u> | <u>337,740</u> | <u>24,008</u> | <u>360,800</u> |
| Total Liabilities and Fund Balances | <u>\$ 11,049</u> | <u>\$ 893,361</u> | <u>\$ 24,008</u> | <u>\$ 928,418</u> |

HIGHLAND CITY, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES–NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2011

| | <u>Special Revenue</u> | <u>Capital Projects</u> | | <u>Total Nonmajor Governmental Funds</u> |
|--|-----------------------------|---------------------------------------|---------------------------------|--|
| | <u>Open Space Trust</u> | <u>Capital Projects Parks</u> | <u>Northwest Annexation</u> | |
| Revenues: | | | | |
| Charges for services | \$ 244,679 | \$ 225 | \$ - | \$ 244,904 |
| Impact fees | - | 392,147 | 14,629 | 406,776 |
| Interest income | 150 | 1,511 | 75 | 1,736 |
| Total Revenues | <u>244,829</u> | <u>393,883</u> | <u>14,704</u> | <u>653,416</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 182,687 | - | - | 182,687 |
| Parks and recreation | - | 35,871 | - | 35,871 |
| Capital outlay | - | 115,164 | - | 115,164 |
| Total Expenditures | <u>182,687</u> | <u>151,035</u> | <u>-</u> | <u>333,722</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>62,142</u> | <u>242,848</u> | <u>14,704</u> | <u>319,694</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | <u>(70,000)</u> | <u>-</u> | <u>-</u> | <u>(70,000)</u> |
| Total Other Financing Sources (Uses) | <u>(70,000)</u> | <u>-</u> | <u>-</u> | <u>(70,000)</u> |
| Net Change in Fund Balances | (7,858) | 242,848 | 14,704 | 249,694 |
| Fund Balances, Beginning | 27,051 | 94,892 | 9,304 | 131,247 |
| Prior period adjustment | <u>(20,141)</u> | <u>-</u> | <u>-</u> | <u>(20,141)</u> |
| Fund Balances, Ending | <u>\$ (948)</u> | <u>\$ 337,740</u> | <u>\$ 24,008</u> | <u>\$ 360,800</u> |

HIGHLAND CITY, UTAH
SUPPLEMENTARY REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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



Jensen & Keddington, P.C.
Certified Public Accountants

Jeffery B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City Corporation (City), as of and for the year ended June 30, 2011, which collectively comprise Highland City Corporation's basic financial statements and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland City Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Recommendations*, we identified a certain deficiency in internal control over financial reporting that we consider to a material weakness.

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. We consider the deficiency described in the accompanying *Schedule of Findings and Recommendations* to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying *Schedule of Findings and Recommendations* as findings 2, 3, and 4.

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Salt Lake City, Utah 84123

Highland City Corporation's responses to findings identified in our audit are described in the *Responses to Schedule of Findings and Recommendations*. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Mayor, City Council and management of Highland City Corporation, federal awarding agencies and pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

November 14, 2011



**INDEPENDENT AUDITORS' REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

Jensen & Keddington, P.C.
Certified Public Accountants

Jeffery B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City Corporation, for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. As part of our audit, we have audited Highland City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2011. The City received the following major State assistance program from the State of Utah:

B&C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

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

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

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

The results of our audit procedures disclosed four immaterial instances of noncompliance with the requirements referred to above, which is described in the *Schedule of Findings and Recommendations as findings 2, 3, and 4*. We considered these instances of noncompliance in forming our opinion, which is expressed in the following paragraph.

In our opinion, Highland City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to the major State assistance program for the year ended June 30, 2011.

This report is intended for the information and use of the Mayor, City Council and management of Highland City Corporation and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

November 14, 2011

HIGHLAND CITY, UTAH
SCHEDULE OF FINDINGS & RECOMMENDATIONS
For the Fiscal Year Ended June 30, 2011

Financial Audit and Government Auditing Standards Finding

1. **Prior Period Misstatement – Material Weakness**

Finding: During our audit we noted certain adjustments that were made to net assets/fund balance. These adjustments include: a decrease to net assets of \$536,354 on the government-wide statement of net assets for land recorded in both capital assets and land held for resale; an increase to fund balance in the General Fund of \$85,196 for compensated absences that are not due and payable at June 30, 2011, therefore are not recorded in the fund; an increase to fund balance in the General Fund of \$149,121 for sales tax earned in June 2010, but recorded in fiscal 2011; a decrease to net assets/fund balance in the General Fund, Open Space Trust Fund, Sewer Fund, Pressurized Irrigation Fund, Storm Sewer Fund, and Water Fund of \$52,519, \$20,141, \$118,629, \$61,038, \$20,428, \$45,836, respectively, for utility billings recorded as a receivable prior to earned; and a decrease to net assets of \$119,910 in the Pressurized Irrigation Fund for additional interest accrual of the General Obligation Irrigation Water Bonds, Series 1996B.

Recommendation: The City should ensure that balances are recorded in appropriate periods so that the City's financial statements are appropriately stated.

State of Utah Legal Compliance Findings

2. **Fund Balance**

Finding: During our audit, we noted that the City's Capital Projects Roads Fund has a deficit fund balance of \$280,619, and the Capital Projects Buildings Fund has a deficit of \$186,265. State law does not allow funds to carry a deficit fund balance. It appears that the City has spent more for capital projects than they have collected in impact fees and other revenues.

Recommendation: We recommend that the City implement a plan to eliminate the deficit fund balance.

3. **Expenditures in Excess of Budget**

Finding: Utah State Code 10-6-123, indicates that officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. The City's expenditures exceeded the budget in the Cemetery department by \$12,194, the Garbage department by \$44,386, the Open Space Trust Fund by \$12,187, the Capital Projects Parks Fund by \$26,034, and the Capital Projects Building Fund by \$9,347.

Recommendation: We recommend that the City closely monitor expenditures in all departments and funds to ensure compliance with the Utah State Code 10-6-123.

4. **Justice Courts – Surcharge Remittance**

Finding: During our audit, we noted that the City did not remit state collections surcharges by the 10th of the following month for two of the months tested.

Recommendation: We recommend that the City submit the money by the 10th of the following month per state legal requirements

HIGHLAND CITY, UTAH
RESPONSES TO SCHEDULE OF FINDINGS & RECOMMENDATIONS
For the Fiscal Year Ended June 30, 2011



5400 West Civic Center Dr. Suite 1 • Highland, UT 84003
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Comments on audit findings:

1. The homes held for resale on 4800 West were recorded as a receivable and as an asset in the government wide financial statements. The August sales tax was not accrued by the previous auditor. The utility billings are billed for the future month at the end of the prior month—July is billed the end of June and recorded on the books in June. Several years ago the difference in billing was very close so there was no correction noted. The current auditors computed the difference to be material. In the future, the billings and posting in the books will be in the same accounting period. The 96 bond interest accrual should be compounded rather than simple interest. This was not discovered by any of the previous auditors. In the future this interest will be recorded properly.
2. The road fund deficit is a carryover from previous years and has been reduced significantly. The City will continue to reduce these deficit accounts each year. As development increases and the economy improves, additional reserves will be generated and will be transferred to cover the deficit balances.
3. The Cemetery deficit was a result a change in the method of accounting for compensated absences. In the future when someone leaves or retires the budget will be adjusted to account for the additional cost. The garbage overage was a result of improper accrual of amount due to Allied Waste and Northpointe. The open space was a result of proper accounting for the part-time and full time employees working in park and open space maintenance. This problem was addressed in the current budget and will not be a problem. The overage in Capital Projects Building Fund was an unexpected architect bill for the fire station. The Park Capital Overage was for reimbursement to Alpine for a portion of the Pfeifferhorn trail that was approved by the council and the repair of electric park that will be reimbursed by UDOT that was not budgeted.
4. We will make a better effort to submit the court surcharge money by the 10th of the month.