

Santaquin City
Utah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

Santaquin City
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 June 30, 2012

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of the City Council
City of Santaquin, Utah

Mayor and Council Members:

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 the City of Santaquin, as of and for the year ended June 30, 2012, which collectively comprise the City of Santaquin's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Santaquin's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santaquin, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 a report dated December 12, 2012, on our consideration of the City of Santaquin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis beginning on page 5, the budgetary comparison information beginning on page 48 and the supplement for the Modified Approach for Infrastructure Reporting beginning on page 49 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Santaquin's basic financial statements. The combining non-major fund financial statements beginning on page 51, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Larson & Rosenberger, LLP
December 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Santaquin City
Management's Discussion and Analysis
June 30, 2012

As management of Santaquin City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- *Total net assets for the City as a whole increased by \$2,004,884.
- *Total unrestricted net assets for the City as a whole decreased by \$1,763,577.
- *Total net assets for governmental activities increased by \$2,569,915.
- *Total net assets for business-type activities decreased by \$565,031.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Santaquin City. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the 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 statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

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. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in 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.

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 government 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 government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two major governmental funds, the general fund and the airport capital projects fund.

The City adopts an annual appropriated budget for its general and cemetery perpetual care funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are considered major funds of the City.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

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. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

FINANCIAL ANALYSIS

Santaquin City's Net Assets

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Current and other assets	\$ 1,759,451	2,163,482	3,971,708	2,422,535	5,731,159	4,586,018
Net capital assets	15,424,806	12,565,020	21,505,496	21,175,703	36,930,303	33,740,723
Total assets	<u>17,184,258</u>	<u>14,728,503</u>	<u>25,477,204</u>	<u>23,598,238</u>	<u>42,661,462</u>	<u>38,326,741</u>
Other liabilities	681,931	532,768	1,283,999	289,436	1,965,930	822,204
Long-term debt outstanding	968,001	1,231,325	9,356,720	7,907,286	10,324,721	9,138,611
Total liabilities	<u>1,649,933</u>	<u>1,764,093</u>	<u>10,640,719</u>	<u>8,196,721</u>	<u>12,290,651</u>	<u>9,960,814</u>
Net assets:						
Capital assets, net of debt	14,456,805	11,333,696	12,148,776	13,268,417	26,605,581	24,602,113
Restricted	515,649	733,322	3,981,021	1,998,355	4,496,670	2,731,677
Unrestricted	561,871	897,392	(1,293,311)	134,745	(731,440)	1,032,137
Total net assets	<u>\$ 15,534,325</u>	<u>12,964,410</u>	<u>14,836,486</u>	<u>15,401,517</u>	<u>30,370,811</u>	<u>28,365,927</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities at the close of the year by \$30,370,811, an increase of \$2,004,884 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net assets at the end of the year amount to a deficit of \$731,440, which represents a decrease of \$1,763,577 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other liabilities due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

FINANCIAL ANALYSIS (continued)

Santaquin City's Change in Net Assets

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Program revenues:						
Charges for services	\$ 1,301,026	1,121,496	2,816,621	2,543,097	4,117,647	3,664,593
Operating grants	362,914	369,015	-	-	362,914	369,015
Capital grants	2,181,437	1,684,152	378,300	667,465	2,559,737	2,351,618
General revenues:						
Property taxes	606,398	529,237	-	-	606,398	529,237
Sales tax	862,068	765,599	-	-	862,068	765,599
Other taxes	448,718	470,699	-	-	448,718	470,699
Other revenues	163,497	101,027	16,612	7,683	180,109	108,709
Total revenues	<u>5,926,059</u>	<u>5,041,225</u>	<u>3,211,532</u>	<u>3,218,246</u>	<u>9,137,590</u>	<u>8,259,471</u>
Expenses:						
General government	1,230,266	1,035,966	-	-	1,230,266	1,035,966
Public safety	1,616,455	1,530,298	-	-	1,616,455	1,530,298
Highways and improvements	657,354	589,891	-	-	657,354	589,891
Sanitation	360,358	399,419	-	-	360,358	399,419
Parks and recreation	877,510	751,867	-	-	877,510	751,867
Cemetery	74,214	53,777	-	-	74,214	53,777
Interest on long-term debt	62,888	66,269	-	-	62,888	66,269
Water	-	-	1,370,725	1,501,126	1,370,725	1,501,126
Sewer	-	-	880,944	910,417	880,944	910,417
Irrigation	-	-	1,994	2,000	1,994	2,000
Total expenses	<u>4,879,044</u>	<u>4,427,487</u>	<u>2,253,663</u>	<u>2,413,542</u>	<u>7,132,706</u>	<u>6,841,029</u>
Excess (deficiency) before transfers and contributions	1,047,015	613,739	957,869	804,703	2,004,884	1,418,442
Transfers	1,522,900	1,422,077	(1,522,900)	(1,422,077)	-	-
Change in net assets	<u>\$ 2,569,915</u>	<u>2,035,816</u>	<u>(565,031)</u>	<u>(617,374)</u>	<u>2,004,884</u>	<u>1,418,442</u>

For the City as a whole, total revenues increased by \$878,120 compared to the previous year, while total expenses increased by \$291,678. The total net change of \$2,004,884 is, in private sector terms, the net income for the year, which is \$586,442 more than the previous year's net change.

Governmental activities revenues of \$5,926,059 is \$884,834 more than the previous year. Grant revenues and revenue from charges for services increase significantly during the year. Governmental activities expenses of \$4,879,044 is \$451,557 more than the previous year. With the exception of sanitation expenses, expenses for all departments increased during the year.

Business-type activities revenue of \$3,211,532 is \$6,714 less than the previous year. Business-type activities expenses of \$2,253,663 were less than the previous year by \$159,880.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts is described below:

General Fund

The fund balance of \$583,977 reflects an increase of \$255,733 from the previous year. Total revenues, excluding transfers in, increased by \$384,851. Tax revenues, including property taxes and sales taxes increased by \$151,649. Charges for services increased by \$179,512. All other revenues increased by \$53,690. Transfers in during the year amounted to \$1,561,970.

Total expenditures, exclusive of transfers out, increased by \$293,576. Current expenditure changes by department were as follows: general government increased by \$54,611, public safety increased by \$101,197, highways and public improvements increased by \$38,454, sanitation decreased by \$39,061, parks and recreation increased by \$125,858, and cemetery increased by \$20,436. Transfers out during the year amounted to \$747,637.

Fund balance restricted for parks and recreation and liabilities amounted to \$25,182 and \$44,716, respectively. Assigned fund balanced amounted to \$68,415. The unassigned fund balance amounts to \$445,664.

Water Fund

Net operating income for the year was \$210,366. The change in net assets (net loss) was \$312,956. The amounts restricted for money in lieu of water, debt service, water assessments and construction are \$531,933, \$455,941, \$487,183 and \$323,714, respectively. Unrestricted net assets amount to \$1,212,034.

Sewer Fund

Net operating income for the year was \$464,253. Net income before transfers out amounted to \$558,325. Transfers out were made during the year for \$810,400, resulting in a change in net assets (net loss) of \$252,075. Net assets restricted for debt service and construction are \$247,480 and \$1,934,770, respectively. Unrestricted net assets amount to a deficit of \$2,505,345.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues for the current year, exclusive of transfers and budget appropriations, were originally budgeted in the amount of \$3,448,532. Amendments were made during the year resulting in a final budget of \$3,700,973. Actual revenues for the current year, exclusive of transfers, amounted to \$3,724,922 which was \$23,949 more than budgeted.

Expenditures for the current year, excluding transfers, were originally budgeted in the amount of \$3,936,013. Amendments were made during the year resulting in a final budget of \$4,299,859. Actual expenditures, excluding transfers, amounted to \$4,283,522 which was \$16,337 under the budgeted amount.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Santaquin City's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Net Capital Assets:						
Land	\$ 819,380	819,380	124,032	124,032	943,412	943,412
Water shares and rights	-	-	535,148	535,148	535,148	535,148
Buildings	4,255,592	4,255,592	275,389	275,389	4,530,981	4,530,981
Improvements						
Water system	-	-	18,729,616	18,729,616	18,729,616	18,729,616
Sewer system	-	-	9,879,175	9,879,175	9,879,175	9,879,175
Infrastructure	7,264,840	7,264,840	-	-	7,264,840	7,264,840
Machinery and equipment	2,607,123	2,496,352	484,589	484,589	3,091,712	2,980,941
Construction in progress	3,803,082	632,368	3,414,643	1,795,247	7,217,725	2,427,615
Total	18,750,016	15,468,531	33,442,592	31,823,196	52,192,608	47,291,728
Less accumulated depreciation	(3,325,210)	(2,903,511)	(11,937,096)	(10,647,494)	(15,262,305)	(13,551,005)
Net capital assets	<u>\$ 15,424,806</u>	<u>12,565,020</u>	<u>21,505,496</u>	<u>21,175,703</u>	<u>36,930,303</u>	<u>33,740,723</u>

The total amount of capital assets, net of depreciation, of \$36,930,303 is an increase of \$416,228 from the previous year.

Governmental activities capital assets, net of depreciation, of \$15,424,806 represents an increase of \$2,859,786 from the previous year. This increase is equal to the amount that investment in new assets exceed depreciation charged on capital assets during the year.

Business-type activities capital assets, net of depreciation, of \$21,505,496 increased during the year by \$329,793, which represents the amount that additions exceeded depreciation charged during the year.

Additional information regarding capital assets may be found in the notes to financial statements.

Santaquin City
Management's Discussion and Analysis
June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Santaquin City's Outstanding Debt

	<u>Current Year</u>	<u>Previous Year</u>
Governmental activities:		
2008 Crown Victoria Lease	\$ -	8,622
2002 Excise Tax Revenue	-	118,000
Krober Building Lease	6,933	14,274
2009 Ford F-150 Lease	8,291	16,022
2007 Fire Truck Lease	9,081	26,735
2007 Komatsu Lease	23,360	45,731
2006 Ambulance Lease	27,551	34,101
2006 Fire Truck Lease	107,644	133,231
2005 Sales Tax Revenue (General)	587,000	719,000
2012 3 Piece Equipment Lease	111,770	-
2010 Dump Truck Lease	86,372	115,609
Compensated absences	<u>277,830</u>	<u>277,830</u>
Total governmental	<u>\$ 1,245,831</u>	<u>1,509,155</u>
Business-type activities:		
1991A Water Bond	\$ -	38,000
2003 Zions Goudy Loan	25,788	37,927
1993B Sewer Bond	264,000	330,000
1993A Sewer Bond	472,000	505,000
2005 Sales Tax Revenue (Irrigation)	6,130,000	6,309,000
2011A-1 Sewer Revenue Bond	1,700,000	-
1993C Sewer Bond	266,823	272,069
1993D Sewer Bond	406,388	415,290
2011A-2 Sewer Revenue	91,721	-
Compensated absences	<u>67,382</u>	<u>67,382</u>
Total business-type	<u>\$ 9,424,102</u>	<u>7,974,668</u>
Total outstanding debt	<u>\$ 10,669,933</u>	<u>9,483,823</u>

Additional information regarding the long-term liabilities may be found in the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Santaquin City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Santaquin City Recorder, 275 West Main Street, Santaquin, UT 84655.

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BASIC FINANCIAL STATEMENTS

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Santaquin City
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 566,852	-	566,852
Accounts receivable, net	75,345	439,343	514,689
Internal balances	510,531	(510,531)	-
Total current assets	1,152,728	(71,188)	1,081,540
Non-current assets:			
Restricted cash and cash equivalents	606,723	3,981,021	4,587,744
Unamortized bond issue costs	-	61,875	61,875
Capital assets:			
Not being depreciated	11,887,301	4,073,823	15,961,124
Net of accumulated depreciation	3,537,505	17,431,673	20,969,178
Total non-current assets	16,031,530	25,548,392	41,579,922
Total assets	\$ 17,184,258	25,477,204	42,661,462
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 356,734	1,150,702	1,507,436
Accrued interest payable	11,514	38,114	49,628
Customer deposits	1,080	27,800	28,880
Deferred revenue	3,600	-	3,600
Long-term debt due within one year	238,625	383,626	622,251
Total current liabilities	611,553	1,600,242	2,211,795
Non-current liabilities:			
Compensated absences	277,830	67,382	345,212
Closure and post closure costs	31,174	-	31,174
Long-term debt due after one year	729,376	8,973,094	9,702,470
Total non-current liabilities	1,038,380	9,040,476	10,078,856
Total liabilities	1,649,933	10,640,719	12,290,651
NET ASSETS:			
Invested in capital assets, net of related debt	14,456,805	12,148,776	26,605,581
Restricted:			
Parks and recreation	25,182	-	25,182
Bond requirements	-	703,420	703,420
Water assessments	-	487,183	487,183
Impact fees	445,751	2,258,484	2,704,235
Money in lieu of water	-	531,933	531,933
Liabilities	44,716	-	44,716
Unrestricted	561,871	(1,293,311)	(731,440)
Total net assets	15,534,325	14,836,486	30,370,811
Total liabilities and net assets	\$ 17,184,258	25,477,204	42,661,462

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

Santaquin City
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue (To Next Page)
<u>FUNCTIONS/PROGRAMS:</u>					
Primary government:					
Governmental activities:					
General government	\$ 1,230,266	472,585	-	-	(757,681)
Public safety	1,616,455	194,277	16,751	24,383	(1,381,044)
Highways and public improvements	657,354	-	334,968	2,082,055	1,759,669
Sanitation	360,358	413,869	-	-	53,510
Parks, recreation and public property	877,510	191,965	4,884	75,000	(605,660)
Cemetery	74,214	28,331	6,310	-	(39,573)
Interest on long-term debt	62,888	-	-	-	(62,888)
Total governmental activities	4,879,044	1,301,026	362,914	2,181,437	(1,033,666)
Business-type activities:					
Water	1,370,725	941,008	-	226,300	(203,417)
Sewer	880,944	1,279,867	-	152,000	550,923
Irrigation	1,994	595,745	-	-	593,751
Total business-type activities	2,253,663	2,816,621	-	378,300	941,258
Total primary government	\$ 7,132,706	4,117,647	362,914	2,559,737	(92,409)

(The statement of activities continues on the following page)

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

Santaquin City
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2012

	Governmental Activities	Business-type Activities	Total
CHANGES IN NET ASSETS:			
Net (expense) revenue (from previous page)	<u>\$ (1,033,666)</u>	<u>941,258</u>	<u>(92,409)</u>
General revenues:			
Property taxes	606,398	-	606,398
Sales tax	862,068	-	862,068
Other taxes	448,718	-	448,718
Unrestricted investment earnings	12,371	16,612	28,983
Miscellaneous	83,901	-	83,901
Gain/loss on sale of fixed assets	67,225	-	67,225
Total general revenues	<u>2,080,681</u>	<u>16,612</u>	<u>2,097,293</u>
Transfers	1,522,900	(1,522,900)	-
Total general revenues and transfers	3,603,581	(1,506,288)	2,097,293
Change in net assets	2,569,915	(565,031)	2,004,884
Net assets - beginning	12,964,410	15,401,517	28,365,927
Net assets - ending	<u>15,534,325</u>	<u>14,836,486</u>	<u>30,370,811</u>

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

Santaquin City
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 208,449	358,403	-	566,852
Accounts receivable	68,251	7,095	-	75,345
Due from other funds	634,922	-	-	634,922
Restricted cash and cash equivalents	31,645	-	575,078	606,723
TOTAL ASSETS	\$ 943,267	365,498	575,078	1,883,843
LIABILITIES				
Accounts payable and accrued liabilities	\$ 355,691	-	2,123	357,814
Due to other funds	-	-	124,391	124,391
Deferred revenues	3,600	-	-	3,600
TOTAL LIABILITIES	359,291	-	126,514	485,805
FUND BALANCES:				
Restricted for:				
Parks and recreation	25,182	-	-	25,182
Impact fees and grants	-	-	445,751	445,751
Liabilities	44,716	-	-	44,716
Committed for:				
Senior citizens	-	-	2,813	2,813
Assigned for:				
Capital projects	-	365,498	-	365,498
Other	68,415	-	-	68,415
Unassigned	445,664	-	-	445,664
TOTAL FUND BALANCES	583,977	365,498	448,564	1,398,038
TOTAL LIABILITIES AND FUND BALANCES	\$ 943,267	365,498	575,078	1,883,843

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

Santaquin City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 June 30, 2012

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 606,398	-	-	606,398
Sales	862,068	-	-	862,068
Other taxes	448,718	-	-	448,718
Licenses and permits	265,924	-	-	265,924
Intergovernmental revenues	358,030	2,082,055	4,884	2,444,969
Charges for services	833,358	-	13,535	846,894
Fines and forfeitures	188,209	-	-	188,209
Interest	12,371	-	-	12,371
Miscellaneous revenue	149,846	-	1,280	151,126
Total revenues	3,724,922	2,082,055	19,700	5,826,676
EXPENDITURES:				
General government	1,043,636	136,179	-	1,179,816
Public safety	1,403,276	3,307	-	1,406,584
Highways and public improvements	542,281	28,791	-	571,072
Sanitation	360,358	-	-	360,358
Parks, recreation and public property	736,686	-	53,276	789,961
Cemetery	73,444	-	-	73,444
Capital outlay	-	2,852,689	428,796	3,281,485
Debt service:				
Principal	118,000	125,094	132,000	375,094
Interest	5,840	17,781	27,753	51,374
Total expenditures	4,283,522	3,163,842	641,824	8,089,188
Excess (Deficiency) of Revenues over (Under) Expenditures	(558,600)	(1,081,788)	(622,125)	(2,262,512)
Other Financing Sources and (Uses):				
Proceeds from capital leases	-	111,770	-	111,770
Impact fees	-	-	99,383	99,383
Transfers in	1,561,970	420,267	288,300	2,270,537
Transfers (out)	(747,637)	-	-	(747,637)
Total other financing sources and (uses)	814,333	532,037	387,683	1,734,053
Net Change in Fund Balances	255,733	(549,750)	(234,442)	(528,459)
Fund balances - beginning of year	328,243	915,248	683,006	1,926,497
Fund balances - end of year	\$ 583,977	365,498	448,564	1,398,038

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

Santaquin City
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2012

Total Fund Balances for Governmental Funds	<u>\$ 1,398,038</u>
<p>Total net assets reported for governmental activities in the statement is different because:</p>	
<p>Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.</p>	
Capital assets, at cost	18,750,016
Less accumulated depreciation	<u>(3,325,210)</u>
Net capital assets	<u>15,424,806</u>
<p>Long-term liabilities, for funds other than enterprise funds, are recorded in the government-wide statements but not in the fund statements.</p>	
General long-term debt	<u>(968,001)</u>
Interest accrued but not yet paid on general long-term debt	<u>(11,514)</u>
Compensated absences	<u>(277,830)</u>
Closure and post closure costs	<u>(31,174)</u>
Total Net Assets of Governmental Activities	<u>\$ 15,534,325</u>

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

Santaquin City
**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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (528,459)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlay	3,281,485
Depreciation expense	(421,699)
Net	<u>2,859,786</u>

Debt proceeds are reported as financing sources in governmental funds. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities.

Debt issued - capital leases (111,770)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Long-term debt principal repayments 375,094

Accrued interest for long-term debt is not reported as an expenditure for the current period, while it is recorded in the statement of activities.

Change in accrued interest (11,514)

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

Change in closure and post closure cost liability (13,222)

Change in Net Assets of Governmental Activities \$ 2,569,915

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

Santaquin City
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

	Water Fund	Sewer Fund	Total Enterprise Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ -	-	-
Accounts receivable, net	333,318	106,025	439,343
Due from other funds	901,104	-	901,104
Total current assets	1,234,422	106,025	1,340,447
Non-current assets:			
Restricted cash and cash equivalents	1,798,771	2,182,250	3,981,021
Unamortized bond issue costs	61,875	-	61,875
Capital assets:			
Not being depreciated	708,222	3,365,601	4,073,823
Net of accumulated depreciation	13,097,968	4,333,705	17,431,673
Total non-current assets	15,666,836	9,881,556	25,548,392
Total assets	\$ 16,901,258	9,987,582	26,888,839
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 12,760	1,137,942	1,150,702
Accrued interest payable	10,012	28,102	38,114
Due to other funds	-	1,411,635	1,411,635
Compensated absences	33,691	33,691	67,382
Customer deposits	27,800	-	27,800
Long-term debt, current portion	245,000	138,626	383,626
Total current liabilities	329,263	2,749,996	3,079,259
Non-current liabilities:			
Long-term debt, long-term portion	5,885,000	3,088,094	8,973,094
Total non-current liabilities	5,885,000	3,088,094	8,973,094
Total liabilities	6,214,263	5,838,090	12,052,353
NET ASSETS:			
Invested in capital assets, net of related debt	7,676,190	4,472,586	12,148,776
Restricted for:			
Money in lieu of water	531,933	-	531,933
Debt service	455,941	247,480	703,420
Water assessments	487,183	-	487,183
Construction	323,714	1,934,770	2,258,484
Unrestricted	1,212,034	(2,505,345)	(1,293,311)
Total net assets	10,686,994	4,149,491	14,836,486
Total liabilities and net assets	\$ 16,901,258	9,987,582	26,888,839

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

Santaquin City
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Water Fund	Sewer Fund	Total Enterprise Funds
Operating income:			
Charges for sales and service	\$ 1,505,998	1,261,907	2,767,905
Connection fees	23,467	7,500	30,967
Other operating income	7,288	10,460	17,748
Total operating revenue	<u>1,536,754</u>	<u>1,279,867</u>	<u>2,816,621</u>
Operating expenses:			
Personnel services	206,415	243,268	449,684
Utilities	94,393	38,903	133,296
Repair & maintenance	60,699	48,305	109,005
Other supplies & expenses	117,499	42,916	160,415
Depreciation expense	847,381	442,221	1,289,602
Total operating expense	<u>1,326,388</u>	<u>815,614</u>	<u>2,142,001</u>
Net operating income (loss)	<u>210,366</u>	<u>464,253</u>	<u>674,619</u>
Non-operating income (expense):			
Impact fees	101,500	152,000	253,500
Investment income (loss)	9,209	7,402	16,612
Interest on long-term debt	(46,331)	(65,330)	(111,661)
Total non-operating income (expense)	<u>64,378</u>	<u>94,072</u>	<u>158,450</u>
Income (loss) before transfers	274,744	558,325	833,070
Capital contributions	124,800	-	124,800
Transfers in	334,815	-	334,815
Transfers out	(1,047,315)	(810,400)	(1,857,715)
Change in net assets	(312,956)	(252,075)	(565,031)
Net assets, beginning	10,999,951	4,401,566	15,401,517
Net assets, ending	<u>\$ 10,686,994</u>	<u>4,149,491</u>	<u>14,836,486</u>

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

Santaquin City
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from customers - service	\$ 1,348,040	1,268,196	2,616,236
Cash paid to suppliers	(263,659)	(132,408)	(396,066)
Cash paid to employees	(206,415)	(243,268)	(449,684)
Net cash provided (used) in operating activities	<u>877,966</u>	<u>892,521</u>	<u>1,770,486</u>
Cash flows from noncapital financing activities:			
Change in customer deposits	2,600	-	2,600
Net interfund activity	(1,613,604)	601,235	(1,012,369)
Net cash provided (used) in noncapital financing activities	<u>(1,611,004)</u>	<u>601,235</u>	<u>(1,009,769)</u>
Cash flows from capital and related financing activities:			
Cash received from bond issues	-	1,791,721	1,791,721
Cash received from capital grants	124,800	-	124,800
Cash from impact fees	101,500	152,000	253,500
Cash payments for capital assets	(159,042)	(324,533)	(483,575)
Cash payments for long-term debt	(217,000)	(125,287)	(342,287)
Cash payments for long-term debt interest	(220,815)	(37,228)	(258,043)
Net cash provided (used) in capital and related financing activities	<u>(370,558)</u>	<u>1,456,673</u>	<u>1,086,115</u>
Cash flows from investing activities:			
Cash received from interest earned	9,209	7,402	16,612
Net cash provided (used) in investing activities	<u>9,209</u>	<u>7,402</u>	<u>16,612</u>
Net increase (decrease) in cash	(1,094,387)	2,957,831	1,863,444
Cash balance, beginning	<u>2,893,157</u>	<u>(775,581)</u>	<u>2,117,577</u>
Cash balance, ending	<u>\$ 1,798,771</u>	<u>2,182,250</u>	<u>3,981,021</u>
Cash reported on the balance sheet:			
Cash and cash equivalents	\$ -	-	-
Non-current restricted cash	1,798,771	2,182,250	3,981,021
Total cash and cash equivalents	<u>\$ 1,798,771</u>	<u>2,182,250</u>	<u>3,981,021</u>

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

Santaquin City
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (continued)
For the Year Ended June 30, 2012

**Reconciliation of Operating Income to Net
Cash Provided (Used) in Operating Activities:**

	Water Fund	Sewer Fund	Total Enterprise Funds
Net operating income (expense)	\$ 210,366	464,253	674,619
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:			
Depreciation and amortization	847,381	442,221	1,289,602
Changes in assets and liabilities:			
(Increase) decrease in receivables	(188,714)	(11,671)	(200,384)
Increase (decrease) in payables	8,933	(2,283)	6,649
Net cash provided (used) in operating activities	\$ 877,966	892,521	1,770,486

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Santaquin City (the City), a municipal corporation located in Utah County, Utah, operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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 reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege 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*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP).

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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.

Property taxes, sales taxes, intergovernmental revenues, and interest 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. Only the portion of special assessments, if any, receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Policy regarding use of restricted resources

When faced with a choice, it is the City's policy to use restricted resources first, then committed and assigned amounts before spending unassigned amounts. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental funds:

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

The *capital projects fund* is used to account for the acquisition or construction of major capital facilities of the City (other than those financed by proprietary funds).

The City reports the following as non-major governmental funds:

The *senior citizens fund* is used to account for activities relating to senior citizens.

The *cheiftain museum fund* is used to account for the activity relating to the museum.

The *park impact fees fund* is used to account for the collection and use of park impact fees.

The *public safety impact fees* fund is used to account for the collection and use of public safety impact fees.

Proprietary funds

The City reports the following major and non-major proprietary funds:

The *water fund* is used to account for the activities of the culinary water production, treatment and distribution.

The *sewer fund* is used to account for the activities of the sewer operations.

The *irrigation fund* is used to account for the activities of the pressurized irrigation operations.

1-E. Assets, Liabilities, and Net Assets or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments Fund as well as certificates of deposits and bonds. Additional information is contained in Note 3.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-2. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of any allowance for uncollectible accounts. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. For the year ended June 30, 2012, the City reported \$93,561 as allowance for uncollectible accounts receivable.

During the course of operations, there may be transactions occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to or due from other funds*.

Property taxes are assessed and collected for the City by Utah County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

1-E-4. Restricted Assets

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash

1-E-5. Inventories and Prepaid items

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and 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 \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities 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.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & Improvements	30-45
Machinery & Equipment	10-15
Vehicles	5-10
Office Furniture & Equipment	5-15
Utility Systems	30-45
Infrastructure	30-45

1-E-7. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant or material bond issuance costs are reported as deferred charges.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-8. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as incurred.

1-E-9. *Fund Equity*

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

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

Invested in capital assets, net of related debt represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets are net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Equity is classified in governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the City Council. A resolution, ordinance or vote by the City Council is required to establish, modify or rescind a fund balance commitment.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1-E-9. Fund Equity (continued)

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. The City Council is authorized to assign amounts to a specific purpose in accordance with the City's budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

1-F. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

In accordance with State Law, annual budgets are reported and adopted by the City Council on or before June 22, for the fiscal year commencing the following July 1. Prior to June 22, an advertised public hearing is conducted to receive taxpayer input. The operating budgets include proposed revenues and expenditures. Control of budget appropriations is exercised under State Law at the department level. Budget amendments are required to increase expenditure budgets and are adopted following a public hearing before the end of the fiscal year. During the current fiscal year budget amendments were made to prevent budget overruns and to increase revenue estimates and appropriations for unanticipated revenues and expenditures. The governmental fund type budgets are prepared using the modified accrual basis of accounting. Budgets for the proprietary funds are prepared using the accrual basis of accounting.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City Council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Deposits and investments of the City as of June 30, 2012 consist of the following:

	<u>Fair Value</u>
Deposits:	
Cash in bank	\$ 56,946
Investments:	
State Treasurer's Investment Pool	<u>5,097,649</u>
Total deposits and investments	<u><u>\$ 5,154,596</u></u>

Deposits and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents (current)	\$ 566,852
Restricted cash and cash equivalents (non-current)	<u>4,587,744</u>
	<u><u>\$ 5,154,596</u></u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depositor and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the ruled of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of bank failure, the City's deposit may be returned to it. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2012, all of the City's demand deposits were insured.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

3-A. Deposits and investments (continued)

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse 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 & Poor’s, bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer’s office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses - net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2012 the government had the following investment and maturities:

	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 5,097,649	5,097,649	-	-	-
Total Fair Value	\$ 5,097,649	5,097,649	-	-	-

Santaquin City
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

3-A. Deposits and investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy-for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

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 reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2012 the City had the following investments and quality ratings:

	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 5,097,649	-	-	-	-
Total Fair Value	\$ 5,097,649	-	-	-	-

3-B. Receivables

The allowance policy is described in Note 1-E-3. Receivables as of year-end for the City's funds are shown below:

	General Fund	Capital Projects Fund	Water Fund	Sewer Fund	Pressurized Irrigation Fund	Total
Customers	\$ 69,394	-	178,341	133,059	81,124	461,919
Grants	6,310	7,095	124,800	-	-	138,205
Taxes	3,028	-	-	-	-	3,028
Installments	3,600	-	1,500	-	-	5,100
Total receivables	82,332	7,095	304,640	133,059	81,124	608,251
Allowance for uncollectibles	(14,081)	-	(35,983)	(27,034)	(16,464)	(93,562)
Net receivables	\$ 68,251	7,095	268,657	106,025	64,660	514,689

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and rights	\$ 819,380	-	-	819,380
Infrastructure	7,264,840	-	-	7,264,840
Construction in progress	632,368	3,170,714	-	3,803,082
Total capital assets, not being depreciated	<u>8,716,587</u>	<u>3,170,714</u>	<u>-</u>	<u>11,887,301</u>
Capital assets, being depreciated:				
Buildings	4,255,592	-	-	4,255,592
Machinery and equipment	2,496,352	110,770	-	2,607,123
Total capital assets, being depreciated	<u>6,751,944</u>	<u>110,770</u>	<u>-</u>	<u>6,862,715</u>
Less accumulated depreciation for:				
Buildings	946,976	151,792	-	1,098,768
Machinery and equipment	1,956,535	269,906	-	2,226,441
Total accumulated depreciation	<u>2,903,511</u>	<u>421,699</u>	<u>-</u>	<u>3,325,210</u>
Total capital assets being depreciated, net	<u>3,848,433</u>	<u>(310,928)</u>	<u>-</u>	<u>3,537,505</u>
Governmental activities capital assets, net	<u>\$ 12,565,020</u>	<u>2,859,786</u>	<u>-</u>	<u>15,424,806</u>

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

Governmental activities:	
General government	\$ 50,450
Public safety	209,871
Highways and public improvements	73,060
Parks and recreation	88,318
Cemetery	769
Total	<u>\$ 422,468</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-C. Capital assets (continued)

Capital asset activity for business-type activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and water shares	\$ 659,180	-	-	659,180
Construction in progress	1,795,247	1,619,396	-	3,414,643
Total capital assets, not being depreciated	<u>2,454,427</u>	<u>1,619,396</u>	<u>-</u>	<u>4,073,823</u>
Capital assets, being depreciated:				
Buildings and improvements	275,389	-	-	275,389
Water distribution system	18,729,616	-	-	18,729,616
Sewer collection/treatment system	9,879,175	-	-	9,879,175
Machinery and equipment	484,589	-	-	484,589
Total capital assets, being depreciated	<u>29,368,769</u>	<u>-</u>	<u>-</u>	<u>29,368,769</u>
Less accumulated depreciation for:				
Buildings and improvements	230,949	2,564	-	233,513
Water distribution system	4,786,904	844,744	-	5,631,648
Sewer collection/treatment system	5,181,652	420,169	-	5,601,821
Machinery and equipment	447,989	22,125	-	470,114
Total accumulated depreciation	<u>10,647,494</u>	<u>1,289,602</u>	<u>-</u>	<u>11,937,096</u>
Total capital assets being depreciated, net	<u>18,721,275</u>	<u>(1,289,602)</u>	<u>-</u>	<u>17,431,673</u>
Business-type activities capital assets, net	<u>\$ 21,175,703</u>	<u>329,793</u>	<u>-</u>	<u>21,505,496</u>

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

Business-type activities:	
Water	\$ 847,381
Sewer	442,221
Total	<u>\$ 1,289,602</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	Original Principal	% Rate	6/30/2011	Additions	Reductions	6/30/2012	Due Within One Year
<u>Governmental activities:</u>							
2008 Crown Victoria Lease Matures 2/1/2012	\$ 40,843	5.90	\$ 8,622	-	8,622	-	-
2002 Excise Tax Revenue Matures 5/1/2012	525,000	4.95	118,000	-	118,000	-	-
Krober Building Lease Matures 9/30/2012	60,000	5.50	14,274	-	7,341	6,933	6,933
2009 Ford F-150 Lease Matures 11/1/2012	38,843	7.25	16,022	-	7,731	8,291	8,291
2007 Fire Truck Lease Matures 1/1/2013	83,000	4.13	26,735	-	17,654	9,081	9,081
2007 Komatsu Loader Lease Matures 1/1/2013	107,350	4.37	45,731	-	22,371	23,360	11,554
2006 Ambulance Lease Matures 1/15/2016	64,000	4.355	34,101	-	6,551	27,551	6,842
2006 Fire Truck Lease Matures 1/15/2016	250,000	4.355	133,231	-	25,587	107,644	26,724
2005 Sales Tax Revenue (General) Matures 2/15/2016	1,300,000	4.25	719,000	-	132,000	587,000	138,000
2012 (3) Piece Equipment Lease Matures 8/4/2016	111,770	2.91	-	111,770	-	111,770	21,090
2010 Dump Truck Lease Matures 1/8/2017	125,000	3.73	115,609	-	29,237	86,372	10,111
Compensated absences			277,830	-	-	277,830	-
Total governmental activity long-term liabilities			<u>\$1,509,155</u>	<u>111,770</u>	<u>375,094</u>	<u>1,245,831</u>	<u>238,625</u>

Debt service requirement to maturity for governmental activities are as follows:

	Principal	Interest	Total
2013	\$ 238,625	33,488	272,113
2014	232,359	25,325	257,684
2015	230,525	15,868	246,394
2016	231,329	6,302	237,631
2017	35,162	903	36,065
Total	<u>\$968,001</u>	<u>81,885</u>	<u>1,049,886</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-D. Long-term debt (continued)

	Original Principal	%	6/30/2011	Additions	Reductions	6/30/2012	Due Within One Year
<u>Business-type activities:</u>							
1991A Water Bond Matures 12/1/2012	\$ 765,000	-	\$ 38,000	-	38,000	-	-
2003 Zions Goudy Loan Matures 9/1/2014	174,097	2.95	37,927	-	12,139	25,788	12,319
1993B Sewer Bond Matures 6/30/2016	1,307,000	-	330,000	-	66,000	264,000	66,000
1993A Sewer Bond Matures 6/30/2020	1,000,000	-	505,000	-	33,000	472,000	33,000
2005 Sales Tax Revenue (Irrigation) Matures 9/1/2026	6,600,000	3.50	6,309,000	-	179,000	6,130,000	245,000
2011A-1 Sewer Revenue Bond Matures 1/1/2031	6,034,000	0.01	-	1,700,000	-	1,700,000	-
1993C Sewer Bond Matures 4/1/2035	333,000	5.45	272,069	-	5,246	266,823	5,539
1993D Sewer Bond Matures 4/1/2035	509,200	5.45	415,290	-	8,901	406,388	8,555
2011A-2 Sewer Revenue Matures 2/15/2052	2,912,000	3.00	-	91,721	-	91,721	13,213
Compensated absences			67,382	-	-	67,382	-
Total business-type activity long-term liabilities			\$7,974,668	8,946,000	342,286	9,424,103	383,626

Debt service requirements to maturity for business-type activities are as follows:

	Principal	Interest	Total
2013	\$ 383,626	421,048	804,674
2014	755,005	388,677	1,143,682
2015	773,569	366,460	1,140,030
2016	769,592	273,654	1,043,246
2017	720,519	257,837	978,356
2018 - 2022	2,801,422	909,998	3,711,420
2023 - 2027	2,797,735	387,695	3,185,430
2028 - 2032	178,143	74,037	252,180
2033 - 2037	176,708	19,935	196,643
Total	\$ 9,356,721	3,099,340	12,456,061

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-D. Long-term debt (continued)

Capital Leases:

The City acquired the following assets through capital leases. Amortization of assets under capital lease are included in depreciation expense. As of June 30, 2012 the net book values are as follows:

Building	\$ 60,000
Equipment	927,219
Less accumulated depreciation	<u>(709,687)</u>
Total	<u><u>\$ 277,532</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

<u>Year Ending June 30,</u>	
2013	\$ 112,099
2014	98,640
2015	86,576
2016	78,307
2017	<u>36,065</u>
Total minimum lease payments	411,687
Less interest portion	<u>30,686</u>
Present value of net minimum lease payments	<u><u>\$ 381,001</u></u>

3-E. Interfund transactions and balances

The City had the following inter-fund transactions for year ended June 30, 2012:

Operating Transfers

	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$ 1,381,000	747,637
Capital projects fund	420,267	-
Recreation fund	105,000	-
Museum fund	3,470	-
Library fund	72,500	-
Senior citizens fund	26,200	-
Public safety impact fees fund	262,100	-
Water fund	-	445,500
Sewer fund	-	810,400
Pressurized irrigation fund	-	601,815
Water impact fees fund	<u>334,815</u>	-
Total	<u><u>\$ 2,605,352</u></u>	<u><u>2,605,352</u></u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3-E. Interfund transactions and balances (continued)

Due to / Due from

	Due to	Due from
General fund	\$ 634,922	-
Public safety impact fees fund	-	124,391
Water fund	721,946	-
Sewer fund	-	176,744
Sewer impact fee fund	-	1,234,891
Irrigation fund	179,158	-
Total	\$ 1,536,026	1,536,026

NOTE 4 - OTHER INFORMATION

4-A. 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; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Employee pension and other benefit plans

Plan Description:

Santaquin City contributes to the Local Governmental Noncontributory System (Noncontributory System) and the Public Safety Noncontributory System for employees with (without) Social Security Coverage, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement System (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 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the System 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:

The City is required to contribute a percentage of covered salary to the respective systems to which they belong; 13.77% to the Noncontributory System, and 27.07 % to the Public Safety Noncontributory System. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

4-B. Employee pension and other benefit plans (continued)

The City's contributions to the various Systems for the years ending June 30, 2012, 2011, and 2010, respectively, were: for the Noncontributory System, \$126,677, \$116,167 and 99,223; and for the Public Safety Noncontributory System, \$112,089, \$91,544 and \$82,830. The contributions were equal to the required contributions for each year.

IRC Code Section 401k Plan:

The City participates in a 457 deferred compensation and 401k plan offered through the Utah State Retirement Systems. The City's contribution for the years ending June 30, 2012, 2011 and 2010, respectively, were: for the 457 deferred compensation \$0, \$10,442 and \$21,468; and for the 401K \$33,386, \$20,213 and \$9,760, respectively.

4-C. Rounding convention

A rounding convention to the nearest whole dollar has been applied throughout this report, therefore the precision displayed in any monetary amount is plus or minus \$1. These financial statements are computer generated and the rounding convention is applied to each amount displayed in a column, whether detail item or total. As a result, without the overhead cost of manually balancing each column, the sum of displayed amounts in a column may not equal the total displayed. The maximum difference between any displayed number or total and its actual value will not be more than \$1.

4-D. Class IVb Landfill

State and Federal law and regulations require the City to place a final cover on its landfill site when it stops accepting waste. The final closure of this Class IVb Landfill shall consist of leveling waste to the extent practicable, covering with a minimum of two feet of earthen material, and seeding with grass according to the closure plan contained in the permit applications. Santaquin City shall also meet the requirements of UAC R315-309 by recording with the Utah County Recorder, as part of the record of title, that the property was used as landfill. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post closure care costs as expenditure in the General Fund each period based on landfill capacity used as of each balance sheet date. The \$31,174 reported as landfill closure and post closure care liability for the Class IVb Landfill at June 30, 2012, represents the cumulative amount reported to date based on the use of 30% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post closure care of \$72,431 as the remaining estimate capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2012. The City expects to close the landfill in the year 2129. Actual costs may be higher due to inflation or changes in regulations.

The City is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and post closure care. The City is in compliance with these requirements, and, at June 30, 2012, investments of \$68,415 are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that inflation costs will be paid from interest earnings on these annual contributions. However, if interest is inadequate or additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future Landfill users or from future tax revenue.

The City has established a trust fund for \$68,415 for post-closure costs.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

4-E. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through December 11, 2012, the date the financial statements were available to be issued.

Subsequent to the balance sheet date of June 30, 2012, Santaquin City issued two bonds to advance refund three bond issues: the 1993C Sewer Revenue Bonds, 1993D Sewer Revenue Bonds and the 2005 Irrigation Sales Tax Revenue Bonds. The 2012 Sewer Revenue Bonds were issued in the amount of \$670,000 and the 2012 Pressurized Irrigation Bonds were issued in the amount of \$6,130,000.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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Santaquin City
Notes to Required Supplementary Information
June 30, 2012

Budgetary Comparison Schedules

The Budgetary Comparison Schedules presented in this section of the report are for the City's General Fund and Special Revenue Redevelopment Agency Fund.

Budgeting and Budgetary Control

Budgets for the General Fund are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Council through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2012 spending for all departments was within the appropriated budget.

Santaquin City
**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**
(Unaudited)
For the Year Ended June 30, 2012

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 1,753,600	1,774,900	1,917,184	142,284
Licenses and permits	192,000	192,000	265,924	73,924
Intergovernmental revenues	353,500	353,500	358,030	4,530
Charges for services	858,332	899,944	833,358	(66,586)
Fine and forfeitures	195,200	195,200	188,209	(6,991)
Interest	6,000	6,000	12,371	6,371
Miscellaneous revenue	89,900	279,429	149,846	(129,583)
Total revenues	<u>3,448,532</u>	<u>3,700,973</u>	<u>3,724,922</u>	<u>23,949</u>
Expenditures				
General government	909,573	1,049,014	1,043,636	5,378
Public safety	1,329,853	1,406,055	1,403,276	2,779
Highways and public improvements	500,769	543,201	542,281	920
Sanitation	306,950	361,358	360,358	1,000
Parks, recreation and public property	694,297	741,317	736,686	4,632
Cemetery	70,009	74,352	73,444	908
Debt Service:				
Principal	124,562	124,562	118,000	6,562
Interest	-	-	5,840	(5,840)
Total expenditures	<u>3,936,013</u>	<u>4,299,859</u>	<u>4,283,522</u>	<u>16,337</u>
Excess (deficiency) of revenues over (under) expenditures	(487,481)	(598,886)	(558,600)	40,286
Other financing forces and (uses)				
Transfers in	1,092,825	1,561,970	1,561,970	-
Transfers out	(529,852)	(747,637)	(747,637)	-
Total other financing sources and (uses)	<u>562,973</u>	<u>814,333</u>	<u>814,333</u>	<u>-</u>
Net change in fund balances	75,492	215,447	255,733	-
Fund balances - beginning of year	328,243	328,243	328,243	-
Fund balances - end of year	<u><u>\$ 403,735</u></u>	<u><u>543,690</u></u>	<u><u>583,977</u></u>	<u><u>40,286</u></u>

Santaquin City
MODIFIED APPROACH FOR INFRASTRUCTURE REPORTING
 June 30, 2012

As allowed by GASB 34, Santaquin City has adopted an alternative to reporting depreciation on roads (infrastructure assets) maintained by the Public Works Department. Under the modified approach, infrastructure assets are not depreciated and maintenance and preservation costs are expensed.

Infrastructure assets that are part of a network are not required to be depreciated as long as the following requirements are met:

- The assets will be managed using an asset management system
- Document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level as disclosed below

The asset management system will provide:

- An up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale at least every three years
- Estimate yearly the annual amount of funds needed to maintain and preserve the eligible infrastructure assets at the condition level established
- The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved at the disclosed level
- All expenditures, except for additions and improvements, made for the eligible infrastructure assets will be expensed in the period incurred
- Additions and improvements to the eligible infrastructure assets will be capitalized, as they increase the capacity or efficiency of the asset rather than preserve the useful life of the asset

Roads

Santaquin City will utilize the Pavement Management System to determine the condition of the city roads. The assessment is based on the Ride Index, which is a measurement of ride quality on a scale of 1-5, with 5 representing new or nearly new pavement.

Category	Range	Description
Good	3.55 – 4.34	Pavements, which provide an adequate, ride, and exhibit few, if any, visible signs of distress.
Fair	2.75 – 3.54	Surface defects in this category such as cracking, rutting, and raveling are affecting the ride.
Poor	1.85 – 2.74	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough.
Very Poor	1.00 – 1.84	Pavements in this category are severely deteriorated, and the ride quality must be improved.

Santaquin City
MODIFIED APPROACH FOR INFRASTRUCTURE REPORTING
 June 30, 2012

Condition Level

Santaquin City’s condition level policy is to maintain 60% of the roads with a rating of “fair” or better and no more than 20% with a rating of “poor-very poor.” All city roads are chip sealed on a rotating basis, with all new city streets done in a given year, and the rotation started every four to five years. The whole city had roads chip sealed between the years 2000 and current.

Complete assessments of the roads are performed on a fiscal year basis. The following chart shows the results of the pavement ratings for the last five years:

Rating	2012	2011	2010	2009	2008
Fair or Better	65%	65%	80%	80%	80%
Poor - Very Poor	35%	35%	20%	20%	20%

The following table shows the estimated amounts needed to maintain and preserve the roads at or above the established condition levels addressed above, and the amounts actually spent for each of the last five fiscal years.

Fiscal Year	Estimated Spending	Actual Spending
2012	444,635	462,130
2011	421,244	407,525
2010	438,205	437,444
2009	341,992	343,693
2008	415,046	413,186

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

The **Senior Citizens Fund** accounts for the activities related to the senior citizens.

The **Library Grant Fund** accounts for specific grants and expenses relating to the internet and library.

The **Park Impact Fees Fund** accounts for the City's collection and spending of impact fees relating to the City's parks.

The **Public Safety Impact Fees Fund** accounts for the City's collection and spending of impact fees relating to the City's public safety department.

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Santaquin City
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Senior Citizens	Park Impact Fees	Public Safety Impact Fees	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	-	-	-
Restricted cash and cash equivalents	3,335	445,012	126,730	575,078
TOTAL ASSETS	3,335	445,012	126,730	575,078
 LIABILITIES				
Accounts payable	523	1,600	-	2,123
Due to other funds	-	-	124,391	124,391
TOTAL LIABILITIES	523	1,600	124,391	126,514
 FUND BALANCES:				
Restricted for:				
Impact fees and grants	-	443,412	2,339	445,751
Committed for:				
Senior citizens	2,813	-	-	2,813
TOTAL FUND BALANCES	2,813	443,412	2,339	448,564
 TOTAL LIABILITIES AND FUND BALANCES	\$ 3,335	445,012	126,730	575,078

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

Santaquin City
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES**
NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2012

	Senior Citizens	Park Impact Fees	Public Safety Impact Fees	Total Nonmajor Governmental Funds
REVENUES:				
Intergovernmental revenues	\$ -	4,884	-	4,884
Charges for services	13,535	-	-	13,535
Miscellaneous revenue	680	600	-	1,280
Total revenues	<u>14,215</u>	<u>5,484</u>	<u>-</u>	<u>19,700</u>
EXPENDITURES:				
Parks, recreation and public property	39,545	13,731	-	53,276
Capital outlay	-	428,796	-	428,796
Debt service:				
Principal	-	-	132,000	132,000
Interest	-	-	27,753	27,753
Total expenditures	<u>39,545</u>	<u>442,526</u>	<u>159,753</u>	<u>641,824</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(25,330)</u>	<u>(437,042)</u>	<u>(159,753)</u>	<u>(622,125)</u>
Other Financing Sources and (Uses):				
Impact fees	-	75,000	24,383	99,383
Transfers in	26,200	-	262,100	288,300
Total other financing sources and (uses)	<u>26,200</u>	<u>75,000</u>	<u>286,483</u>	<u>387,683</u>
Net Change in Fund Balances	870	(362,042)	126,730	(234,442)
Fund balances - beginning of year	1,943	805,454	(124,391)	683,006
Fund balances - end of year	<u>\$ 2,813</u>	<u>443,412</u>	<u>2,339</u>	<u>448,564</u>

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



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

Honorable Mayor and
Members of the City Council
Santaquin City, 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 Santaquin City, Utah (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2012. 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 the City'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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the management letter that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 management letter.

We noted certain matters that we reported to management of the City, in a separate letter dated December 12, 2012.

The City's responses to the findings identified in our audit are described in the management letter. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, management, others within the entity, and various Federal and State funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.



Larson & Rosenberger, LLP
December 12, 2012



**INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE IN
ACCORDANCE WITH THE *STATE OF UTAH LEGAL COMPLIANCE AUDIT
GUIDE***

Honorable Mayor and
City Council Members
Santaquin City, Utah

Mayor and Council Members:

We have audited Santaquin City's compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2012. The general compliance requirements applicable to the City are identified as follows:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Other General Compliance Issues
- Impact Fees and Other Development Fees
- Justice Courts Compliance
- Asset Forfeiture
- Utah Retirement System Compliance
- Uniform Building Code Standards
- Fund Balance

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

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

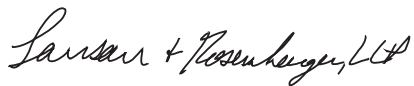
Compliance with the requirements referred to above is the responsibility of the City's management. Our responsibility is to express an opinion on compliance with those requirements.

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

In our opinion, Santaquin City complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an other instance of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in our letter to management dated December 12, 2012 as item SC-2012.1.

Management's response to the finding identified in our audit is described in the accompanying letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, management, others within the entity, Office of the Utah State Auditor, and other Federal and State funding agencies and is not intended to be and should not be used by anyone other than these specified parties. However the report is a matter of public record and its distribution is not limited.



Larson & Rosenberger, LLP
December 12, 2012

**CITY OF SANTAQUIN, UTAH
COMMUNICATION WITH THOSE CHARGED WITH
GOVERNANCE
(MANAGEMENT LETTER)
JUNE 30, 2012**

**CITY OF SANTAQUIN, UTAH
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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 12, 2012

The Honorable Mayor and
Members of the City Council
City of Santaquin, Utah

Mayor and Council Members:

We have audited the financial statements of the governmental activities and the business-type activities, of Santaquin City for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 3, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Santaquin City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants


In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Santaquin City, management of Santaquin City and other various Federal and State funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Larson & Rosenberger, LLP
Certified Public Accountants

SCHEDULE OF FINDINGS

Internal Control Findings – Current Year

IC-2012.1 Segregation of Duties – *Significant Deficiency*

Finding:

A fundamental element of internal control is the separation of duties so that one individual cannot perpetuate and conceal errors and irregularities in the normal course of his/her duties. Strong internal controls require the segregation of responsibilities for authorizing transactions, physical custody of assets and the related record keeping. We noted that the City lacks proper segregation of duties which results in weaknesses in internal controls

Recommendation:

We recommend that to the extent possible, the City segregate duties to serve as a check and balance to maintain the best control system possible. Due to the limited number of staff at the City that would make a complete separation of duties difficult, we also recommend that the Mayor and Council provide oversight on the financial operations of the City.

Client Response:

The Mayor and all Council Members will, along with the Recorder and Treasurer, review all financial matters and promptly investigate anything unusual.

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State Compliance Findings – Current Year

SC-2012.1 Transfers or Allocations from Utility Funds

Finding:

If any utility enterprise fund that has transfers or allocations to other funds that are not considered a reasonable allocation of costs, then the City must send a separate notice to the utility customers stating the fund from which there is a transfer, the fund receiving the transfer, and the amount. The City had such transfers out of the utility funds, but the utility customers were not notified appropriately of the transfer.

Recommendation:

While the City has the ability to transfer monies from the utility funds, we recommend that proper notification be given to the utility customers for transfer that are in excess of a reasonable allocation of costs.

Client Response:

Management is aware of the requirement to send notification to utility customers, and it was the intent of management to send the notices. However, due to an oversight, the notices were not mailed to the utility customers. Management will have controls in place to ensure that this is not an issue in the future.

Status of Internal Control Findings – Prior Year

IC-2011.1 Segregation of Duties – Significant Deficiency

Finding:

Proper segregation of duties is a key effective internal control because it can aid in reducing the risk of mistakes and inappropriate actions, and can help fight fraud through discouraging collusion. We noted during our audit that the town lacks proper segregation of duties which results in weaknesses in internal controls

Recommendation:

We recommend that to the extent possible, the City segregate duties to serve as a check and balance to maintain the best control system possible. Due to the limited number of staff at the City we also recommend that the Mayor and Council provide oversight on the financial operations of the City.

Status:

See current year findings

****Remaining part of page intentionally left blank****

Status of State Compliance Findings – Prior Year

SC-2011.1 Deficit fund balance/net assets

Finding:

According to *Utah Code*, appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. In other words, deficits in any fund are illegal. At the end of the fiscal year the Public Safety Impact Fee fund was in a deficit position (\$124,391).

Recommendation:

We recommend that the City appropriate necessary transfers or reduction in expenditures in the governmental funds to bring them into compliance with Utah State Code.

Status of finding:

No issues noted in current period

SC-2011.2 General Fund Balance

Finding:

Utah Code 10-6-116(4) indicates that only the fund balance in excess of 5% of total revenues of the General Fund opinion unit may be utilized for budget purposes. The remaining 5% *must be maintained as a minimum fund balance*. The fund balance of the General Fund opinion unit was under the required 5% minimum fund balance required at the end of the year.

Recommendation:

It is recommended that the City properly budget less expenditures, or make the appropriate transfers in the General fund to increase the fund balance to the appropriate level.

Status of finding:

No issues noted in current period

SC-2011.3 Budgetary Compliance

Finding:

Officers and employees of the City shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. For municipalities State Law requires budget integrity at the following levels; General Fund – each department; Special Revenue- each separate activity; all other funds by fund in total. The following departments or funds exceeded budget for the fiscal year: General Government (\$1,450); Public Safety (\$12,026); Highways and Public Improvements (\$2,509)

Recommendation:

It is recommended that Management not incur expenditures in excess of the amounts appropriated for each department or fund, or account for those additional expenditures when the final budget is adopted.

Status of finding:

No issues noted in current period.

SC-2011.4 Impact Fee Report

Finding:

Each municipality shall present an impact fee report which identifies impact fees funds by the year in which they were received, the source from which the funds were collected, the capital projects for which the funds were budgeted, and the projected schedule for expenditure; in a format developed by the state auditor, certified by their financial officer; and transmitted annually to the state auditor. It was noted that this report was not submitted to the State Auditor by the City for the year ended June 30, 2010.

Recommendation:

It is recommended that the City gather the necessary information, compile it in a manner appropriate to state requirements, and submit to the State Auditor in a timely manner.

Status of finding:

No issues noted in current period

SC-2011.5 Asset Forfeiture Proceeds

Finding:

Proceeds from the disposition of forfeited property, and forfeited monies collected through state forfeitures shall be deposited (with the State) in a restricted account in the general fund called the Criminal Forfeiture Restricted Account. The amount deposited shall be reduced by the entities direct costs and expenses related to the forfeited assets. The proceeds of the assets collected and sold by the City were not deposited in the State restricted fund.

Recommendation:

When assets are seized in the future, the City should submit the proceeds to the State less the costs and expenditures of housing and disposing of those assets incurred by the City.

Status of finding:

No issues noted in current period