

Santaquin City
Utah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2010

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Santaquin City
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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

November 23, 2010

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, 2010, 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, 2010, 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 November 23, 2010, 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 47 and the supplement for the Modified Approach for Infrastructure Reporting beginning on page 48 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 52, 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
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Santaquin City
Management's Discussion and Analysis
June 30, 2010

As management of Santaquin City, we offer readers of the Santaquin City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. It is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues, including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The total net assets of Santaquin City decreased by \$313,035 to \$27,132,421. The governmental net assets increased by \$35,790 and the business-type net assets decreased by \$348,825.
- The total net assets of \$27,132,421 consist of \$23,230,195 in capital assets net of related debt and \$3,902,226 in other net assets.
- The General Fund (the primary operating fund) had a decrease in its fund balance of \$316,884.

REPORTING THE CITY AS A WHOLE

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

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

- The statement of net assets presents information on all of Santaquin 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 Santaquin City is improving or deteriorating. However, other non-financial factors need to be considered.

- 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 all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Santaquin 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).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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. Santaquin 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. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental funds(as determined by generally accepted accounting principles) is the General Fund and the Capital Projects Fund. The other governmental funds are determined to be non-major and are included in the combining statements within this report.

- Proprietary funds - Santaquin 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. Santaquin City uses enterprise funds to account for its Water Utility, Sewer Utility and Gas Utility. The City no longer offers gas services. As determined by generally-accepted accounting principles all Santaquin City's enterprise funds meet the criteria for major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Santaquin City, assets exceed liabilities by \$27,132,421.

By far the largest portion of Santaquin City's net assets (\$23,230,195) reflects its investment in capital assets (e.g., land, buildings, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following two tables are summaries of the net assets and changes in net assets of Santaquin City:

June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 915,157	\$ 1,616,086	\$ 2,943,048	\$ 4,484,100	\$ 3,858,205	\$ 6,100,186
Capital assets	11,982,532	11,546,476	20,574,933	20,956,647	32,557,465	32,503,123
Total assets	<u>12,897,688</u>	<u>13,162,561</u>	<u>23,517,981</u>	<u>25,440,747</u>	<u>36,415,669</u>	<u>38,603,309</u>
Other liabilities	379,514	296,617	263,467	527,445	642,981	824,062
Long-term liabilities outstanding	1,504,545	1,888,106	8,228,159	8,519,936	9,732,704	10,408,042
Total liabilities	<u>1,884,059</u>	<u>2,184,723</u>	<u>8,491,626</u>	<u>9,047,381</u>	<u>10,375,685</u>	<u>11,232,104</u>
Net assets:						
Invested in capital assets, net						
of related debt	10,493,785	9,672,982	12,736,410	11,895,853	23,230,195	21,568,835
Restricted	622,489	841,283	2,505,147	4,677,697	3,127,636	5,518,980
Unrestricted	(102,644)	463,575	877,234	(105,834)	774,590	357,741
Total net assets	<u>\$ 11,013,630</u>	<u>\$ 10,977,840</u>	<u>\$ 16,118,791</u>	<u>\$ 16,467,616</u>	<u>\$ 27,132,421</u>	<u>\$ 27,445,556</u>

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**Changes in Net Assets
June 30, 2010 and 2009**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,281,614	\$ 1,197,963	\$ 1,933,993	\$ 1,667,379	\$ 3,215,607	\$ 2,865,342
Operating grants and contributions	356,884	305,092	-	-	356,884	305,092
Capital grants and contributions	262,881	201,168	687,600	1,781,972	950,481	1,983,140
General revenues:						
Property taxes	1,607,221	1,569,226	-	-	1,607,221	1,569,226
Other taxes	16,127	63,213	12,914	108,673	29,041	171,886
Unrestricted investment earnings	97,808	86,734	95,220	111,570	193,028	198,304
Total revenues	<u>3,622,535</u>	<u>3,423,396</u>	<u>2,729,727</u>	<u>3,669,594</u>	<u>6,352,262</u>	<u>7,092,990</u>
Expenses:						
General government	750,582	735,954	-	-	750,582	735,954
Public safety	1,692,540	1,798,497	-	-	1,692,540	1,798,497
Highways and public improvements	501,561	407,811	-	-	501,561	407,811
Sanitation	375,689	392,270	-	-	375,689	392,270
Parks, recreation and public property	852,042	862,086	-	-	852,042	862,086
Cemetery	54,535	14,410	-	-	54,535	14,410
Operating Expenses (Business Type)	-	-	2,094,908	1,913,594	2,094,908	1,913,594
Impact fee reimbursement	-	-	87,660	83,681	87,660	83,681
Interest Expense	-	-	255,781	41,001	255,781	41,001
Total expenses	<u>4,226,949</u>	<u>4,211,027</u>	<u>2,438,349</u>	<u>2,038,276</u>	<u>6,665,298</u>	<u>5,848,387</u>
Increase in net assets before transfers	(604,413)	(787,631)	291,378	1,631,318	(313,035)	843,687
Transfers	640,203	849,915	(640,203)	(849,915)	-	-
Increase in net assets	35,790	62,284	(348,825)	781,403	(313,035)	843,687
Net assets - beginning	10,977,840	10,915,556	16,467,616	15,686,213	27,445,456	26,601,769
Net assets - ending	<u>\$ 11,013,630</u>	<u>\$ 10,977,840</u>	<u>\$ 16,118,791</u>	<u>\$ 16,467,616</u>	<u>\$ 27,132,421</u>	<u>\$ 27,445,456</u>

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2010, the City's governmental funds (General, Capital Projects, Special Revenue and Permanent Fund) reported combined fund equity of \$706,552. This represents a decrease of \$767,841 from last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds, either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be a large source of revenue in the General Fund. The largest element of taxes is sales tax, as it has been for the last several years.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$4,198,257 to a final budget of \$3,864,966. This decrease was made to coincide with the lack of General Fund revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Santaquin City's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$23,230,195 (net of accumulated depreciation). This investment in capital assets includes land, buildings, systems, improvements, machinery and equipment, and infrastructure.

Major capital asset events during this fiscal year included the following:

- Completion of the Summit Ridge Well Upgrade
- Completion of the Sunset Trail Park – Summit Ridge
- 500 S Culinary Water Line

Long-term debt - At June 30, 2010 the City had total long-term debt outstanding of \$9,732,704. Of this amount, \$678,815 is due within 12 months of the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The General Fund budget for fiscal year ending June 30, 2011 reflects an increase of approximately 8.0% over the final budget for the fiscal year ended June 30, 2010.

Some capital improvements budgeted for in the FY 2011 budget include:

- 400 East Property Purchase/Project
- City website upgrade
- Ahlin Pond water line

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of 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: City Recorder, Santaquin City, 45 West 100 South Santaquin, UT 84655

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BASIC FINANCIAL STATEMENTS

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Santaquin City
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 536,987	\$ 249,103	\$ 786,090
Receivables:			
Trade accounts (net of allowance)	107,428	277,055	384,483
Internal balances	(84,103)	84,103	-
Restricted Assets:			
Cash and cash equivalents	354,844	2,332,787	2,687,631
Capital assets (net of accumulated depreciation):			
Buildings	3,460,409	-	3,460,409
Improvements other than buildings	-	19,838,199	19,838,199
Equipment	639,623	85,206	724,829
Capital assets (not being depreciated):			
Land	617,660	124,032	741,692
Water shares	-	527,496	527,496
Infrastructure	7,264,840	-	7,264,840
Construction in progress	-	1,022,311	1,022,311
Total assets	<u>12,897,688</u>	<u>24,540,292</u>	<u>37,437,980</u>
LIABILITIES			
Accrued liabilities	208,605	226,307	434,912
Compensated absences	170,909	37,160	208,069
Bond issuance costs (net of amortization)	-	(70,125)	(70,125)
Closure and post closure liabilities	15,798	-	15,798
Noncurrent Liabilities:			
Due within one year	357,257	321,558	678,815
Due in more than one year	1,131,490	7,906,601	9,038,091
Total liabilities	<u>1,884,059</u>	<u>8,421,501</u>	<u>10,305,560</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,493,785	12,736,410	23,230,195
Restricted for:			
Parks and recreation	28,550	-	28,550
Bond requirements	-	832,765	832,765
Water assessments	-	287,863	287,863
Impact fees	577,066	260,147	837,213
Money in lieu of water	-	1,124,372	1,124,372
Liabilities	16,873	-	16,873
Unrestricted	(102,645)	877,234	774,589
Total net assets	<u>\$ 11,013,629</u>	<u>\$ 16,118,791</u>	<u>\$ 27,132,420</u>

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

Santaquin City
STATEMENT OF ACTIVITIES
June 30, 2010

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue (to Next Page)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 750,582	\$ 264,222	\$ -	\$ 262,881	\$ (223,479)
Public safety	1,692,540	294,695	-	-	(1,397,845)
Highways and public improvements	501,561	173,884	328,436	-	759
Sanitation	375,689	428,376	-	-	52,687
Parks, recreation, and public property	852,042	107,937	28,448	-	(715,657)
Cemetery	54,535	12,500	-	-	(42,035)
Total governmental activities	4,226,949	1,281,614	356,884	262,881	(2,325,569)
Business-type activities:					
Water	1,685,812	1,336,285	-	415,000	65,473
Sewer	752,537	597,708	-	272,600	117,771
Total business-type activities	2,438,349	1,933,993	-	687,600	183,244
Total primary government	\$ 6,665,298	\$ 3,215,607	\$ 356,884	\$ 950,481	(2,142,325)

(The Statement of activities
continues on following page

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

Santaquin City
STATEMENT OF ACTIVITIES (continued)
June 30, 2010

	Governmental Activities	Business-type Activities	Total
CHANGES IN NET ASSETS:			
Net (expense) revenue (from previous page)	\$ (2,325,569)	\$ 183,244	\$ (2,142,325)
General revenues:			
Taxes	1,607,221	-	1,607,221
Unrestricted investment earnings	16,127	12,914	29,041
Miscellaneous	97,808	95,220	193,028
Transfers	640,203	(640,203)	-
Total general revenues and transfers	<u>2,361,359</u>	<u>(532,069)</u>	<u>1,829,290</u>
Change in net assets	35,790	(348,825)	(313,035)
Net assets - beginning	10,977,840	16,467,616	27,445,456
Net assets - ending	<u>\$ 11,013,630</u>	<u>\$ 16,118,791</u>	<u>\$ 27,132,421</u>

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

Santaquin City
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 515,058	\$ 21,929	\$ -	\$ 536,987
Accounts receivable				
Trade accounts (net of allowance)	107,428	-	-	107,428
Due from other funds	39,644	28,071	394,986	462,701
Restricted assets:				
Cash and cash equivalents	45,423	-	309,421	354,844
Total assets	<u>\$ 707,553</u>	<u>\$ 50,000</u>	<u>\$ 704,407</u>	<u>\$ 1,461,960</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued liabilities	\$ 208,085	\$ -	\$ 520	\$ 208,605
Due to other funds	420,650	-	126,154	546,804
Total liabilities	<u>628,735</u>	<u>-</u>	<u>126,674</u>	<u>755,409</u>
Fund balances:				
Reserved for:				
Parks and recreation	28,550	-	-	28,550
Impact fees and grants	-	-	577,066	577,066
Liabilities	16,873	-	-	16,873
Designated for:				
Senior citizens	-	-	667	667
Capital projects	-	50,000	-	50,000
Other	39,400	-	-	39,400
Undesignated	(6,005)	-	-	(6,005)
Total fund balances	<u>78,819</u>	<u>50,000</u>	<u>577,733</u>	<u>706,552</u>
Total liabilities and fund balances	<u>\$ 707,554</u>	<u>\$ 50,000</u>	<u>\$ 704,407</u>	<u>\$ 1,461,961</u>

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

Santaquin City
**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS**
June 30, 2010

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,607,221	\$ -	\$ -	\$ 1,607,221
Licenses and permits	252,340	-	-	252,340
Intergovernmental revenues	328,436	-	28,448	356,884
Charges for services	850,220	-	5,170	855,390
Fines and forfeitures	173,884	-	-	173,884
Interest income	16,127	-	-	16,127
Miscellaneous	97,428	-	380	97,808
Total revenues	<u>3,325,656</u>	<u>-</u>	<u>33,998</u>	<u>3,359,654</u>
EXPENDITURES				
Current:				
General government	928,992	-	-	928,992
Public safety	1,429,347	112,047	161,466	1,702,860
Highways and public improvements	437,444	83,729	-	521,173
Parks, recreation and public property	631,270	361,198	456,817	1,449,285
Sanitation	374,503	-	-	374,503
Cemetery	53,766	-	-	53,766
Total expenditures	<u>3,855,322</u>	<u>556,974</u>	<u>618,283</u>	<u>5,030,579</u>
Excess revenues over (under) expenditures	<u>(529,666)</u>	<u>(556,974)</u>	<u>(584,285)</u>	<u>(1,670,925)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,043,789	314,510	112,912	1,471,211
Transfers out	(831,008)	-	-	(831,008)
Impact fees	-	-	262,881	262,881
Total other financing sources and uses	<u>212,781</u>	<u>314,510</u>	<u>375,793</u>	<u>903,084</u>
Excess of revenues and other sources over (under) expenditures and other uses	(316,885)	(242,464)	(208,492)	(767,841)
Fund balances - beginning of year	395,703	292,464	786,225	1,474,392
Fund balances - end of year	<u>\$ 78,819</u>	<u>\$ 50,000</u>	<u>\$ 577,733</u>	<u>\$ 706,552</u>

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, 2010

Total Fund Balances for Governmental Funds	\$ 706,552
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,982,532
Long-term liabilities, including bonds payable, leases payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,659,656)</u>
Total Net assets of governmental activities	<u>\$ 11,029,428</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**
June 30, 2010

Net changes in fund balances - total governmental funds \$ (767,841)

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 the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. 436,056

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 384,747

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the change in compensated absences payable and closure and post closure cost liability. (17,173)

Change in net assets of governmental activities \$ 35,789

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

Santaquin City
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2010

	Water Fund	Sewer Fund	Gas Fund	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 166,078	\$ 83,025	\$ -	\$ 249,103
Accounts receivable:				
Trade accounts	221,913	67,842	-	289,755
Allowance for doubtful accounts	(12,700)	-	-	(12,700)
Due from other funds	527,232	-	-	527,232
Restricted Assets:				
Restricted cash and cash equivalents	2,135,036	197,751	-	2,332,787
Total current assets	<u>3,037,559</u>	<u>348,618</u>	<u>-</u>	<u>3,386,177</u>
Non-current assets:				
Land	14,032	110,000	-	124,032
Buildings	211,292	-	-	211,292
Less: Accumulated depreciation	(211,292)	-	-	(211,292)
Improvements other than buildings	18,689,659	9,963,530	-	28,653,189
Less: Accumulated depreciation	(3,987,669)	(4,827,321)	-	(8,814,990)
Machinery and equipment	200,555	212,146	-	412,701
Less: Accumulated depreciation	(200,555)	(126,940)	-	(327,495)
Water shares	527,496	-	-	527,496
Construction in progress	-	1,022,311	-	1,022,311
Total noncurrent assets	<u>15,243,518</u>	<u>6,353,726</u>	<u>-</u>	<u>21,597,244</u>
Total assets	<u><u>18,281,077</u></u>	<u><u>6,702,344</u></u>	<u><u>-</u></u>	<u><u>24,983,421</u></u>
LIABILITIES				
Current liabilities:				
Accrued liabilities	222,814	3,493	-	226,307
Compensated absences	18,580	18,580	-	37,160
Due to other funds	-	443,129	-	443,129
Current portion of long term debt	197,000	124,558	-	321,558
Total current liabilities	<u>438,394</u>	<u>589,760</u>	<u>-</u>	<u>1,028,154</u>
Noncurrent liabilities:				
Bonds payable	6,347,000	1,559,601	-	7,906,601
Unamortized bond costs	(82,500)	-	-	(82,500)
Accumulated amortization	12,375	-	-	12,375
Total noncurrent liabilities	<u>6,276,875</u>	<u>1,559,601</u>	<u>-</u>	<u>7,836,476</u>
Total liabilities	<u><u>6,715,269</u></u>	<u><u>2,149,361</u></u>	<u><u>-</u></u>	<u><u>8,864,630</u></u>
Net Assets:				
Invested in capital assets, net of related debt	9,334,532	3,845,007	-	13,179,539
Reserved for:				
Money in lieu of water	1,124,372	-	-	1,124,372
Bond requirements	635,014	197,751	-	832,765
Water assessments	287,863	-	-	287,863
Impact fees	260,147	-	-	260,147
Unreserved	(76,120)	510,225	-	434,105
Total net assets	<u><u>\$ 11,565,808</u></u>	<u><u>\$ 4,552,983</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,118,791</u></u>

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
June 30, 2010

	Water Fund	Sewer Fund	Gas Fund	Total Enterprise Funds
Operating revenues:				
Charges for sales and services	\$ 1,336,285	\$ 597,708	\$ -	\$ 1,933,993
Miscellaneous	83,230	11,990	-	95,220
Total operating revenues	<u>1,419,515</u>	<u>609,698</u>	<u>-</u>	<u>2,029,213</u>
Operating expenses:				
Salaries and wages	132,866	132,867	-	265,733
Employee benefits	26,388	32,448	-	58,836
Materials and supplies	85,695	48,253	-	133,948
Depreciation	968,064	433,261	-	1,401,325
Amortization	4,125	-	-	4,125
Utilities and telephone	120,020	47,972	-	167,992
Transfer and distribution	30,871	2,494	-	33,365
Professional services	10,978	9,360	-	20,338
Travel and training	7,981	1,265	-	9,246
Total operating expenses	<u>1,386,988</u>	<u>707,920</u>	<u>-</u>	<u>2,094,908</u>
Operating income	<u>32,527</u>	<u>(98,222)</u>	<u>-</u>	<u>(65,695)</u>
Nonoperating revenues (expenses):				
Interest income	12,719	195	-	12,914
Impact fees collected	215,000	272,600	-	487,600
Impact fees reimbursed	(67,500)	(20,160)	-	(87,660)
Interest expense	(231,324)	(24,457)	-	(255,781)
Grant revenue	200,000	-	-	200,000
Total nonoperating revenues (expenses)	<u>128,895</u>	<u>228,178</u>	<u>-</u>	<u>357,073</u>
Other Financing Sources (Uses)				
Transfers in	477,672	-	248,665	726,337
Transfers out	(1,138,384)	(228,156)	-	(1,366,540)
Total other financing sources (uses)	<u>(660,712)</u>	<u>(228,156)</u>	<u>248,665</u>	<u>(640,203)</u>
Net income (loss)	<u>(499,290)</u>	<u>(98,200)</u>	<u>248,665</u>	<u>(348,825)</u>
Change in net assets	(499,290)	(98,200)	248,665	(348,825)
Total net assets - beginning	12,065,098	4,651,183	(248,665)	16,467,616
Total net assets - ending	<u>\$ 11,565,808</u>	<u>\$ 4,552,983</u>	<u>\$ -</u>	<u>\$ 16,118,791</u>

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

Santaquin City
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
June 30, 2010

	Water Fund	Sewer Fund	Gas Fund	Total Enterprise Funds
Cash Flows From Operating Activities				
Receipts from customers	\$ 1,396,656	\$ 594,290	\$ 523	\$ 1,991,469
Other cash receipts	83,230	11,990	-	95,220
Payments to suppliers	(466,522)	(109,485)	(22)	(576,029)
Payments to employees	(177,966)	(177,966)	(21,475)	(377,407)
Net cash provided (used) by operating activities	<u>835,398</u>	<u>318,829</u>	<u>(20,974)</u>	<u>1,133,253</u>
Cash Flows From Non-Capital and Related Financing Activities				
Transfers in	477,672	-	248,665	726,337
Transfers out	(1,138,384)	(228,156)	-	(1,366,540)
Net cash provided (used) by non-capital and related financing activities	<u>(660,712)</u>	<u>(228,156)</u>	<u>248,665</u>	<u>(640,203)</u>
Cash Flows From Capital and Related Financing Activities				
Decrease (increase) in internal balances	(48,877)	(77,819)	(227,691)	(354,387)
Proceeds from capital grants	200,000	-	-	200,000
Payment on notes and bonds payable	(171,000)	(120,777)	-	(291,777)
Impact fees collected	215,000	272,600	-	487,600
Impact fees reimbursed	(67,500)	(20,160)	-	(87,660)
Interest paid on debt	(231,324)	(24,457)	-	(255,781)
System improvements and asset purchases	(871,184)	(1,170,738)	-	(2,041,922)
Net cash provided (used) by capital and related financing activities	<u>(974,885)</u>	<u>(1,141,351)</u>	<u>(227,691)</u>	<u>(2,343,927)</u>
Cash Flows From Investing Activities				
Interest income	12,719	195	-	12,914
Net cash provided (used) by investing activities	<u>12,719</u>	<u>195</u>	<u>-</u>	<u>12,914</u>
Net increase (decrease) in cash and cash equivalents	(787,480)	(1,050,483)	-	(1,837,963)
Cash and cash equivalents, July 1	3,088,594	1,331,259	-	4,419,853
Cash and cash equivalents, June 30	<u>\$ 2,301,114</u>	<u>\$ 280,776</u>	<u>\$ -</u>	<u>\$ 2,581,890</u>

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

Santaquin City
STATEMENT OF CASH FLOWS (continued)
June 30, 2010

	Water Fund	Sewer Fund	Gas Fund	Total Enterprise Funds
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 32,527	\$ (98,222)	\$ -	\$ (65,695)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	968,064	433,261	-	1,401,325
Amortization expense	4,125			4,125
(Increase) decrease in accounts receivable	60,371	(3,418)	523	57,476
Increase (decrease) in accrued liabilities	(210,977)	(141)	(22)	(211,140)
Increase (decrease) in compensated absences	(18,712)	(12,651)	(21,475)	(52,838)
Total adjustments	<u>802,871</u>	<u>417,051</u>	<u>(20,974)</u>	<u>1,198,948</u>
Net cash provided (used) by operating activities	<u>\$ 835,398</u>	<u>\$ 318,829</u>	<u>\$ (20,974)</u>	<u>\$ 1,133,253</u>

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

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Santaquin City is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of five council members. The financial statements of Santaquin City may include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Santaquin City, Utah, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	City of Santaquin
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other 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.

Capital Project Fund

The Capital Project Fund is used to account for resources designated for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Permanent Fund

The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used for perpetual care of the cemetery.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the water, sewer, and gas funds.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

Major and Non-major Funds

The funds are further classified as major or non-major as follows:

Fund	<u>Brief Description</u>
Major:	
General	See above for description.
Capital Projects	See above for description.
Enterprise Funds:	
Water and Sewer	Accounts for revenues and expenditures of water, sewer and gas utilities.
Nonmajor:	
Special Revenue Funds:	
Senior Citizens	Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.
Internet Grant	See above for description
Library Grant	See above for description
Redevelopment Agency	See above for description
Park Impact Fees	See above for description
Capital Projects Fund	See above for description
Permanent Fund:	
Cemetery Perpetual Care	See above for description
Enterprise Fund	
Gas	See above for description

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents.

Investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include;

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

property taxes, sales taxes, and class “C” road funds. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	30-45 years	30-45 years
Machinery and Equipment	10-15 years	10-15 years
Vehicles	5-10 years	5-10 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the bond resolutions. These include the bond, and emergency repairs accounts in the enterprise funds. Customer deposits and Impact and other fees are also restricted in the enterprise funds. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork and funds are held for the fire department to be used for future expenditures.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, capital leases payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt 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 it is incurred.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of 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.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes are based on the assessments against property owners. Tax levies on such assessed values are certified to Utah County prior to the commencement of the fiscal year. 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 of each year. Property taxes are collected by the Utah City Treasurer and remitted to the City shortly after collection.

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

- Current (further classified by function)
- Debt Service
- Capital Outlay

Proprietary Fund—By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

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Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
General Fund	State Law

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized, nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit 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 Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America, repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements, or certain other investments.

Statutes authorize the City to invest in negotiable or non-negotiable 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 by the Act; and the Utah Public Treasurers' Investment Fund.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

The Utah Public Treasurers' Investment Fund (PTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These moneys are invested primarily in money market securities and contain no withdrawal restrictions. As such, the moneys invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	Sales Tax Revenue Bond Payments
Water and Sewer	Debt Service and Utility Operations
B & C Road Funds	Eligible B & C Roads
Federal and State Grants	Specific to Grant

For the year ended June 30, 2010, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

General Long-term Debt

No debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the year ended June 30, 2010, the City had \$1,659,656 of outstanding general long-term debt.

Other Long-term Debt

Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the year ended June 30, 2010, the City had \$8,265,319 of such indebtedness.

Notes and Bonds Payable

The various loan agreements relating to the notes payable issuances contain some restrictions or covenants that are financial related. These include covenants such as debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2010.

Requirement	Level of Compliance
-------------	---------------------

a. Bonds Payable Coverage:

Net water operating revenues (excluding depreciation) must equal 1.25 times the annual debt service plus the unfunded portion of the Debt Service Reserve Requirement to be due and payable for the forthcoming year on the 1991 Water Revenue Bonds, Series A & B.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Net sewer operating revenues (excluding depreciation) must equal 1.20 times the annual debt service plus the unfunded portion of the Debt Service Reserve Requirement to be due and payable for the forthcoming year on the 1993 Sewer Revenue Bonds, Series A & B.

b. Reserve Account Requirement:

Various escrows are set up as reserves to make the annual debt payments. Minimum balances are required to be kept in each of the escrows.

2.E. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Utah Code 10-6-116(4) indicates the only the “fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes.” The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund. (10-6-116(2)) The City was within the limitations allowed by law.

The following funds carried a negative fund balance or retained earnings as of June 30, 2010:

	<u>Amount</u>
Public Safety Impact Fees	126,154

2.F. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual presented for the general fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. There were no funds or departments that were in excess of budgeted expenditures at June 30, 2010.

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Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND INVESTMENTS

Deposits

Deposits – Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of June 30, 2010, The City’s custodial credit risk for deposits is as follows:

	Custodial Credit Risk	Balance June 30, 2010
Depository Accounts	Insured	\$ 250,000
	Uninsured and uncollateralized	212,892
Total Depository Accounts		\$ 462,892

Investments

As of June 30, 2010 the government had the following investments and maturities:

		Investment Maturity in Years			
Fair Value	Less Than 1	1-5	6-10	More Than 10	
Investments in Public					
Treasurers' Investment Fund	\$ 3,447,004	\$ 3,447,004	\$ -	\$ -	
Total Fair Value	\$ 3,447,004	\$ 3,447,004	\$ -	\$ -	

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–The City follows the requirements of the Utah Money Management act (Section 61, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public

Treasurers’ Investment Fund (UPTIF), trade commercial paper, bankers’ acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligation of government entities within the State of Utah. The UPTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the UPTIF. The degree of risk of the UPTIF depends upon the underlying portfolio. The act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The UPTIF is unrated.

The deposits and investments described above are included on the Statement of Net Assets as per the following reconciliation:

Reconciliation to Government-wide Statement of Net Assets:

	Investments	\$ 3,447,004
	Deposits	23,706
	Other cash on hand	3,011
	Total	<u>\$ 3,473,721</u>
Per Statement of Net Assets:		
	Unrestricted Cash	\$ 786,090
	Restricted Cash	2,687,631
	Total	<u>\$ 3,473,721</u>

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2010, are as follows:

<u>Type of Restricted Asset</u>	<u>Cash/Time Deposits</u>
<i>Business-Type Activities:</i>	
Bond Requirements	\$ 832,765
Water Assessments	287,863
Impact Fees	260,147
Money in lieu of water	1,124,372
Subtotal	<u>2,505,147</u>
<i>Governmental Activities:</i>	
Parks & Recreation	28,550
Impact Fees	577,066
Liabilities	16,873
Subtotal	<u>622,489</u>
Grand Total	<u>\$ 3,127,636</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable for the business-type activities consist of utilities receivable from the water and sewer utilities. Accounts receivable of the governmental activities consists of a garbage receivable, landfill, and capital vehicle and equipment. Receivables detail at June 30, 2010, is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable	\$ 120,128	\$ 289,756	\$ 409,884
Allowance for			
Doubtful Accounts	(12,700)	(12,700)	(25,400)
Net Accounts Receivable	<u>\$ 107,428</u>	<u>\$ 277,056</u>	<u>\$ 384,484</u>

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Governmental Activities:				
Land	\$ 617,660	\$ -	\$ -	\$ 617,660
Buildings	3,846,579	409,014	-	4,255,593
Machinery and Equipment	2,260,120	56,529	-	2,316,649
Infrastructure	6,968,139	296,701	-	7,264,840
Construction in Progress	-	-	-	-
Totals at historical cost	<u>13,692,498</u>	<u>762,244</u>	<u>-</u>	<u>14,454,742</u>
Less Accum. Depreciation				
Buildings	(668,697)	(126,487)	-	(795,184)
Machinery and Equipment	(1,477,325)	(199,701)	-	(1,677,026)
Infrastructure	-	-	-	-
Total Accum. Depreciation	<u>(2,146,022)</u>	<u>(326,188)</u>	<u>-</u>	<u>(2,472,210)</u>
Governmental Activities capital assets, net	<u>\$ 11,546,476</u>	<u>\$ 436,056</u>	<u>\$ -</u>	<u>\$ 11,982,532</u>
Business-type activities:				
Land	\$ 124,032	\$ -	\$ -	\$ 124,032
Buildings & Improvements	211,292	-	-	211,292
Improvements Other Than Buildings	27,779,935	873,254	-	28,653,189
Machinery and Equipment	412,701	-	-	412,701
Water Rights	381,139	146,357	-	527,496
Construction in progress	-	1,022,311	-	1,022,311
Totals at historical cost	<u>28,909,099</u>	<u>2,041,922</u>	<u>-</u>	<u>30,951,021</u>
Less Accum. Depreciation				
Buildings & Improvements	(211,292)	-	-	(211,292)
Improvements Other Than Buildings	(7,402,387)	(1,375,878)	-	(8,778,265)
Machinery and Equipment	(338,773)	(25,447)	-	(364,220)
Total Accum. Depreciation	<u>(7,952,452)</u>	<u>(1,401,325)</u>	<u>-</u>	<u>(9,353,777)</u>
Business-type activities capital assets, net	<u>\$ 14,937,050</u>	<u>\$ 640,597</u>	<u>\$ -</u>	<u>\$ 21,597,244</u>

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Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Depreciation expense was charged to governmental activities as follows:

General government	\$ 35,357
Public safety	190,278
Highways and public improvements	39,989
Parks and recreation	59,795
Cemetary	<u>769</u>
Total depreciation expense:	<u>\$ 326,188</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of payroll items such as payroll taxes, insurance and benefits.

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Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2010, the City had \$1,659,656 in governmental long-term debt.

<i>Compensated Absences</i>	\$	170,909
<i>Bonds Payable</i>		
Excise Tax Revenue Bonds, Series 2002		
Original Principal \$525,000 @ 2.8% to 4.95%		231,000
Sales Tax Revenue Bonds, Series 2005		
Original Principal \$1,300,000 @ 4.25%		845,000
Total Bonds Payable		<u>1,076,000</u>
<i>Capital Leases</i>		
Kroger Building		
Original Principal \$60,000 @ 5.5%		20,221
Zions Bank - Park Lights		
Original Principal \$56,000 @ varies%		5,480
Zions Bank - Snow Plow		
Original Principal \$92,500 @ 4.34%		6,812
Bank of America - Ambulance		
Original Principal \$64,000 @ 4.355%		40,373
Bank of America - Fire Truck		
Original Principal \$250,000 @ 4.355%		157,730
Ford Motor - Police Car		
Original Principal \$31,816 @ 7.05%		6,780
Ford Motor - Police Car		
Original Principal \$30,782 @ 7.05%		6,560
Ford Motor - F500 Truck		
Original Principal \$20,850 @ 7.05%		4,151
Ford Motor - Police Car		
Original Principal \$36,929 @ 6%		9,519
Ford Motor - Police Car		
Original Principal \$40,843 @ 5.9%		16,764
Ford Motor - F150 Truck		
Original Principal \$16,665 @ 6.9%		4,295
Zions Bank - Fire Truck		
Original Principal \$83,000 @ 4.13%		43,676
Ford Motor - F150 Truck		
Original Principal \$38,843		23,230
Zions Bank - Komatsu Loader		
Original Principal \$107,500 @ 4.37%		67,156
Total Capital Leases		<u>412,747</u>
Total General Long-Term Debt	\$	<u><u>1,659,656</u></u>

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Business-type Activities:

As of June 30, 2010, the long-term debt payable from proprietary fund resources consisted of the following:

Compensated Absences \$ **37,160**

Notes Payable & Revenue Bonds:

1993 Sewer Bond - Series B	396,000
Original Principal \$1,307,000 @ 0%	
1993 Sewer Bond - Series A	538,000
Original Principal \$1,000,000 @ 0%	
1993 Sewer Bond - Series D	423,737
Original Principal \$,509,200 @ 5.45%	
1993 Sewer Bond - Series C	277,037
Original Principal \$333,000 @ 5.45%	
2003 Zions Line of Credit	49,385
Original Principal \$174,097 @ 0%	
1991 Water Bond - Series A	77,000
Original Principal \$765,000	
2007 Pressurized Irrigation Bond - Series 2005	6,467,000
Original Principal \$6,600,000 @ 3.5%	
Total Notes Payable and Revenue Bonds	<u><u>8,228,159</u></u>
Total Long-term debt	<u><u>\$ 8,265,319</u></u>

Changes in Long-term Debt

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

Type of Debt	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities:				
Compensated Absences	\$ 154,922	\$ 15,987	\$ -	\$ 170,909
Bonds Payable	1,305,000	-	(229,000)	1,076,000
Capital Leases Payable	568,494	-	(155,747)	412,747
Total Governmental Debt	<u>\$ 2,028,416</u>	<u>\$ 15,987</u>	<u>\$ (384,747)</u>	<u>\$ 1,659,656</u>
Business-type Activities:				
Compensated Absences	89,998	-	(52,838)	37,160
Revenue Bonds Payable	8,519,936	-	(291,777)	8,228,159
Total Business-type Debt	<u>\$ 8,609,934</u>	<u>\$ -</u>	<u>\$ (344,615)</u>	<u>\$ 8,265,319</u>

The revenue bonds are payable only from the net revenues of the water and sewer systems, as defined in the bond ordinances. The ordinances further provide that the City establish certain accounts and reserves for bond payment and that all revenues of the system are to be used for operation and maintenance costs of the systems, principal and interest on the bonds, and establishment of the defined debt repayment reserves and capital facilities replacement account.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2010, are as follows:

June 30	Capital Leases	
	Business-type	Governmental
2011	\$ -	\$ 141,635
2012	-	107,381
2013	-	90,615
2014	-	50,853
2015	-	38,789
Thereafter	-	25,859
Total commitment	-	455,132
Less Interest Portion	-	42,385
Net Capital Leases	<u>\$ -</u>	<u>\$ 412,747</u>

Notes and bonds payable:

Year Ending June 30	Business-Type		Governmental	
	Principal	Interest	Principal	Interest
2011	\$ 321,558	\$ 262,680	\$ 239,000	\$ 44,613
2012	342,660	256,392	250,000	33,594
2013	371,813	249,328	138,000	22,015
2014	403,471	239,911	143,000	16,044
2015	419,388	229,433	150,000	9,818
2016-2020	2,224,014	955,307	156,000	3,515
2021-2025	2,661,559	558,871	-	-
2026-2030	1,268,252	135,998	-	-
2031-2034	215,444	28,389	-	-
Total	<u>\$ 8,228,159</u>	<u>\$ 2,916,309</u>	<u>\$ 1,076,000</u>	<u>\$ 129,599</u>

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Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2010

3.G. INTER-FUND TRANSACTIONS AND BALANCES

Operating Transfers

	Transfers In	Transfers Out
<i>Governmental Activities :</i>		
General Fund	\$ 884,088	\$ 831,008
Senior Citizens	17,827	-
Capital Projects	314,510	-
Cheiften Museum	1,821	-
Library Fund	61,735	-
Recreation Fund	83,674	-
Public Safety	95,085	-
Santaquin Days	12,470	-
Total Governmental Activities	1,471,210	831,008
<i>Business-type Activities:</i>		
Water	-	579,531
Sewer	-	228,156
Pressurized Irrigation	-	558,852
Gas	248,665	-
Water Impact Fees	477,672	-
Total Business-type Activities	726,337	1,366,539
<i>Grand Totals</i>	\$ 2,197,547	\$ 2,197,547

Due to/from other funds:

	Due from Other Funds	Due To Other Funds
<i>Governmental Activities</i>		
General Fund	\$ -	\$ 379,749
Senior Citizens	182	-
Park Impact Fee	393,086	-
Public Safety Impact Fee	-	126,154
State Grant - PSDG	461	-
Capital Projects Fund	28,071	-
Total Governmental Activities	421,800	505,903
<i>Business-type Activities</i>		
Water	527,232	-
Sewer	-	443,129
Total Business-type Activities	527,232	443,129
<i>Grand Totals</i>	\$ 949,032	\$ 949,032

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

3.H. FUND EQUITY

Restricted Fund Equity

	Government Activities	Business-Type Activites	Totals
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 10,493,785	\$ 12,630,129	\$ 23,123,914
Restricted for:			
Parks and recreation	28,550	-	28,550
Bond Requirements	-	832,765	832,765
Water assessments	-	287,863	287,863
Impact fees	577,066	260,147	837,213
Money in lieu of water	-	1,124,372	1,124,372
Liabilities	16,873	-	16,873
Unrestricted (Deficit)	(102,644)	983,515	880,871
Total Net Assets	<u>\$ 11,013,630</u>	<u>\$ 16,118,791</u>	<u>\$ 27,132,421</u>

NOTE 4. OTHER NOTES

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in the following employee pension systems:

Local Governmental – Cost Sharing Defined Benefits Pension Plans

Plan Description. The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Noncontributory Retirement System (Public Safety Noncontributory System) for employers with (without) social security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (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 Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Funding Policy. The City is required to contribute a percentage of covered salary to the respective systems to which they belong; 11.66% to the Noncontributory, and 23.34% to the Public Safety Noncontributory Systems. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the various Systems for the years ending June 30, 2010, 2009, and 2008, respectively, were; for the Noncontributory System, \$99,223, \$99,472, and \$110,433; and for the Public Safety Noncontributory, \$82,830, \$87,794, and \$87,279. The contributions were equal to the required contributions for each year.

457 Deferred Compensation and 401K Plans

The employees of the City also have the option to participate in a 457 deferred compensation and 401K plans. The amount of the employer contributions for the year ended June 30, 2010, 2009, and 2008, were \$21,468, \$21,044, and \$21,309, respectively for the 457 deferred compensation, and \$9,760, \$21,270, and \$24,837, respectively for the 401K.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments' Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self sustaining through member premiums. The City is subject to a minimal deductible for claims.

4.C. CLASS IVb LANDFILL

State and Federal laws 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 & 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 \$15,798 reported as landfill closure and post closure care liability for the Class IVb Landfill at June 30, 2010, represents the cumulative amount reported to date based on the use of less than 15% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post closure care of \$99,879 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2010, 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, 2010, investments of \$47,793 are held for these purposes. These are reported as

Santaquin City
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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 \$47,793 for post-closure costs.

4.C. NATURAL GAS FUND

The City stopped providing natural gas services during 2005, the gas fund was subsequently held open to collect on accounts receivables. During 2010 the gas fund was officially closed.

REQUIRED SUPPLEMENTARY INFORMATION

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Santaquin City
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND**
 June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Over(Under)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,673,240	\$1,542,752	\$1,607,221	\$ 64,469
Licenses and permits	197,230	252,340	252,340	-
Intergovernmental revenues	302,886	328,036	328,436	400
Charges for services	847,370	813,261	850,220	36,959
Fines and forfeitures	220,830	173,883	173,884	1
Interest income	81,878	14,819	16,127	1,308
Miscellaneous	78,574	105,579	97,428	(8,151)
Total revenues	<u>3,402,008</u>	<u>3,230,670</u>	<u>3,325,656</u>	<u>94,986</u>
EXPENDITURES				
Current:				
General government	959,272	931,625	928,992	(2,633)
Public safety	1,531,246	1,433,904	1,429,347	(4,557)
Highways and public improvements	408,395	438,205	437,444	(761)
Parks, recreation and public property	883,969	631,668	631,270	(398)
Sanitation	357,061	375,258	374,503	(755)
Cemetery	58,314	54,306	53,766	(540)
Total expenditures	<u>4,198,257</u>	<u>3,864,966</u>	<u>3,855,322</u>	<u>(9,644)</u>
Excess revenues over (under) expenditures	<u>(796,249)</u>	<u>(634,296)</u>	<u>(529,666)</u>	<u>104,630</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,058,502	1,043,789	1,043,789	-
Transfers out	<u>(538,488)</u>	<u>(831,772)</u>	<u>(831,008)</u>	<u>764</u>
Total other financing sources and uses	<u>520,014</u>	<u>212,017</u>	<u>212,781</u>	<u>764</u>
Excess of revenues and other sources over (under) expenditures and other uses	(276,235)	(422,279)	(316,885)	105,394
Fund balances - beginning of year	395,703	395,703	395,703	-
Fund balances - end of year	<u>\$ 119,468</u>	<u>\$ (26,576)</u>	<u>\$ 78,819</u>	<u>\$105,394</u>

Santaquin City
MODIFIED APPROACH FOR INFRASTRUCTURE REPORTING
 June 30, 2010

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 (continued)
 June 30, 2010

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 four years:

Rating	2010	2009	2008	2007
Fair or Better	80%	80%	80%	80%
Poor - Very Poor	20%	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 three fiscal years.

Fiscal Year	Estimated Spending	Actual Spending
2010	438,205	437,444
2009	341,992	343,693
2008	415,046	413,186
2007	258,961	258,961

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SUPPLEMENTAL INFORMATION

Santaquin City
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue Funds				Total Non-major Governmental Funds
	Senior Citizens	Library Grant	Park Impact Fees	Public Safety Impact Fees	
ASSETS					
Restricted Assets:					
Cash and cash equivalents	\$ 1,005	\$ 1,342	\$ 307,074	\$ -	\$ 309,421
Due from other funds	182	1,718	393,086	-	394,986
Total assets	<u>\$ 1,187</u>	<u>\$ 3,060</u>	<u>\$ 700,160</u>	<u>\$ -</u>	<u>\$ 704,407</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued liabilities	\$ 520	\$ -	\$ -	\$ -	\$ 520
Due to other funds	-	-	-	126,154	126,154
Total liabilities	<u>520</u>	<u>-</u>	<u>-</u>	<u>126,154</u>	<u>126,674</u>
Fund balances:					
Reserved	-	3,060	700,160	(126,154)	577,066
Designated	667	-	-	-	667
Total fund balances	667	3,060	700,160	(126,154)	577,733
Total liabilities and fund balance	<u>\$ 1,187</u>	<u>\$ 3,060</u>	<u>\$ 700,160</u>	<u>\$ -</u>	<u>\$ 704,407</u>

Santaquin City
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue Funds				Total
	Senior Citizens	Library Grant	Park Impact Fees	Public Safety Impact Fees	Non-major Governmental Funds
REVENUES					
Intergovernmental revenue	\$ 6,256	\$ 17,814	\$ 4,378	\$ -	\$ 28,448
Charges for services	5,170	-	-	-	5,170
Miscellaneous	380	-	-	-	380
Total revenues	11,806	17,814	4,378	-	33,998
EXPENDITURES					
Public safety	-	-	-	161,466	161,466
Parks, recreation and public property	28,544	16,450	411,823	-	456,817
Total expenditures	28,544	16,450	411,823	161,466	456,817
Excess of revenues over (under) expenditures	(16,738)	1,364	(407,445)	(161,466)	(422,819)
OTHER FINANCING SOURCES (USES)					
Impact fees	-	-	196,500	66,381	262,881
Transfers in	17,827	-	-	95,085	112,912
Transfers out	-	-	-	-	-
Total other financing sources (uses)	17,827	-	196,500	161,466	375,793
Excess of revenues and other sources over (under) expenditures and other us	1,089	1,364	(210,945)	0	(208,492)
Fund balances - beginning	(422)	1,696	911,105	(126,154)	786,225
Fund balances - ending	\$ 667	\$ 3,060	\$ 700,160	\$ (126,154)	\$ 577,733

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OTHER REPORTS

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

November 23, 2010

Honorable Mayor and
City Council Members
City of Santaquin, 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 the City of Santaquin, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 23, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood

that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in a separate letter to management dated November 23, 2010 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in a separate letter to management dated November 23, 2010.

We noted certain matters that we reported to management of the City in a separate letter dated November 23, 2010.

The City's response to the findings identified in our audit is described in the separate letter dated November 23, 2010. 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 and City Council, management, 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
Certified Public Accountants



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

November 23, 2010

Honorable Mayor and
City Council Members
City of Santaquin, Utah

We have audited the basic financial statements of the City of Santaquin, Utah, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 23, 2010. As part of our audit, we have audited the City of Santaquin's compliance with the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2010. The City received the following major State assistance programs from the State of Utah:

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

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

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Other General Compliance Requirements
Uniform Building Code Standards
Impact Fees and Other Development Fees
Justice Courts Compliance
Truth in Taxation
General Compliance – Asset Forfeiture
Utah Retirement Systems
Fund Balance

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

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

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate letter to management dated November 23, 2010. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

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



Larson & Rosenberger, LLP
Certified Public Accountants

**CITY OF SANTAQUIN, UTAH
MANAGEMENT LETTER
JUNE 30, 2010**

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

November 23, 2010

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, 2010, and have issued our report thereon dated November 23, 2010. 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 September 27, 2010, 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 and management of Santaquin City 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

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.

Client Response:

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

Year end adjusting entries – Significant Deficiency

Finding:

Management does not currently record all year-end or closing journal entries, specifically revenue and grant accruals; debt adjustments including correct allocation of principal payments and interest accruals; and depreciation expense. Management reviews, approves, and accepts responsibility for the auditors year-end proposed adjusting entries.

Recommendation:

It is recommended that the client develop a system or improve the current system for financial reporting to ensure that all necessary entries are made in a timely and accurate manner. This can be accomplished through additional training of Management or through work with the Auditors, should this be their desire.

Client Response:

Management will work with the Auditors to post closing journal entries in the future.

Drafting of financial statements – Significant Deficiency

Finding:

Management does not currently draft the City's basic financial statements and related footnotes. The Auditor, with oversight from Management, drafts the financial statements and footnotes. Management then reviews, approves, and accepts responsibility for the financial statements.

Recommendation:

Management should work both independently and with the Auditors to receive the training that will enable them to draft the financial statements and related footnotes, should this also be their desire.

Client Response:

Management will consider the possibility of drafting the financial statements and work with the Auditor toward a viable solution.

Inappropriate journal entries to fund balance

Finding:

Management currently records an entry for use of prior year fund balance directly to fund balance in the financial records. While this can be done for budgeting purposes, it should not be an entry made for financial statement purposes. The effect of such entries causes beginning fund balances to be misstated on the financial statements without auditor adjustments.

Recommendation:

It is recommended that management not make these budgetary adjustments directly in the financial records in the future. They should be limited to the budgetary records.

Client Response:

The City will make these entries as a part of the budgetary records, and will not make the adjustments directly in the financial records.

State Compliance Findings – Current Year

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 (\$126,154).

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.

Client Response:

The City will make the necessary transfers and/or reduction in expenditures to correct the deficit fund balance in the Public Safety Impact Fee fund.

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 to 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.

Client Response:

The City will make the necessary transfers and/or reduction in expenditures in the General fund.

Status of Internal Control Findings – Prior Year

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

Year end adjusting entries – Significant Deficiency

Finding:

Management does not currently record all year-end or closing journal entries, specifically revenue and grant accruals; debt adjustments including correct allocation of principal payments and interest accruals; and depreciation expense. Management reviews, approves, and accepts responsibility for the auditors year-end proposed adjusting entries.

Recommendation:

It is recommended that the client develop a system or improve the current system for financial reporting to ensure that all necessary entries are made in a timely and accurate manner. This can be accomplished through additional training of Management or through work with the Auditors, should this be their desire.

Status:

See current year findings.

Drafting of financial statements – Significant Deficiency

Finding:

Management does not currently draft the City's basic financial statements and related footnotes. The Auditor, with oversight from Management, drafts the financial statements and footnotes. Management then reviews, approves, and accepts responsibility for the financial statements.

Recommendation:

Management should work both independently and with the Auditors to receive the training that will enable them to draft the financial statements and related footnotes, should this also be their desire.

Status:

See current year findings

Status of State Compliance Findings – Prior Year

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 City had three different funds with deficit balances. They are the Senior Citizen fund (\$422), the Public Safety Impact Fee fund (\$126,154), and the Natural Gas fund (\$248,665).

Recommendation:

We recommend that the City appropriate necessary transfers or reduction in expenditures in the governmental funds and close out the Natural Gas fund as soon as practically possible to bring them into compliance with Utah State Code.

Client Response:

See current year findings

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 (\$6,539); Public Safety (\$27,278); Highways and Public Improvements (\$1,701); Sanitation (\$1,719); Cemetery (\$783); Park Impact Fees Fund (\$522).

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.

Client Response:

No issues noted in current audit period.

Treasurer's Bond Requirements

Finding:

Utah code 51-7-15 and Rule 4 of the Utah Money Management Council requires Management to secure a fidelity bond based on the previous year's budgeted gross revenues. In Santaquin's case the fidelity bond must be at least 5% of prior year's budgeted revenue. The minimum bond amount was \$461,786. The city's bond was \$375,000.

Recommendation:

It is recommended that Management increase the fidelity bond to be in compliance with the statute.

Client Response:

No issues noted in current audit period.