

**HIGHLAND CITY, UTAH  
FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2011**

**HIGHLAND CITY, UTAH  
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## INDEPENDENT AUDITOR'S REPORT

**Jensen & Keddington, P.C.**  
Certified Public Accountants

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position, and where applicable, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of Highland City, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Salt Lake City, Utah 84123

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

*Jensen & Keddington*

November 14, 2011

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

The management of Highland City presents the following narrative and analysis of the financial statements and financial activities of Highland City as prescribed by the Government Accounting Standards Board (GASB). The information and analysis pertains to the fiscal year ended June 30, 2011.

**Financial Highlights**

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

Highland City's total net assets decreased by \$3,312,463. Elements of the decrease were: 1) Interest payments on debt); 2) ongoing operations of the governmental activities; 3) ongoing operations of the business-type activities assets.

Highland City's governmental funds reported combined ending fund balances at June 30, 2011 of \$1,070,105 an increase of \$1,069,067 in comparison to the prior year. At June 30, 2011 unrestricted fund balance of the general fund was \$949,805, or 14.1% of total general fund expenditures for the year.

**Overview of the Financial Statements**

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

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's financial position and changes in financial position, similar to consolidated financial statements in a private sector business. The statements consist of the Statement of Net Assets and the Statement of Activities.

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

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

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

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

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

**Fund Financial Statements**

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

**Governmental funds**

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

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

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

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

**Proprietary funds**

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

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

**Notes to the Financial Statements**

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

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

**Other Information**

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

**Government-wide Financial Analysis**

As noted earlier, net assets are an indicator of a government's financial position. In the case of Highland City, assets exceeded liabilities by \$118,486,246 at the close of the fiscal year. The largest portion of the City's net assets reflects its investment in capital assets (land, buildings, machinery and equipment) and infrastructure (roads, sidewalks, curb and gutter and various utility lines and storage facilities); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

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

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

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

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

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

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



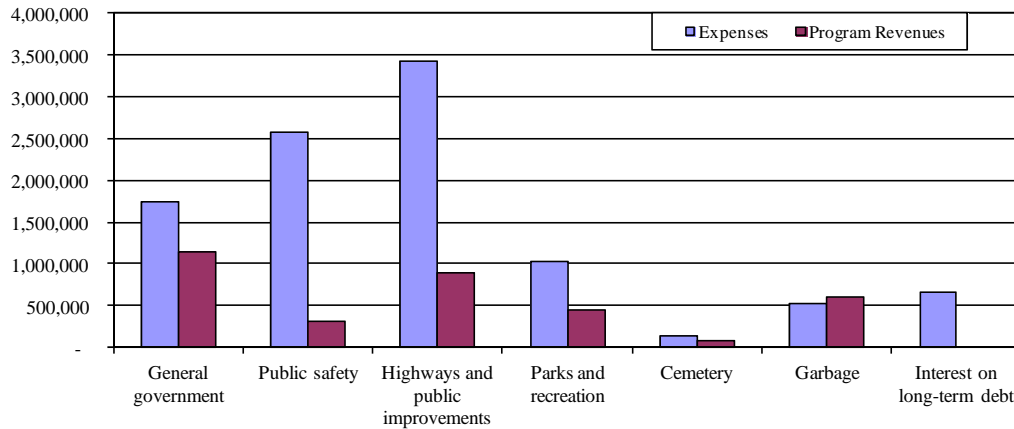
**HIGHLAND CITY, UTAH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
For The Year Ended June 30, 2011**

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

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

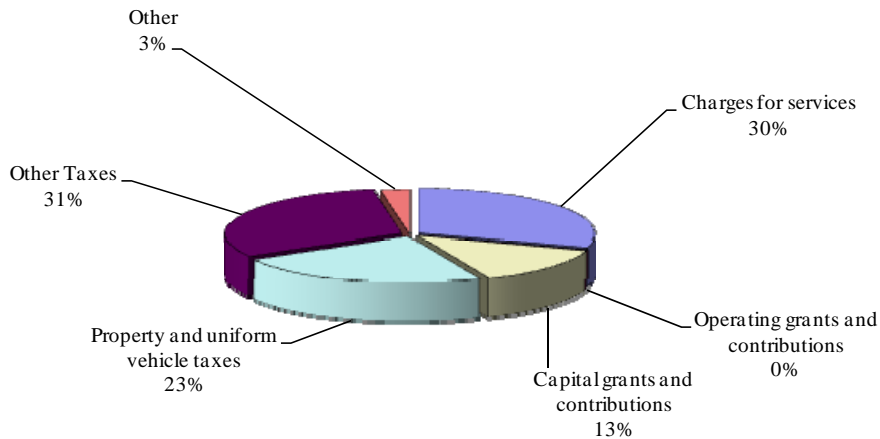
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

**Expenses and Program Revenues - Governmental Activities**



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

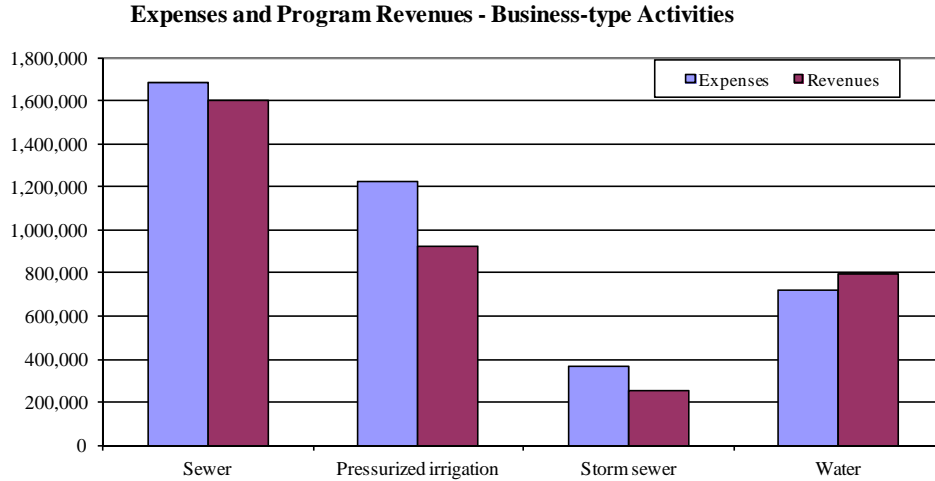
**Revenues by Source - Governmental Activities**



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

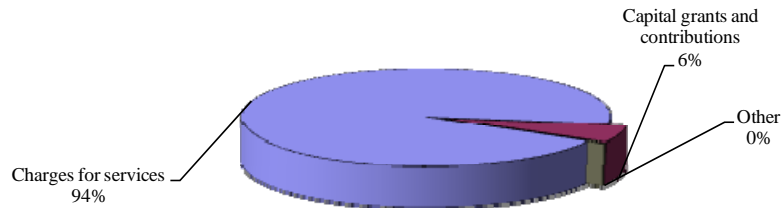
**Business-type Activities**

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



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

**Revenues by Source - Business-type Activities**



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

**Financial Analysis of the Government's Funds**

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

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

At June 30, 2011, the City's governmental funds reported combined ending fund balances of \$1,070,105, which was an increase of \$1,069,067 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2011, unrestricted fund balance of the general fund was \$949,805. A comparison of the unrestricted fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unrestricted fund balance represented 14.1% of total general fund expenditures. The City's unrestricted general fund balance increased \$214,654 during the fiscal year ended June 30, 2011.

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

Culinary Water Fund-Unrestricted net assets at June 30, 2011 amounted to \$408,508 an increase of \$213,271 from the previous year. Operating revenues were \$794,067 and operating expenses were \$723,156.

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

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

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

**General Fund Budgetary Highlights**

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

**Capital Assets and Debt Administration**

*Capital Assets.* Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2011 was \$134,350,425 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and water stock. The total decrease in the City's investment in capital assets for the current year was \$2,975,969.

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

**Highland City's Capital Assets**  
(net of depreciation)

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

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

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

**Highland City's Outstanding Debt**

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

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

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

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$743,087,701, except cities of the third class (Highland City is classified as a third class city) may issue debt up to an additional 8% of its total taxable property value of \$743,087,701 for water systems, artificial lighting systems or sewer systems. On June 30, 2011 the City's limitation was \$29,723,508 and the additional limitation was \$59,447,016, the current general obligation bonds are \$3,959,375.

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

**Economic Factors and Next Year's Budgets and Rates**

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

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

**Request for Information**

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

## **BASIC FINANCIAL STATEMENTS**

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

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

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2011**

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

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



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

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

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

**HIGHLAND CITY, UTAH**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF NET ASSETS**  
**June 30, 2011**

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

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

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

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

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

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

**HIGHLAND CITY, UTAH**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2011**

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

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	907,410
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay		201,363
Depreciation expense		(3,652,352)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
Asset deletions		(66,772)
Depreciation deletions		6,507
<p>Amortization of deferred charges and bond premiums, reported on the Statement of Activities, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Deferred charges		4,033
Bond premiums		6,863
<p>Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of bond principal are expenditures in the governmental funds, but reduce liabilities in the Statement of Net Assets.</p>		
Payment of bond principal		530,219
<p>Expenses are recognized in the governmental funds when paid or due; however, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenses are paid or due. This adjustment reflects the changes due to accrued interest on bonds payable and compensated absences.</p>		
Accrued interest		(42,729)
Compensated absences		(36,727)
<b>Changes in net assets of governmental activities</b>	<b>\$</b>	<b>(2,142,185)</b>

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL – GENERAL FUND**  
**For The Year Ended June 30, 2011**

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

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

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

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

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND**  
**NET ASSETS – PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2011**

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

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2011**

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

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



## HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, and the City has chosen to do so. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City is discussed below.

(A) The Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency and accountability. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

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

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

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

## HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The government-wide financial statements (i.e., the *Statement of Net Assets* and the *Statement of Activities*) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Sales taxes, franchise taxes, licenses, interest and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

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

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Principal sources of revenue are taxes, licenses and permits and intergovernmental revenues. Primary expenses are for general government, public safety, streets and public works, parks and recreation, cemetery and garbage.

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

The *Capital Projects Roads Fund* accounts for the construction and improvement of roads within the City.

The *Capital Projects Building Fund* accounts for the construction and improvement of buildings owned by the City.

The City reports the following major proprietary funds:

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

The *Pressurized Irrigation Fund* accounts for the activities of the City's pressurized irrigation distribution system.

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

(C) Budgetary Data

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

Utah State law prohibits the appropriation of unreserved General Fund balance until it exceeds 5% of the General Fund revenues. Until the unreserved fund balance is greater than the above amount, it cannot be budgeted, but is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. When an unreserved fund balance is greater than 18% of the next year's budgeted revenues, the excess must be appropriated within the following two years.

Once adopted, the budget can be amended by subsequent City Council action. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance, in which case a public hearing must be held. The City Administrator has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(C) Budgetary Data (Continued)

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

(D) Tax Revenues

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

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

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

(E) Cash, Cash Equivalents and Investments

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

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

(F) Restricted Assets

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(G) Capital Assets

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

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

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

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

(H) Unearned Revenue

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

(I) Receivables and Payables

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

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(J) Long-Term Obligations

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

(K) Compensated Absences

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

(L) Equity Classification

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

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

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as Nonspendable, Restricted, Committed, Assigned or Unassigned.

- (1) *Nonspendable fund balance* classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- (2) *Restricted fund balance* classifications are restricted by enabling legislation. Also reported if, (a) externally imposed by creditor, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(L) Equity Classification (Continued)

- (3) *Committed fund balance* classification include those funds that can only be used for specific purposed pursuant to constraints imposed by formal action of the City council, which is government's highest level of decision making authority.
- (4) *Assigned fund balance* classification includes amounts that are constrained by the government's intent to use the funds for specific purposes, but are neither restricted nor committed, as established by the Finance Director. Also includes all remaining amounts that are reported in governmental funds, other than the general fund that are not classified as nonspendable, restricted nor committed or in the General Fund, that are intended to be used for specific purposes.
- (5) *Unassigned fund balance* classification is the residual classification for the General Fund or funds with deficit fund balances. This classification represents fund balance that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes within the General Fund.

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

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

(M) Estimates and Assumptions

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

(N) Prior Period Adjustments

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



**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 CASH AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost, which approximate fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents" and "restricted cash and cash equivalents," which includes cash accounts that are separately held by several of the City's funds.

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

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

*Custodial credit risk – deposits* is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2011, \$0 of the City's \$239,689 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

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

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

**NOTE 3 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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

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

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

The purpose of the transfers was to provide cash flows and pay operating expenses. The transfers among the funds for the year ended June 30, 2011 were as follows:

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 RESTRICTED CASH AND CASH EQUIVALENTS**

Certain cash and cash equivalents are restricted to use as follows as of June 30, 2011:

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

**NOTE 5 CAPITAL ASSETS**

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 CAPITAL ASSETS (Continued)**

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

**Governmental activities:**

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

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 CAPITAL ASSETS (Continued)**

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

**Business-type activities**

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

**NOTE 6 GRANTS**

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

**NOTE 7 DEVELOPER AND CUSTOMER DEPOSITS**

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

**NOTE 8 UNEARNED PROPERTY TAXES**

In conjunction with GASB pronouncement 33, “*Accounting and Financial Reporting for Nonexchange Transactions*” the City has accrued property tax receivable and a unearned property tax revenue in the General Fund in the amount of \$1,489,148.

Property taxes recorded in the governmental funds are recorded using the modified accrual basis of accounting, wherein revenues are recognized when they are both measurable and available (expected to be received within 60 days). Property taxes attach as an enforceable lien on property as of the first day of January. Taxes are levied on October 1, and then are due and payable at November 30. Since the property tax levied on October 1, 2011 was not expected to be received within 60 days after the year ended June 30, 2011, the City was required to record a receivable and unearned revenue of the estimated amount of the total property tax to be levied on October 1, 2011.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2011:

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 LONG-TERM DEBT (Continued)**

**Governmental Activities:**

**Revenue Bonds**

Series 2006 Sales and Franchise Tax Revenue Bonds, original issue of \$6,000,000, principal due in annual installments beginning September 2007, interest at 4.00% to 4.35% due in semi-annual installments beginning March 2007, with the final payment due September 2026. The bonds were issued to finance the costs associated with construction of police and fire public safety buildings. \$ 5,175,000

Series 2007 Sales and Franchise Tax Revenue Bonds, original issue of \$7,315,000, principal due in annual installments beginning September 2008, interest at 4.00% to 5.25% due in semi-annual installments beginning September 2007, with the final payment due September 2027. The bonds were issued to finance the costs associated with acquisition, construction and equipping park improvements and related improvements. 6,620,000

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

**Note Payable**

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

Total Notes Payable - Governmental Activities \$ 74,433

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 LONG-TERM DEBT (Continued)**

**Business-type Activities**

**General Obligation Bonds**

Series 2009 General Obligation Refunding Bonds, original issue of \$4,310,000, principal payments due in annual installments beginning May 2010, interest at 2.75% to 4.125% due in semi-annual installments beginning November 2009 with the final payment due May 2022. The bonds were issued to refund the outstanding portion of the 1998 General Obligation Refunding Bonds. 3,775,000

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

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

**Notes Payable**

Note payable to the Provo River Users Association for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$615,833, interest at 4.00%, approximately 22% of original principal is due in two equal installments in July 2010 and March 2011 along with accrued interest. Remaining principal and interest to be paid in annual installments beginning March 2012 with final payment due March 2035. \$ 483,096

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

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

All of the City's Sales Tax Revenue Bonds are payable solely by a pledge and assignment of their associated revenue sources. Total future sales tax of \$16,557,775 has been pledged through 2031. The current revenue recognized during the period for pledged Franchise and Sales Tax Revenue bonds was \$1,347,938 compared to principal and interest of \$973,453 which equals a coverage ratio of 1.38.



**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 LONG-TERM DEBT (Continued)**

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2011, are as follows:

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 10 RISK MANAGEMENT**

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

**NOTE 11 RETIREMENT PLANS**

Cost Sharing Defined Benefits Pension Plans

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

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

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 11 RETIREMENT PLANS (Continued)**

Cost Sharing Defined Benefits Pension Plans (Continued)

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

401(k) Defined Contribution Plans

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

457 Deferred Compensation Plan

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

**NOTE 12 CONTINGENT LIABILITIES**

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

**NOTE 13 COMMITMENTS AND AGREEMENTS**

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

## **SUPPLEMENTAL INFORMATION**

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

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

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

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

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

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



**Jensen & Keddington, P.C.**  
Certified Public Accountants

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

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

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Recommendations*, we identified a certain deficiency in internal control over financial reporting that we consider to a material weakness.

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

Compliance and Other Matters

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

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Salt Lake City, Utah 84123

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

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

*Jensen & Keddington*

November 14, 2011



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

**Jensen & Keddington, P.C.**  
Certified Public Accountants

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

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

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

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

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

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

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

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

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

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

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

*Jensen & Keddington*

November 14, 2011

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

**Financial Audit and Government Auditing Standards Finding**

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

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

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

**State of Utah Legal Compliance Findings**

2. **Fund Balance**

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

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

3. **Expenditures in Excess of Budget**

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

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

4. **Justice Courts – Surcharge Remittance**

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

**Recommendation:** We recommend that the City submit the money by the 10<sup>th</sup> of the following month per state legal requirements

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



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Comments on audit findings:

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