

**SPANISH FORK CITY, UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

**SPANISH FORK CITY, UTAH
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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

September 13, 2005

Honorable Mayor
Members of the City Council
Spanish Fork City, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spanish Fork City, as of and for the year ended June 30, 2005, which collectively comprise Spanish Fork City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Spanish Fork City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spanish Fork City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages MDA-1 through MDA-8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2005, on our consideration of Spanish Fork City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Larson & Peterson
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Spanish Fork City, we offer readers of Spanish Fork City's financial statements this narrative overview and analysis of the financial activities of Spanish Fork City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets of Spanish Fork City increased \$ 7,144,042 (6.35%) to \$119,564,892. The governmental net assets increased by \$ 3,613,352 and the business-type net assets increased by \$ 3,530,690.
- The total net assets of \$ 119,564,892 are made up of \$ 91,840,185 in capital assets net of related debt and \$ 27,724,707 in other net assets.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$ 123,607.
- The City's total long-term liabilities decreased by \$1,597,420 during the current fiscal year.

REPORTING THE CITY AS A WHOLE

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

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

- *The statement of net assets* presents information on all of Spanish Fork City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Spanish Fork City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions

of Spanish Fork 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 government-wide financial statements can be found on pages 3-4 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Spanish Fork City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

- **Proprietary funds** - Spanish Fork City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Spanish Fork City uses enterprise funds to account for its Electric Utility, Water Utility (Culinary and Pressurized Irrigation), Sewer Utility, Solid Waste Collection Utility, Storm Drainage Utility, Golf Course Operations, Swimming Pool and Gun Club. Internal service funds are an accounting device used to accumulate and allocate costs internally among Spanish Fork City's various functions. The City uses an internal service fund for maintenance of its vehicles and equipment. Because this service primarily benefits governmental activities, it has been included with governmental activities in the government-wide financial statements. As determined by generally accepted accounting principles, the Electric, Water and Sewer enterprise funds meet the criteria for major fund

classification. The other enterprise funds are classified as non-major and are included in the combining statements within this report.

- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting method used for these funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Spanish Fork City, assets exceed liabilities by **\$119,564,892**.

By far the largest portion of Spanish Fork City's net assets (**\$91,840,185 or 77%**) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

Spanish Fork City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
ASSETS						
Current and other assets	14,991,893	8,509,580	24,109,820	25,628,289	39,101,713	34,137,869
Capital assets	35,929,123	35,734,196	75,299,039	78,468,829	111,228,162	114,203,025
Total assets	50,921,016	44,243,776	99,408,859	104,097,118	150,329,875	148,340,894
LIABILITIES						
Other liabilities	8,882,194	5,438,267	3,264,685	10,264,540	12,146,879	15,702,807
Long-term liabilities outstanding	432,104	812,143	18,186,000	19,491,608	18,618,104	20,303,751
Total liabilities	9,314,298	6,250,410	21,450,685	29,756,148	30,764,983	36,006,558
NET ASSETS						
Invested in capital assets, net						
of related debt	35,110,444	34,556,014	56,729,741	56,284,843	91,840,185	90,840,857
Restricted	2,834,650	1,606,795	4,415,735	1,659,696	7,250,385	3,266,491
Unrestricted	3,661,624	1,830,557	16,812,698	16,482,945	20,474,322	18,313,502
Total net assets	41,606,718	37,993,366	77,958,174	74,427,484	119,564,892	112,420,850

The following table summarizes the City's changes in Net Assets.

Spanish Fork City's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	4,492,234	5,063,687	24,930,777	24,057,629	29,423,011	29,121,316
Operating grants & contributions	1,062,355	975,544	-	-	1,062,355	975,544
Capital grants & contributions	817,138	1,881,623	2,804,021	3,050,116	3,621,159	4,931,739
General revenues:						
Property taxes	1,637,065	1,583,680	-	-	1,637,065	1,583,680
General Sales & Use Tax	4,243,038	3,928,506	-	-	4,243,038	3,928,506
Franchise taxes	156,331	89,475	-	-	156,331	89,475
Unrestricted investment earnings	243,200	111,425	328,887	187,151	572,087	298,576
Joint Venture Gain (Loss)	1,880,994	56,550	-	(1,776)	1,880,994	54,774
Gain on Sale of Capital Assets	9,746	(4,200)	-	190,803	9,746	186,603
Total revenues	<u>14,542,101</u>	<u>13,686,290</u>	<u>28,063,685</u>	<u>27,483,923</u>	<u>42,605,786</u>	<u>41,170,213</u>
Expenses:						
General government	2,652,215	1,926,109	-	-	2,652,215	1,926,109
Public safety	3,595,457	2,977,393	-	-	3,595,457	2,977,393
Public Works	4,934,866	3,840,623	-	-	4,934,866	3,840,623
Parks and recreation	902,481	2,917,176	-	-	902,481	2,917,176
Operating Expenses (Business Type)	-	-	23,321,264	21,447,050	23,321,264	21,447,050
Interest Expense	55,461	76,167	-	-	55,461	76,167
Total expenses	<u>12,140,480</u>	<u>11,737,468</u>	<u>23,321,264</u>	<u>21,447,050</u>	<u>35,461,744</u>	<u>33,184,518</u>
Increase in net assets before transfers	2,401,621	1,948,822	4,742,421	6,036,873	7,144,042	7,985,695
Transfers	841,196	(98,445)	(841,196)	98,445	-	-
Increase in net assets	<u>3,242,817</u>	<u>1,850,377</u>	<u>3,901,225</u>	<u>6,135,318</u>	<u>7,144,042</u>	<u>7,985,695</u>
Net assets - beginning	37,993,366	36,142,989	74,427,484	68,292,166	112,420,850	104,435,155
Prior Period Adjustment	370,535	-	(370,535)	-	-	-
Net assets - ending	<u>41,606,718</u>	<u>37,993,366</u>	<u>77,958,174</u>	<u>74,427,484</u>	<u>119,564,892</u>	<u>112,420,850</u>

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City's financing requirements. As of the June 30, 2005, the City's governmental funds (General, Debt Service, Special Revenue & Capital Project Fund) reported combined fund equity of **\$6,120,331**. This represents an increase of **\$1,372,619** over last year's ending balances. This increase is the results of both a planned budget increase with funds being transferred to the Capital Projects Fund and the appropriation

of the beginning fund balance. The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund. Capital project funds are used to account for the acquisition of capital assets with transfers made from the General Fund and other funds.

Taxes continue to be the largest source of revenue in the General Fund (**\$5,450,293**) and represent **57%** of total general fund revenues. The largest element of taxes is sales and use taxes as it has been for the last several years. It represents **78%** of total tax revenues and **44%** of total general fund revenues.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$11,561,013 to a final budget of \$12,859,526. A major contributing factor in the increase was the budget increase to the use of beginning fund balance. During the fiscal year, the City had some capital expenditures it had not for seen at the time of the original budgeting process.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Spanish Fork City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$119,564,892 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment. Capital assets include contributed infrastructure from developers.

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

Police purchase of a new report writing system for \$148,585.

Streets Improvements:

1. Maintenance and Rebuilding of existing roads for \$764,384.
2. Land purchased for \$26,500.

Buildings & Grounds Improvements

1. Purchase 2 homes near Memorial Building for \$220,552.
2. Carpet for City Office Building for \$34,492.

Parks Improvements:

1. North Park Trail overlay for \$35,029.

2. Land purchased (Volunteer Dr.) for \$31,743.
3. Parking lot at Sports Park for \$ 235,962.
4. Playground equipment for \$ 12,864.
5. Central control Irrigation system for \$91,518.
6. Lighting JC ball field for \$27,706.
7. Sports Park river trail for \$160,299.
8. Reservoir restrooms for \$13,075.

Water and Pressurized Irrigation System improvements:

1. Pressurized Irrigation System \$21,389.
2. Water line replacement 500 E / 700 E for \$41,308.
3. Water tank at the Oaks for \$141,794.
4. Water line 800 N for \$207,425.
5. Water Rights for \$408,835.

Sewer Improvements:

1. Plant Improvements for \$73,246.
2. Sewer line at 200 N for \$101,152.

Electric System Improvements:

1. Substations Improvements for \$308,958.
2. Transmission Improvements for \$68,068.
3. Distribution Improvements for \$273,973.
4. Facilities Improvements for \$104,978.

Pool Improvements:

1. Re-plaster Pool for \$70,825.
2. Finish Splash Pad for \$32,375.

Storm Drain Improvements for \$30,513.

Gun Club Improvements:

1. Building improvements and Restroom for \$32,395.
2. Storage building for \$28,116

Broadband Improvements:

1. New Nodes Hardware for \$146,351.
2. Cable Modem Termination System for \$58,047
3. HDTV Equipment for \$58,377
4. Council Chamber Broadcast Equipment for \$24,907

Equipment Purchases:

1. 5 Police vehicles for \$158,189.
2. 12 Utility trucks for \$724,518.
3. 2 Utility mules for \$13,571.
4. Golf Course Aerator for \$16,290.
5. Vermeer Boring Machine for \$37,888.
6. Parks Top Dresser for \$13,820.
7. Golf Course Top Dresser for \$7,730
8. Golf Course Mower for \$23,499.
9. Golf Course Truckster for \$15,880.

10. Golf Course Cart for \$6,059.

The following table summarizes the City's changes in Capital Assets.

Spanish Fork City's Capital Assets

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Land	\$ 6,803,159	\$ 6,524,363	\$ 597,912	\$ 597,912
Water Shares			\$ 2,037,779	\$ 1,628,944
Buildings	\$ 5,907,877	\$ 5,873,384	\$ 5,553,291	\$ 5,525,175
Improvements	\$ 5,013,139	\$ 4,414,756	\$ 93,052,356	\$ 91,102,223
Equipment	\$ 8,568,690	\$ 7,510,221	\$ 3,041,109	\$ 2,586,067
Infrastructure	\$ 34,516,702	\$ 33,752,318		
Less Accum. Depreciation	\$ (24,880,445)	\$ (22,340,846)	\$ (28,983,410)	\$ (25,870,445)
Total Net Assets	\$ 35,929,122	\$ 35,734,196	\$ 75,299,037	\$ 75,569,876

Additional information on the City's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt - At June 30, 2005, the City had total bonded debt outstanding of **\$20,251,000**. Of this amount **\$185,000** is considered to be general obligation debt and is backed by the full faith and credit of the City. These general obligation bonds were issued specifically for a public safety building. **\$19,554,000** is debt secured solely by specific revenue sources (i.e., revenue bonds within the Electric and Water Utilities).

The following table summarizes the City's changes in Long-term debt.

Spanish Fork City's Outstanding Debt

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Bonds Payable:				
GO Bonds	\$ 185,000	\$ 365,000	\$ -	\$ -
RDA Bonds	512,000	665,000		
Capital Lease	115,143	148,182		
Accrued Vacation & Sick Leave	843,489	759,225	373,890	370,535
Revenue Bonds			19,554,000	20,873,000
Total Outstanding Debt	\$ 1,655,632	\$ 1,937,407	\$ 19,927,890	\$ 21,243,535

State statutes limit the amount of general obligation debt (G.O.) a governmental entity may issue to 4% of its total taxable value. The City currently has **\$185,000** in outstanding general obligation debt. The current limitation for the City is **\$31,094,986** which is significantly in excess of the City's outstanding general obligation debt. In addition, state statute allows for an additional 4% to be used for water, sewer, or

electrical projects thus resulting in a debt limit of 8% of total taxable value. The current limitation for these water, sewer and electrical projects is thus **\$62,189,972** which again significantly exceeds the outstanding business-type activity debt.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Utah County (of which Spanish Fork is one of the principal municipalities) was 4.3% compared with a state unemployment rate of 4.7% and a national rate of 5.0%. (Source: Utah Dept of Workforce Services)
- The General Fund budget for the fiscal year-ending June 30, 2005 reflects an increase of 3% over the final budget for the fiscal year-ended June 30, 2004. The largest part of this increase is a result of the increase in capital spending for the current year. Some increase is a result in increase personnel and benefits combined with general inflation in the operational portions of the budget. Some capital improvements budgeted for the FY 2006 budget include:

1. Sidewalk replacement and repair various areas of town.
2. Finish landscape around tennis courts at sports park.
3. Playground at Parkside Estates.
4. Water Rights Purchases.
5. Water well purchase.
6. Water line replacement.
7. 2550 East and Hwy 6 utility crossing.
8. Sewer line replacement.
9. Treatment Plant expansion.
10. Electrical distribution substation.
11. Land purchased for electrical substation.
12. Hardware for new broadband nodes.
13. Storm Drainage expansion.
14. Purchase of Right Of Way at Hwy 6 utility crossing.
15. Purchase of home near Senior Center.
16. Construct parking lot at Fire Station.
17. Purchase Fire Rescue truck with equipment.
18. Purchase of mowers, trucks, police car.
19. Construction of a new 4-plex at sports park.
20. New Police/Court building project.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Spanish Fork City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to: Finance Director, Spanish Fork City, 40 South Main St, Spanish Fork, UT 84663.

BASIC FINANCIAL STATEMENTS

Spanish Fork City
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 3,230,210	\$ 16,405,614	\$ 19,635,824
Receivables (net of allowance)	1,672,441	2,302,910	3,975,351
Prepaid expenses	55,604	-	55,604
Internal balances	1,277,904	(1,277,904)	-
Bond issuance costs (net)	-	315,962	315,962
Inventory	-	727,161	727,161
Equity in joint venture	1,960,620	1,587,968	3,548,588
Restricted Assets:			
Cash and cash equivalents	6,795,114	4,048,109	10,843,223
Capital assets (net of accumulated depreciation):			
Land	6,803,159	597,911	7,401,070
Water shares	-	2,037,779	2,037,779
Buildings	2,257,342	4,224,513	6,481,855
Improvements other than buildings	3,597,565	67,056,664	70,654,229
Equipment	2,860,276	1,382,172	4,242,448
Infrastructure	20,410,781	-	20,410,781
Total assets	<u>50,921,016</u>	<u>99,408,859</u>	<u>150,329,875</u>
LIABILITIES			
Accounts payable	603,132	651,946	1,255,078
Deposits	5,867,653	728,524	6,596,177
Connectors agreement	145,104	1,873	146,977
Deferred revenue	1,036,240	19,966	1,056,206
Deferred amount of refunding	-	(348,235)	(348,235)
Compensated absences	843,490	373,890	1,217,380
Bond interest payable	6,536	196,160	202,696
Bond premiums	-	272,561	272,561
Noncurrent Liabilities:			
Due within one year	380,039	1,368,000	1,748,039
Due in more than one year	432,104	18,186,000	18,618,104
Total liabilities	<u>9,314,298</u>	<u>21,450,685</u>	<u>30,764,983</u>
NET ASSETS			
Invested in capital assets, net of related debt	35,110,444	56,729,741	91,840,185
Restricted for:			
Class "C" roads	1,147,351	-	1,147,351
Impact fees	779,955	2,881,091	3,661,046
Water rights	-	549,942	549,942
Bond requirements	907,344	984,702	1,892,046
Unrestricted	3,661,624	16,812,698	20,474,322
Total net assets	<u>\$ 41,606,718</u>	<u>\$ 77,958,174</u>	<u>\$ 119,564,892</u>

Spanish Fork City
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,652,215	\$ 3,361,353	\$ 66,581	\$ -	\$ 775,719	\$ -	\$ 775,719
Public safety	3,595,457	655,065	272,694	-	(2,667,698)	-	(2,667,698)
Public works	4,934,866	-	680,736	195,743	(4,058,387)	-	(4,058,387)
Parks, recreation and public property	902,481	475,816	42,344	621,395	237,074	-	237,074
Interest on long-term debt	55,461	-	-	-	(55,461)	-	(55,461)
Total governmental activities	<u>12,140,480</u>	<u>4,492,234</u>	<u>1,062,355</u>	<u>817,138</u>	<u>(5,768,753)</u>	<u>-</u>	<u>(5,768,753)</u>
Business-type activities:							
Water	4,256,441	4,311,845	-	1,516,026	-	1,571,430	1,571,430
Sewer	2,054,997	1,469,295	-	502,077	-	(83,625)	(83,625)
Electric	14,124,965	16,832,991	-	477,245	-	3,185,271	3,185,271
Garbage	661,010	801,641	-	-	-	140,631	140,631
Golf course	794,046	661,572	-	-	-	(132,474)	(132,474)
Swimming pool	418,277	205,744	-	-	-	(212,533)	(212,533)
Storm drainage	740,581	378,301	-	308,673	-	(53,607)	(53,607)
Gun club	270,947	269,388	-	-	-	(1,559)	(1,559)
Total business-type activities	<u>23,321,264</u>	<u>24,930,777</u>	<u>-</u>	<u>2,804,021</u>	<u>-</u>	<u>4,413,534</u>	<u>4,413,534</u>
Total primary government	<u>\$ 35,461,744</u>	<u>\$ 29,423,011</u>	<u>\$ 1,062,355</u>	<u>\$ 3,621,159</u>	<u>(5,768,753)</u>	<u>4,413,534</u>	<u>(1,355,219)</u>
General revenues:							
Property taxes					1,637,065	-	1,637,065
Sales taxes					4,243,038	-	4,243,038
Other taxes					156,331	-	156,331
Unrestricted investment earnings					243,200	328,887	572,087
Joint venture gain (loss)					1,880,994	-	1,880,994
Gain on sale of capital assets					9,746	-	9,746
Transfers					841,196	(841,196)	-
Total general revenues and transfers					<u>9,011,570</u>	<u>(512,309)</u>	<u>8,499,261</u>
Change in net assets					3,242,817	3,901,225	7,144,042
Net assets - beginning					<u>37,993,366</u>	<u>74,427,484</u>	<u>112,420,850</u>
Prior period adjustment (see note 4G)					<u>370,535</u>	<u>(370,535)</u>	<u>-</u>
Net assets - ending					<u>\$ 41,606,718</u>	<u>\$ 77,958,174</u>	<u>\$ 119,564,892</u>

**Spanish Fork City
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,723,432	\$ 1,506,778	\$ 3,230,210
Receivables (net of allowance):			
Tax	1,443,614	198,827	1,642,441
Due from other funds	1,256,675	644,206	1,900,881
Prepaid expense	46,559	9,045	55,604
Equity in joint venture	79,626	-	79,626
Restricted Assets:	-	-	-
Cash and cash equivalents	6,633,657	161,457	6,795,114
Total assets	\$ 11,183,563	\$ 2,520,313	\$ 13,703,876
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 169,632	\$ -	\$ 169,632
Payroll payable	364,916	-	364,916
Developer escrow	4,706,351	-	4,706,351
Final inspection deposit	1,161,302	-	1,161,302
Due to other funds	-	-	-
Connector agreements	145,104	-	145,104
Deferred revenue	847,338	188,902	1,036,240
Total liabilities	7,394,643	188,902	7,583,545
Fund balances:			
Reserved for:			
Class "C" roads	1,147,351	-	1,147,351
RDA	-	907,344	907,344
Impact fees	779,955	-	779,955
Designated for:			
Capital projects	-	1,048,006	1,048,006
Undesignated	1,861,614	376,061	2,237,675
Total fund balances	3,788,920	2,331,411	6,120,331
Total liabilities and fund balances	\$ 11,183,563	\$ 2,520,313	\$ 13,703,876

Spanish Fork City
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total fund balances - governmental fund types:		\$ 6,120,331
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
City's portion of joint ventures	1,880,994	
Cost of capital assets	60,809,566	
Accumulated depreciation	<u>(24,880,443)</u>	
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities		<u>37,810,117</u>
Internal Service funds are used by management to charge the cost of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, but not in the Balance Sheet - Governmental Funds		
		(661,561)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(6,536)	
Non-current liabilities due within one year	(429,104)	
Compensated absences	(843,490)	
Non-current liabilities due in more than one year	<u>(383,039)</u>	
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities		<u>(1,662,169)</u>
Net assets of government activities		<u>\$ 41,606,718</u>

Spanish Fork City
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 5,450,293	\$ 586,141	\$ 6,036,434
Licenses and permits	706,494	-	706,494
Intergovernmental revenues	1,062,355	-	1,062,355
Charges for services	1,048,666	-	1,048,666
Fines and forfeitures	109,485	-	109,485
Interest income	239,641	3,559	243,200
Sundry revenue	996,923	-	996,923
Total revenues	<u>9,613,857</u>	<u>589,700</u>	<u>10,203,557</u>
EXPENDITURES			
Current:			
General government	2,629,754	-	2,629,754
Public safety	3,685,913	-	3,685,913
Public works	3,805,050	232	3,805,282
Parks, recreation and public property	1,426,608	-	1,426,608
Debt Service:			
Principal retirement	-	333,000	333,000
Interest and fiscal charges	-	55,461	55,461
Total expenditures	<u>11,547,325</u>	<u>388,693</u>	<u>11,936,018</u>
Excess revenues over (under) expenditures	<u>(1,933,468)</u>	<u>201,007</u>	<u>(1,732,461)</u>
Other financing sources (uses)			
Sale of fixed assets	11,823	-	11,823
Impact Fees	621,395	-	621,395
Indirect services	1,630,666	-	1,630,666
Transfers in	593,190	1,048,006	1,641,196
Transfers out	(800,000)	-	(800,000)
Total other financing sources and uses	<u>2,057,074</u>	<u>1,048,006</u>	<u>3,105,080</u>
Excess of revenues and other sources over (under) expenditures and other uses	123,606	1,249,013	1,372,619
Fund balances - beginning of year	3,665,314	1,082,398	4,747,712
Fund balances - end of year	<u>\$ 3,788,920</u>	<u>\$ 2,331,411</u>	<u>\$ 6,120,331</u>

Spanish Fork City
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

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

Net changes in fund balances - total governmental funds \$ 1,372,619

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	1,737,904
Depreciation Expense	<u>(2,180,478)</u>
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u>(442,574)</u>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount that proceeds exceed the gain on the statement of activities.	(2,077)
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The statement of activities reports capital contributions from developers as revenue. Conversely, governmental funds do not report any capital contributions from developers as revenue.	<u>195,743</u>
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193,666

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

366,039

Internal service funds are used by management to charge the cost of motor pool to individual funds. The net revenue of certain activities of internal service funds are reported with the governmental activities.

(43,858)

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

Change in joint venture equity	1,880,994
Change in compensated Absences	<u>(84,069)</u>

Change in net assets of governmental activities \$ 3,242,817

Spanish Fork City
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over(Under)
	Original	Final		
REVENUES				
Taxes	\$ 4,947,701	\$ 5,305,219	\$ 5,450,293	\$ 145,074
Licenses and permits	688,000	688,009	706,494	18,485
Intergovernmental revenues	834,780	1,070,644	1,062,355	(8,289)
Charges for services	877,700	985,355	1,048,666	63,311
Fines and forfeitures	88,000	113,620	109,485	(4,135)
Interest income	130,000	199,550	239,641	40,091
Sundry revenue	881,149	978,499	996,923	18,424
Total revenues	8,447,330	9,340,896	9,613,857	272,961
EXPENDITURES				
Current:				
General government	2,860,589	3,106,618	2,629,754	(476,864)
Public safety	3,597,467	3,837,088	3,685,913	(151,175)
Public works	3,439,781	4,316,537	3,805,050	(511,487)
Parks, recreation and public property	1,663,176	1,599,283	1,426,608	(172,675)
Total expenditures	11,561,013	12,859,526	11,547,325	(1,312,201)
Excess revenues over (under) expenditures	(3,113,683)	(3,518,630)	(1,933,468)	1,585,162
Other financing sources (uses)				
Sale of fixed assets	10,000	11,823	11,823	-
Impact fees	185,000	531,347	621,395	90,048
Indirect services	1,630,666	1,630,666	1,630,666	-
Transfers in	1,288,017	2,185,031	593,190	(1,591,841)
Transfers out	-	(840,237)	(800,000)	40,237
Total other financing sources and uses	3,113,683	3,518,630	2,057,074	(1,461,556)
Excess of revenues and other sources over (under) expenditures and other uses	-	-	123,606	123,606
Fund balances - beginning of year	3,665,314	3,665,314	3,665,314	-
Fund balances - end of year	\$ 3,665,314	\$ 3,665,314	\$ 3,788,920	\$ 123,606

**Spanish Fork City
Statement of Net Assets
Proprietary Funds
June 30, 2005**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Non Major Enterprise Funds	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 5,092,275	\$ 8,171,091	\$ 3,142,248	\$ 16,405,614	\$ -
Accounts receivable	379,296	148,265	1,690,211	125,633	2,343,405	30,000
Allowance for doubtful accounts	(9,408)	(2,825)	(30,357)	(2,218)	(44,808)	-
Assessments receivable	4,313	-	-	-	4,313	-
Due from other funds	-	-	1,458,695	424,148	1,882,843	-
Prepaid expenses	-	-	-	-	-	-
Inventory	4,500	3,500	622,722	96,439	727,161	-
Total current assets	<u>378,701</u>	<u>5,241,215</u>	<u>11,912,362</u>	<u>3,786,250</u>	<u>21,318,528</u>	<u>30,000</u>
Noncurrent assets:						
Restricted cash and equivalents	1,587,639	806,775	1,600,992	52,703	4,048,109	-
Capital Assets:						
Land	280,483	8,711	134,925	173,792	597,911	-
Water rights	2,037,779	-	-	-	2,037,779	-
Buildings	2,249,501	343,703	2,464,198	495,889	5,553,291	205,920
Improvements	43,273,081	20,393,843	22,245,443	7,139,992	93,052,359	-
Equipment	677,036	532,105	1,123,712	708,256	3,041,109	6,813,735
Less: accumulated depreciation	(9,667,933)	(8,323,150)	(7,364,291)	(3,628,036)	(28,983,410)	(4,567,749)
Other Assets:						
Equity in joint venture	-	-	-	1,587,968	1,587,968	-
Deferred bond costs	191,709	-	124,253	-	315,962	-
Total noncurrent assets	<u>40,629,295</u>	<u>13,761,987</u>	<u>20,329,232</u>	<u>6,530,564</u>	<u>81,251,078</u>	<u>2,451,906</u>
Total assets	<u>\$41,007,996</u>	<u>\$ 19,003,202</u>	<u>\$ 32,241,594</u>	<u>\$ 10,316,814</u>	<u>\$ 102,569,606</u>	<u>\$ 2,481,906</u>
LIABILITIES						
Current liabilities:						
Due to other funds	\$ 1,183,884	\$ 800,226	\$ -	\$ 1,271,406	\$ 3,255,516	\$ 528,208
Accounts payable	117,510	123,009	220,110	191,317	651,946	58,328
Accrued interest payable	48,815	-	147,345	-	196,160	-
Compensated absences payable	71,473	39,107	189,794	73,516	373,890	21,876
Customer deposits	-	-	279,798	-	279,798	-
Final inspection deposits	-	-	448,726	-	448,726	-
Connector agreements	-	1,873	-	-	1,873	-
Current Portion:						
Lease payable	-	-	-	-	-	33,039
Bonds payable	848,000	-	520,000	-	1,368,000	-
Total current liabilities	<u>2,269,682</u>	<u>964,215</u>	<u>1,805,773</u>	<u>1,536,239</u>	<u>6,575,909</u>	<u>641,451</u>
Noncurrent liabilities:						
Deferred revenue	10,314	-	4,652	5,000	19,966	-
Lease payable	-	-	-	-	-	82,104
Bonds payable	11,321,000	-	6,865,000	-	18,186,000	-
Bond premiums	272,561	-	-	-	272,561	-
Deferred amount of refunding	(348,235)	-	-	-	(348,235)	-
Total noncurrent liabilities	<u>11,255,640</u>	<u>-</u>	<u>6,869,652</u>	<u>5,000</u>	<u>18,130,292</u>	<u>82,104</u>
Total liabilities	<u>13,525,322</u>	<u>964,215</u>	<u>8,675,425</u>	<u>1,541,239</u>	<u>24,706,201</u>	<u>723,555</u>
NET ASSETS						
Invested in capital assets, net of related debt	27,027,815	12,955,212	11,856,821	4,889,893	56,729,741	2,369,802
Restricted for:						
Impact fees	973,239	806,775	963,158	137,919	2,881,091	-
Water rights	549,942	-	-	-	549,942	-
Bond requirements	346,868	-	637,834	-	984,702	-
Unrestricted	(1,415,190)	4,277,000	10,108,356	3,747,763	16,717,929	(611,451)
Total net assets	<u>\$27,482,674</u>	<u>\$ 18,038,987</u>	<u>\$ 23,566,169</u>	<u>\$ 8,775,575</u>	<u>\$ 77,863,405</u>	<u>\$ 1,758,351</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund:					94,769	
Net assets from business-type activities:					<u>\$ 77,958,174</u>	

Spanish Fork City
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Water	Sewer	Electric	Non Major Enterprise Funds	Total Enterprise Funds	
Operating Revenues:						
Charges for sales and services	\$ 4,165,850	\$ 1,405,350	\$ 16,537,580	\$ 2,180,106	\$ 24,288,886	\$ 1,385,285
Other income	145,995	63,945	295,411	136,540	641,891	-
Total operating revenues	<u>4,311,845</u>	<u>1,469,295</u>	<u>16,832,991</u>	<u>2,316,646</u>	<u>24,930,777</u>	<u>1,385,285</u>
Operating Expenses:						
Water assessment	47,027	-	-	-	47,027	-
Power purchases	-	-	8,107,140	-	8,107,140	-
Landfill fees	-	-	-	506,671	506,671	-
Employee salaries	621,831	358,749	1,737,568	617,767	3,335,915	206,262
Materials and supplies	152,293	65,707	930,256	356,902	1,505,158	249,093
Repairs and maintenance	70,327	29,082	42,335	80,277	222,021	246,708
Professional services	231,840	169,721	1,353,032	139,637	1,894,230	1,872
Motorpool charges	104,297	69,147	243,084	134,745	551,273	-
Utilities	224,811	157,476	62,376	66,188	510,851	12,184
Insurance	6,249	19,005	65,547	19,672	110,473	4,212
Depreciation	1,426,452	677,592	710,396	307,511	3,121,951	628,382
Amortization	21,826	-	12,222	-	34,048	-
Indirect services	504,135	409,394	476,595	240,541	1,630,665	-
Plant assessment	189,000	94,500	-	-	283,500	-
Sundry charges	1,585	5,726	17,947	16,555	41,813	-
Total operating expenses	<u>3,601,673</u>	<u>2,056,099</u>	<u>13,758,498</u>	<u>2,486,466</u>	<u>21,902,736</u>	<u>1,348,713</u>
Operating income	<u>710,172</u>	<u>(586,804)</u>	<u>3,074,493</u>	<u>(169,820)</u>	<u>3,028,041</u>	<u>36,572</u>
Nonoperating revenues (expenses):						
Interest revenue	64,707	27,993	229,579	6,608	328,887	-
Impact fees and water right fees	1,403,576	365,455	361,680	308,673	2,439,384	-
Contributions from private contractors	112,450	136,622	115,565	-	364,637	-
Reimbursements to private contractors	-	-	-	(399,966)	(399,966)	-
Increase in joint venture	-	-	-	-	-	-
Gain(loss) on Sale of fixed assets	-	-	-	-	-	21,424
Interest expense	(656,542)	-	(370,275)	-	(1,026,817)	(5,883)
Total nonoperating revenues (expenses)	<u>924,191</u>	<u>530,070</u>	<u>336,549</u>	<u>(84,685)</u>	<u>1,706,125</u>	<u>15,541</u>
Income (Loss) Before Operating Transfers	<u>1,634,363</u>	<u>(56,734)</u>	<u>3,411,042</u>	<u>(254,505)</u>	<u>4,734,166</u>	<u>52,113</u>
Operating Transfers from (to) Other Funds						
Operating transfers in	105,994	57,471	-	294,317	457,782	-
Operating transfers out	(105,994)	(57,471)	(996,823)	(138,690)	(1,298,978)	-
Total Contributions and Operating Transfers	<u>-</u>	<u>-</u>	<u>(996,823)</u>	<u>155,627</u>	<u>(841,196)</u>	<u>-</u>
Change in net assets	1,634,363	(56,734)	2,414,219	(98,878)	3,892,970	52,113
Total net assets - beginning	25,919,143	18,134,478	21,340,044	8,947,305	74,340,970	1,727,918
Prior period adjustment (see note 4G)	(70,832)	(38,757)	(188,094)	(72,852)	(370,535)	(21,680)
Total net assets - ending	<u>\$ 27,482,674</u>	<u>\$ 18,038,987</u>	<u>\$ 23,566,169</u>	<u>\$ 8,775,575</u>	<u>\$ 73,600,405</u>	<u>\$ 1,758,351</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund:					8,255	
Change in net assets of business-type activities:					<u>\$ 3,530,690</u>	

Spanish Fork City
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water Fund	Sewer Fund	Electric Fund	Non Major Enterprise Funds	
Cash Flows From Operating Activities					
Receipts from customers	\$ 4,270,706	\$ 2,931,935	\$ 16,411,084	\$ 2,178,080	\$ 25,791,805
Other cash receipts	145,995	63,945	295,411	136,540	641,891
Payments to suppliers	(1,534,158)	(1,028,362)	(10,923,320)	(1,577,765)	(15,063,605)
Payments to employees	(621,191)	(358,399)	(1,735,868)	(617,103)	(3,332,561)
Net cash provided (used) by operating activities	<u>2,261,352</u>	<u>1,609,119</u>	<u>4,047,307</u>	<u>119,752</u>	<u>8,037,530</u>
Cash Flows From Noncapital Financing Activities					
Decrease (increase) in due from other funds	-	2,154,558	(1,458,695)	1,949,353	2,645,216
Increase (decrease) in due to other funds	(1,496,432)	800,226	(4,673,789)	1,103,593	(4,266,402)
Transfers in (out)	-	-	(996,823)	155,627	(841,196)
Net Cash Provided (Used) by Noncapital Activities	<u>(1,496,432)</u>	<u>2,954,784</u>	<u>(7,129,307)</u>	<u>3,208,573</u>	<u>(2,462,382)</u>
Cash Flows From Capital and Related Financing Activities					
Purchases of capital assets	(1,129,798)	(317,748)	(1,165,023)	(238,545)	(2,851,114)
Principal paid on capital debt	(824,000)	-	(495,000)	-	(1,319,000)
Interest paid on capital debt	(656,542)	-	(370,275)	-	(1,026,817)
(Increase) decrease in deferred amount on refunding	36,044	-	-	-	36,044
Contributions from (reimbursements to) private contractors	112,450	136,622	115,565	(399,966)	(35,329)
Impact fees collected	1,403,576	365,455	361,680	308,673	2,439,384
Net cash provided (used) by capital and related financing activities	<u>(1,058,270)</u>	<u>184,329</u>	<u>(1,553,053)</u>	<u>(329,838)</u>	<u>(2,756,832)</u>
Cash Flows From Investing Activities					
Interest and dividends received	64,707	27,993	229,579	6,608	328,887
Increase (decrease) in unamortized bond premiums	(23,034)	-	-	-	(23,034)
Net cash provided (used) by investing activities	<u>41,673</u>	<u>27,993</u>	<u>229,579</u>	<u>6,608</u>	<u>305,853</u>
Net increase (decrease) in cash and cash equivalents	(251,677)	4,776,225	(4,405,474)	3,005,095	3,124,169
Cash and cash equivalents, July 1	1,839,316	1,122,825	14,177,557	189,856	17,329,554
Cash and cash equivalents, June 30	<u>\$ 1,587,639</u>	<u>\$ 5,899,050</u>	<u>\$ 9,772,083</u>	<u>\$ 3,194,951</u>	<u>\$ 20,453,723</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 710,172	\$ (586,804)	\$ 3,074,493	\$ (169,820)	3,028,041
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	1,426,452	677,592	710,396	307,511	3,121,951
Amortization expense	21,826	-	12,222	-	34,048
(Increase) decrease in accounts receivable	106,252	1,526,585	(116,566)	(7,026)	1,509,245
Decrease (increase) in inventory	-	-	192,336	-	192,336
Increase (decrease) in accrued liabilities	(2,594)	(8,604)	(7,968)	(16,577)	(35,743)
Increase (decrease) in compensated absences	640	350	1,700	664	3,354
Increase (decrease) in customer deposits	-	-	190,624	-	190,624
Increase (decrease) in deferred revenue	(1,396)	-	(9,930)	5,000	(6,326)
Total adjustments	<u>1,551,180</u>	<u>2,195,923</u>	<u>972,814</u>	<u>289,572</u>	<u>5,009,489</u>
Net cash provided (used) by operating activities	<u>\$ 2,261,352</u>	<u>\$ 1,609,119</u>	<u>\$ 4,047,307</u>	<u>\$ 119,752</u>	<u>\$ 8,037,530</u>

**Spanish Fork City
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	Fire Retirement Capital Fund
ASSETS	
Cash and equivalents	\$ 53,888
Total assets	\$ 53,888
 LIABILITIES AND FUND BALANCES	
Fund Balances:	
Deferred compensation	53,888
Total fund balances	53,888
Total liabilities and fund balance	\$ 53,888

Spanish Fork City
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

	Fire Retirement Capital Fund
REVENUES:	
Employer contribution	\$ 8,040
Interest income	1,917
Total	9,957
EXPENDITURES:	
Retirement payments	8,146
Total	8,146
Excess of revenues over (under) expenditures	1,811
Fund balances - beginning of year	52,077
Fund balances - end of year	\$ 53,888

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City of Spanish Fork was incorporated in 1855 under the laws of the State of Utah. The city operates under a Mayor-Council form of government. The City provides municipal services under the following organizational structure.

Mayor and City Council: Mayor and City Council, Community Promotion, and Advisory Boards and Commissions.

City Administration: City Administrator, Risk Management, Emergency Operations, Recorder, Community and Neighborhood, and Computer Services.

Financial Services: Finance Director, Treasurer, Utilities, Accounting, Facilities, and Purchasing.

City Attorney: Legal Services, Prosecution, Civil and Environmental Law, and Personnel.

Development Services: Economic Development, Planning and Zoning and Code Enforcement.

Public Safety: Police, Fire, Animal Control and Emergency Medical Services.

Public Works: Streets, Engineering Parks, Fleet Maintenance, Water, Solid Waste Services, Water Reclamation, Street Lighting and Storm Sewer Services.

SPANISH FORK CITY NOTES TO BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

Recreation: Swimming Pool Operations, Outdoor Recreation Programs and Senior Citizen Programs.

Library: Library Administration, Collection Development and Public Services.

The City is a municipal corporation governed by an elected five-member Council and Mayor. As required by generally accepted accounting principles, these financial statements present the City (primary 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 and so data from these units are combined with data of the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements:

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Program revenues are those that are clearly identifiable with a specific function or segment. Programs revenues include 1) charges to customers or applicants who purchase, use directly or 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.

Fund Financial Statements:

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

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Debt Service Fund

The Debt Service Fund account for the resources accumulated and payments made for principal and interest on long-term general-obligation debt of governmental funds.

Special Revenue Funds

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

Capital Project Fund

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

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Water, Sewer, Electric, Garbage, Golf Course, Swimming Pool, Storm Drainage, and Gun Club funds.

**SPANISH FORK CITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

Internal Service Fund

Internal Service Funds account for fleet management services provide to other departments or agencies of the government on a cost reimbursement basis.

Major and Nonmajor Funds

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

<u>Fund</u>	<u>Brief Description</u>
Major:	
General	See above for description.
Enterprise Funds:	
Water, Sewer and Electric	Accounts for revenues and expenditures of water, sewer and electric utilities. These funds also account for the accumulation of resources for, and the payment of, long term debt principal and interest associated with these utilities. All costs are financed through charges to customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.
Nonmajor Governmental Funds:	
Debt Service Fund	See above for description.
Special Revenue Fund (RDA)	Accounts for activity within the City's redevelopment agency.
Capital Projects Fund	Accounts for the accumulation of funds, revenues and expenditures on projects such as the police/court building.
Nonmajor Enterprise Funds:	
Garbage Fund	Accounts for revenues and expenditures of the garbage utility.
Golf Course Fund	Accounts for revenues and expenditures of Spanish Oaks Golf Course
Swimming Pool Fund	Accounts for revenues and expenditures of the swimming pool.
Storm Drainage Fund	Accounts for revenues and expenditures of storm drainage utility
Gun Club Fund	Accounts for revenues and expenditures of the gun club.

**SPANISH FORK CITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

Internal Service Funds:	
Motor Pool	This fund is used to account for the costs of operating and maintaining vehicles and equipment owned by the City.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Agency funds at this time.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

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

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

As a general rule, the effect of inter-fund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of 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. Another exception is the plant assessment charged by the electric fund to the water and sewer funds for the use of assets owned by the electric fund.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.C. and 3.A.

Interfund Receivables and Payables

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

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, sales and use taxes and franchise taxes. Business-type activities report utilities billings as their major receivables.

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

Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**SPANISH FORK CITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

Restricted assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as “restricted cash” on the Statement of Net Assets and on the Balance Sheets.

Capital Assets

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

Government-wide Statements

In the government-wide financial statements, capital assets are accounted for as capital assets. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets that are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2002, governmental funds’ infrastructure assets were not capitalized. These assets have been valued at estimated historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ 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 of business-type activities is included as part of the capitalized value of the assets constructed.

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

Description	Years
Buildings and structures	30-50
Improvements other than buildings	20-50
Machinery and equipment	5-10
Furniture and fixtures	5-10
Infrastructure	20-40

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Fund Financial Statements

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

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to promissory note trustee accounts and utility meter deposits.

Long-term Debt

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

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

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

Compensated Absences

The City's personnel policies permits departmental heads to accumulate up to 480 hours and other employees to accumulate up to 120 hours of earned, but unused, vacation time. Accumulated vacation time will be paid to employees upon termination. Accumulated sick leave is paid upon termination or retirement at a rate of between 25% and 33% of the accumulated amount. The accrued liability is based on a 28% rate.

At June 30, 2005, the total liability for accrued vacation pay and the total liability for accrued sick leave is as follows:

	Liability Amount		
	Governmental Activities	Business -Type Activities	Total
Vacation Liability	\$ 544,653	\$ 233,072	\$ 777,725
Sick Leave Liability	298,837	140,818	439,655
Total Compensated Absences	<u>\$ 843,490</u>	<u>\$ 373,890</u>	<u>\$ 1,217,380</u>

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

Sales taxes are collected by the Utah State Tax Commission and are remitted to the City monthly. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue.

Property Tax

Property taxes are based on the assessments against property owners. Tax levies on such assessed values are certified to Utah County prior to the commencement of the fiscal year. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30 of each year. Property taxes are collected by the Utah County Treasurer and remitted to the City shortly after collection. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

Governmental Funds—By Character:

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

Proprietary Fund—By Operating and Non-operating

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

Interfund Transfers

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

Use of estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

SPANISH FORK CITY NOTES TO BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

2.A. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

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

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

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

Statutes authorize the City to invest in negotiable or non-negotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined by the Act; and the Utah Public Treasurers' Investment Fund.

The Utah Public Treasurers' Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. UPTIF is not registered with the SEC as an investment company. The UPTIF is authorized and regulated by the Utah Money Management Act. The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the UPTIF and details the types of investments that are authorized. UPTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the UPTIF are allocated to participants on the ratio of the participant's average daily balance. The fair value of the UPTIF investment pool is approximately equal to the value of pool shares.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America, repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements, or certain other investments.

2.B. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	See Note 1.E.
Water and Electric Revenue	Debt Service and Utility Operations
Impact Fee Revenue	Capital Improvements
B & C Road Funds	Eligible B & C Roads

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions.

2.C. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the year ended June 30, 2005, the City had \$185,000 of outstanding general obligation debt.

Other Long-term Debt

Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the year ended June 30, 2005, the City had \$19,554,000 of such indebtedness.

Notes Payable

The various loan agreements relating to the notes payable issuances contain some restrictions or covenants that are financial related. These include covenants such as debt service coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2005.

**SPANISH FORK CITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.

- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B above must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to re-appropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

3.A. CASH AND INVESTMENTS

Deposits

Deposits – Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of June 30, 2005, The City’s custodial credit risk for deposits are as follows:

	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2005</u>
Depository Accounts	Insured	\$ 100,000
	Uninsured and uncollateralized	5,848,275
Total Depository Accounts		<u>\$ 5,948,275</u>

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Investments

As of June 30, 2005 the government had the following investments and maturities:

	Fair Value	Investment Maturity in Years			
		Less Than 1	1-5	6-10	More Than 10
Investments in Public					
Treasurers' Investment Fund	\$24,255,388	\$ 24,255,388	\$ -	\$ -	\$ -
Bond Escrows	1,146,159	1,146,159			
Money Market Account	662,243	662,243			
Total Fair Value	<u>\$ 26,063,790</u>	<u>\$ 26,063,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Credit Risk – The City follows the requirements of the Utah Money Management act (Section 61, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers’ Investment Fund (UPTIF), tradt commercial paper, bankers’ acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligation of government entities within the State of Utah. The UPTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the UPTIF. The degree of risk of the UPTIF depends upon the underlying portfolio. The act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The UPTIF is unrated.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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

Reconciliation to Government-wide Statement of Net Assets:

Deposits & Investments		\$	4,466,409
Investments			26,063,790
Cash on hand			2,736
	Total	\$	<u>30,532,935</u>

Government - Wide

Cash and Cash Equivalents		\$	19,635,824
Restricted Cash & Cash Equivalents			10,843,223
Fiduciary Restricted Cash			53,888
	Total		<u>\$30,532,935</u>

Net Cash on Statement of Net Assets		\$	30,479,047
Fiduciary Restricted Cash			53,888
	Total	\$	<u>30,532,935</u>

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets or cash, investments, and accrued interest held by the trustee bank on behalf of the various public trusts (Authorities) related to their required note payable accounts as described in Note 2.C, and amounts held in trust for developers and unspent impact fees collected.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

The restricted assets as of June 30, 2005 are as follows:

Type of Restricted Asset	Cash/Time Deposits	Investments	Accrued Int.	Total
<i>Business-Type Activities:</i>				
Water impact fees	\$ 690,829	\$ -	\$ -	\$ 690,829
Water right fees	549,942			549,942
Sewer impact fees	806,775			806,775
Electric impact fees	963,158			963,158
Storm drainage impact fees	52,703			52,703
Water bond requirements	346,868			346,868
Electric bond requirements	637,834			637,834
				-
Total	4,048,109	-	-	4,048,109
<i>Governmental Activities:</i>				
Developer Escrows	4,706,351			4,706,351
Class "C" Raods	1,147,351			1,147,351
Recreation impact fees	779,955			779,955
RDA bond requirements	161,457			161,457
				-
Total	6,795,114	-	-	6,795,114
Grand Totals	\$ 10,843,223	\$ -	\$ -	\$ 10,843,223

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities and of the governmental activities at June 30, 2005, were as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts receivables	\$ -	\$ 2,341,311	\$ 2,341,311
Property tax	1,036,240	-	1,036,240
Other tax	606,201	-	606,201
Assessments	-	4,313	4,313
Other	-	30,000	30,000
Allowance for doubtful accounts	-	(44,808)	(44,808)
Net accounts receivable	\$ 1,642,441	\$ 2,330,816	\$ 3,973,257

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 847,338	\$ -
Special assessments not yet due (debt service fund)	188,902	-
Total deferred/unearned revenue for governmental funds	<u>\$ 1,036,240</u>	<u>\$ -</u>

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Governmental activities:				
Land (not being depreciated)	\$ 6,524,363	\$ 278,796	\$ -	\$ 6,803,159
Buildings	5,873,384	34,493	-	5,907,877
Improvements	4,414,756	632,483	(34,100)	5,013,139
Machinery and equipment	7,510,221	1,297,354	(238,885)	8,568,690
Infrastructure	33,752,318	764,384	-	34,516,702
Totals at historical cost	<u>58,075,042</u>	<u>3,007,510</u>	<u>(272,985)</u>	<u>60,809,567</u>
Less accumulated depreciation				
Buildings	(3,493,011)	(157,524)	-	(3,650,535)
Improvements	(1,267,248)	(180,349)	32,023	(1,415,574)
Machinery and equipment	(5,170,043)	(775,609)	237,237	(5,708,415)
Infrastructure	(12,410,544)	(1,695,377)	-	(14,105,921)
Total accumulated depreciation	<u>(22,340,846)</u>	<u>(2,808,859)</u>	<u>269,260</u>	<u>(24,880,445)</u>
Governmental activities capital assets, net	<u>\$ 35,734,196</u>	<u>\$ 198,651</u>	<u>\$ (3,725)</u>	<u>\$ 35,929,122</u>
Business-type activities:				
Land (not being depreciated)	597,912	-	-	597,912
Water shares (not being depreciated)	1,628,944	408,835	-	2,037,779
Buildings and structures	5,525,175	28,116	-	5,553,291
Improvements	91,102,223	1,957,951	(7,818)	93,052,356
Machinery and equipment	2,586,067	461,882	(6,840)	3,041,109
Totals at historical cost	<u>101,440,321</u>	<u>2,856,784</u>	<u>(14,658)</u>	<u>104,282,447</u>
Less accumulated depreciation				
Buildings and structures	(1,177,603)	(151,175)	-	(1,328,778)
Improvements other than buildings	(23,266,168)	(2,731,674)	2,147	(25,995,695)
Machinery and equipment	(1,426,674)	(239,048)	6,785	(1,658,937)
Total accumulated depreciation	<u>(25,870,445)</u>	<u>(3,121,897)</u>	<u>8,932</u>	<u>(28,983,410)</u>
Business-type activities capital assets, net	<u>\$ 75,569,876</u>	<u>\$ (265,113)</u>	<u>\$ (5,726)</u>	<u>\$ 75,299,037</u>

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General Government	\$ 221,644
Public safety	99,319
Public works	1,726,216
Parks	133,298
Governmental portion of internal service fund	628,382
Total depreciation expense - governmental activities	<u>\$ 2,808,859</u>

Business-type activities

Water	\$ 1,426,453
Electric	710,396
Sewer	677,536
Garbage	19,820
Golf Course	51,670
Swimming Pool	126,259
Storm Drainage	91,603
Gun Club	18,160
Total depreciation expense - business-type activities	<u>\$ 3,121,897</u>

3.E. ACCOUNTS PAYABLE

Accounts payable are composed of payroll related items, sales taxes and day to day operating purchases.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

3.F. LONG-TERM DEBT

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

Governmental Activities:

As of June 30, 2005, the governmental long-term debt of the financial reporting entity consisted of the following:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Balance</u>
RDA Tax Increment Revenue Bond North Industrial Project Dated June 2, 1998 (original amount \$925,000)	5.100% to 5.300%	2008	\$ 328,000
RDA Tax Increment Bond Kirby Lane Project Dated June 2, 1998 (original amount \$520,000)	5.100% to 5.300%	2008	184,000
General Obligation Bond Public Safety Bonds dated August 1, 1995 (Original amount \$1,500,000)	4.750% to 5.300%	2006	185,000
Total bonds payable - governmental activities			<u>\$ 697,000</u>
		Less current portion	<u>(347,000)</u>
Total long term portion of bonds payable - governmental activities			<u><u>\$ 350,000</u></u>

Capital leases payable

Governmental activities:

Capital leases payable	115,143
Current portion of capital leases payable	(33,039)
Long term portion of capital leases payable	<u><u>\$ 82,104</u></u>

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Business-type Activities:

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Balance</u>
Water Revenue Bonds Series 1991B/98B Dated October 23, 1991 (Original amount \$875,000)	0.00%	2012	\$ 304,000
Water Revenue Refunding Bond Series 1998A - Dated October 1, 1998 (Original amount \$1,310,000)	3.65% to 4.35%	2011	790,000
Electric Utility Revenue Bond Dated August 15, 2000 (Original amount \$9,230,000)	4.25% to 5.20%	2015	7,385,000
Water Revenue Bond 2002 Dated March 15, 2002 (Original amount \$16,255,000)	4.00% to 5.50%	2017	<u>11,075,000</u>
Total bonds payable - business-type activities			19,554,000
Less current portion			<u>(1,368,000)</u>
Total bonds payable - long term portion			<u><u>\$ 18,186,000</u></u>

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Changes in Long-term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

Type of Debt	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental activities:				
Bonds payable	\$ 1,030,000	\$ -	\$ (333,000)	\$ 697,000
Capital leases payable	148,182	-	(33,039)	115,143
Compensated absences	759,225	84,264	-	843,489
Total - Governmental Activities	\$ 1,937,407	\$ 84,264	\$ (366,039)	\$ 1,655,632
Business-type Activities:				-
Bonds payable	\$ 20,873,000	\$ -	\$ (1,319,000)	\$ 19,554,000
Compensated absences	370,535	3,355		373,890
Total - Business-type Activities	\$ 21,243,535	\$ 3,355	\$ (1,319,000)	\$ 19,927,890
Due Within One Year	\$ 1,685,039	\$ 63,000	\$ -	\$ 1,748,039

Annual Debt Service Requirements:

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

Year Ending June 30	Governmental Activities Bonds Payable		Business-type Activities Bonds Payable	
	Principal	Interest	Principal	Interest
2006	\$ 347,000	\$ 32,039	\$ 1,368,000	\$ 939,413
2007	170,000	18,550	1,429,000	882,847
2008	180,000	9,540	1,483,000	823,360
2009	-	-	1,554,000	756,325
2010	-	-	1,628,000	682,955
2011 - 2015	-	-	8,922,000	2,149,671
2016 - 2020	-	-	3,170,000	216,655
Total	\$ 697,000	\$ 60,129	\$ 19,554,000	\$ 6,451,226

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Depreciation and Other Information on Capital Leases

The assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Machinery and equipment	\$ 278,593
Less: Accumulated depreciation	<u>(139,067)</u>
Total	<u><u>\$ 139,526</u></u>

Amortization of capital assets purchased under capital leases are included in depreciation expense.

The present value of future minimum capital lease payments under these leases as of June 30, 2005 are:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 38,922
2007	<u>84,000</u>
Total minimum lease payments	122,922
Less amounts representing interest	<u>(7,779)</u>
Present value of minimum lease payments	<u><u>\$ 115,143</u></u>

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers:

<i>Governmental Activities :</i>	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$ 593,190	\$ 800,000
Capital project fund	1,048,006	
Total Governmental Activities	<u>1,641,196</u>	<u>800,000</u>
<i>Business-type Activities:</i>		
<i>Major funds:</i>		
Electric fund		996,823
<i>Non-major funds:</i>		
Golf course	72,610	
Swimming pool	202,228	
Garbage fund	-	138,690
Storm drainage fund	<u>19,479</u>	
Total Business-type Activities	<u>294,317</u>	<u>1,135,513</u>
<i>Grand Totals</i>	<u><u>\$ 1,935,513</u></u>	<u><u>\$ 1,935,513</u></u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Plant Assessments:

	<u>Paid</u>	<u>Received</u>
<i>Business-type Activities:</i>		
Water fund	\$ 189,000	\$ -
Sewer fund	94,500	-
Electric fund	94,500	378,000
Totals	<u>\$ 378,000</u>	<u>\$ 378,000</u>

Plant assessments are each funds share of the cost of the use of assets purchased with the bond in the electric fund.

Indirect services:

	<u>Indirect Service Expense</u>	<u>Indirect Service Revenue</u>
Major Business-type activities:		
Water Fund	\$ 504,135	\$ -
Sewer Fund	409,394	-
Electric Fund	476,595	-
Non-major business type activities:		
Golf Course	44,057	-
Swimming Pool	27,624	-
Garbage	86,376	-
Storm Drain	82,484	-
Major Governmental activities:		
General fund		1,630,665
	<u>\$ 1,630,665</u>	<u>\$ 1,630,665</u>

Indirect services are charges assessed to the business type activities for services provided by the general fund.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Due to/from other funds:

<u>Fund</u>	<u>Due from</u>	<u>Due to</u>
Governmental funds		
General fund	\$ 1,256,675	\$ -
<i>Non-major funds</i>		
Special revenue fund	242,889	-
Debt service fund	103,905	-
Capital projects fund	297,412	-
Total Governmental	<u>1,900,881</u>	<u>-</u>
Business-type funds		
<i>Major funds</i>		
Water fund	-	1,183,884
Sewer fund	-	800,226
Electric fund	1,458,694	-
<i>Non-major funds</i>		
Golf course fund	-	1,180,034
Swimming pool fund	-	7,073
Garbage fund	403,264	-
Storm drainage fund	20,884	-
Gun club fund	-	84,298
Total Business-type	<u>1,882,842</u>	<u>3,255,515</u>
Internal service fund		
Motorpool fund	-	528,208
Grand Total	<u>\$ 3,783,723</u>	<u>\$ 3,783,723</u>

3.H. RESERVED FUND BALANCES

The City has reserved fund balance amounts for impact fees. The City has reserved net assets in the Proprietary Fund for unspent impact fees. These fees will be used to construct appropriate projects as designated by the impact fee ordinance. The City has reserved net assets in the Water Fund and the Electric Fund and fund balance in the Debt Service fund for the debt service requirements of the bonds acquired.

NOTE 4. OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in the following employee pension systems:

Local Governmental - Cost Sharing Defined Benefits Pension Plans

Plan Description. The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Retirement System

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
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(Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing, multiple-employer defined benefit pensions plans administered by the Utah Retirement Systems (Systems). The Systems provide, retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 40 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. The City is required to contribute a percentage of covered salary to the respective systems, 11.09% to the Noncontributory, and 19.080% to the Public Safety Noncontributory. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the various systems for the years ending June 30, 2005, 2004, and 2003 were; for the Noncontributory System \$515,543, \$418,146, and \$359,716; and for the Public Safety Noncontributory, \$203,138, \$153,888 and \$128,889, respectively. The contributions were equal to or greater than the required contributions for each year.

401(k) Plan

The employees of City also participate in a 401(k) deferred compensation plan with MetLife. The amount of the employer contributions for the year ended June 30, 2005, 2004, and 2003, were \$452,666.71, \$524,808.27, and \$612,842.38, respectively.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other government in the State of Utah to form the Utah Risk Management Mutual Association (URMMA), a public entity risk pool currently operating as a common risk management insurance program for the Utah State governments. The City pays an annual premium to URMMA for its tort liability insurance coverage.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

4.C. COMMITMENTS AND CONTINGENCIES

The City is involved in claims arising in the normal course of business. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management, such litigation will have no material effect on the financial operations of the City.

4.D. JOINT VENTURES

Utah Municipal Power Agency

In September 1980 Spanish Fork City joined in a joint venture with several other municipalities to create the Utah Municipal Power Agency (UMPA). UMPA was created under the Interlocal Cooperation Act to evaluate, finance, construct and operate facilities for the generation, transmission and distribution of electric power for member cities.

Additional information is as follows:

- a. Participants and their percentage shares:
- | | |
|-------------------------------|---------------|
| Spanish Fork City Corporation | 9.409% |
| Provo City Corporation | 80.540% |
| Nephi City Corporation | 5.839% |
| Manti City Corporation | 2.164% |
| Salem City Corporation | 1.446% |
| Levan Town | <u>0.602%</u> |
| | 100.000% |
- b. UMPA is governed by a Board of Directors which is comprised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are made by majority vote, except in specific decisions as described in the Inter-local Cooperation Agreement which stipulates that votes shall be by number of kilowatt hours sold. For Provo to prevail in a tie vote, they would need one additional city to vote with them.
- c. The UMPA Board of Directors governs the operations of the Agency through management employed by the Board. Since UMPA is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.
- d. Audited summary financial information of UMPA at June 30, 2005 is as follows:

**SPANISH FORK CITY
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	<u>UMPA</u>	<u>Spanish Fork City's Share</u>
Total assets	<u>\$ 57,916,481</u>	<u>\$ 5,449,362</u>
Total liabilities	<u>\$ 57,913,131</u>	<u>\$ 5,449,046</u>
Total net assets	<u>\$ 3,350</u>	<u>\$ 315</u>
Total operating revenues	\$ 59,003,956	\$ 5,551,682
Total operating expenses	<u>53,458,446</u>	<u>5,029,905</u>
Net operating income	5,545,510	521,777
Total non-operating income (expenses)	<u>(5,545,510)</u>	<u>(521,777)</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>

The joint venture has the following long-term debt:

Revenue bonds payable	<u>\$ 40,119,028</u>	<u>\$ 3,774,799</u>
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- f. Audited financial statements for Utah Municipal Power Agency are available at UMPA's office.

South Utah Valley Solid Waste District

Spanish Fork City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste District (the District). The District was created for the purpose of building a landfill and transfer station and operating the same for the benefit of member municipalities. The majority of the District's sanitation service revenue comes from these governmental entities.

Additional information is as follows:

- a. Participants and their percentage shares:
- | | |
|------------------------------------|-----------------|
| Spanish Fork City Corporation | 11.750% |
| Provo City Corporation | 69.750% |
| Springville City Corporation | 15.000% |
| Mapleton City Corporation | 2.000% |
| Salem City Corporation | 1.500% |
| Goshen Town (Landfill participant) | <u>0.000%</u> |
| | <u>100.000%</u> |
- b. The District is governed by a Board of Directors which are comprised of six directors. The Mayor and City Council of each member appoints one director.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
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All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.

- c. The District's Board of Directors governs the operations of the District through management employed by the Board. Since the District is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting and financing.
- d. Audited summary financial information of the District as June 30, 2004 is as follow:

	South Utah Valley Solid Waste District	Spanish Fork City's Share
Total assets	<u>\$ 16,567,081</u>	<u>\$ 1,946,632</u>
Total liabilities	<u>\$ 3,052,463</u>	<u>\$ 358,664</u>
Total net assets	<u>\$ 13,514,618</u>	<u>\$ 1,587,968</u>
Total operating revenues	\$ 3,605,094	\$ 423,599
Total operating expenses	<u>3,728,632</u>	<u>438,114</u>
Net operating income	(123,538)	(14,516)
Total non-operating income (expenses)	<u>108,419</u>	<u>12,739</u>
Change in net assets	<u>\$ (15,119)</u>	<u>\$ (1,776)</u>

The joint venture has the following long-term debt:

Closure and postclosure liability	\$ 2,691,748	\$ 316,280
Accrued compensated absences	<u>123,560</u>	<u>14,518</u>
Total long-term liabilities	<u>\$ 2,815,308</u>	<u>\$ 330,799</u>

- f. Audited financial statements for South Utah Valley Solid Waste District are available at the District office.

Spanish Fork/Springville Airport

The City is party to a joint venture with Springville, a neighboring municipality, in the Spanish Fork/Springville Airport (the airport). The joint venture is organized as a special service district of the cities of Springville and Spanish Fork under an inter-local agreement per Section 11-13 of the Utah Code. It was created to provide airport services for both communities. Additional information is as follows:

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

a. Participants and their percentage shares:

Springville City	50.00%
Spanish Fork	50.00%

b. The Airport is governed by it's own board which is selected from members of the participants' City councils and other citizens of the two communities.

c. The Airport board governs the operations of the airport through management employed by the board. The Airport is subject to the same laws as the creating entities, therefore, it must follow Utah State laws for cities in the areas of fiscal managements, budgeting and financing. As the governing board is made up of the participants' city councils and appointees, each participant has indirect control over these matters.

d. Summary financial information, as of the joint venture's last year end of June 30, 3005, is as follows:

	Spanish Fork/ Springville Airport	Spanish Fork City's Share
	<u> </u>	<u> </u>
Total assets	\$ 3,920,609	\$ 1,960,305
Total net assets	<u>\$ 3,920,609</u>	<u>\$ 1,960,305</u>
Program revenues	\$ 679,147	\$ 339,574
General revenues	4,476	2,238
Program expenses	<u>(163,781)</u>	<u>(81,891)</u>
Change in net assets	<u>\$ 519,842</u>	<u>\$ 259,921</u>

e. Audited financial statements for the Spanish Fork/Springville Airport are available at the Airport offices, 5300 South 200 West, Spanish Fork, Utah.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

4.E. WATER LOAN PROGRAM

The following information is presented as required by the State of Utah Water Loan Program:

1. Fidelity Bonds
 - A. Public Treasurer Bond for \$1,200,000 expiring December 31, 2005 issued by Leavitt Insurance.
 - B. \$10,000 Blanket Employee Bond expiring March 31, 2006 covering all employees and elected officials of the City issued by Leavitt Insurance.
 - C. \$510,000 Water bond expiring April 30, 2006 covering billing clerk, cashier, treasurer and administrative finance director issued by Leavitt Insurance.
2. 7,369 water connections at June 30, 2005.
3. Total water billings for the year were \$4,165,850
4. Rate schedule

Base charge	\$10.00
Price per 1,000 gallons for usage over base:	
0 to 9,000 gallons	\$1.29
9,001 to 16,000 gallons	\$1.75
Over 16,000 gallons	\$3.50
Connection/Impact fee	\$1,232.00
5. The balance in the reserve and emergency repair funds is \$41,000.

**SPANISH FORK CITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

4.F. SPANISH FORK REDEVELOPMENT AGENCY

The following information is presented as required by the Utah State Code Section 17A-2-1217(3):

1. The tax increment collected by the agency for each project area:	
A. North Industrial RDA	\$ 170,618
B. Kirby RDA	116,921
C. Canyon EDA	-
D. Gateway	81,319
Total Collected	<u>\$ 368,858</u>
2. The amount of tax increment paid to any taxing agency:	
A. North Industrial RDA	\$ -
B. Kirby RDA	-
C. Canyon EDA	-
Total Paid	<u>\$ -</u>
3. The outstanding principal amount of loans incurred to finance the cost associated with the project areas:	
	\$ 512,000
4. The actual amounts expended for :	
A. Acquisition of property	\$ -
B. Site improvements	-
C. Installation of public utilities and roads	-
D. Administrative costs	232
Total Expended	<u>\$ 232</u>

4.G. PRIOR PERIOD ADJUSTMENT

Compensated absences payable, which include accrued vacation pay and accrued sick leave payable, have not been recorded in the enterprise funds in past fiscal periods. In the past, the entire liability was recorded as a long term liability under Governmental Activities. The effect of the misstatement is an overstatement of liabilities and expenses in the Governmental Activities and an understatement of liabilities and expenses in the Business-type Activities. A prior period adjustment was needed to allocate the liability to the fund that created the liability. The amount of the prior period adjustment in each fund is as follows:

SUPPLEMENTARY INFORMATION

**Spanish Fork City
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2005**

	RDA Fund	Debt Service		Capital Projects Funds	Total Non-major Governmental Funds
		Debt Service Fund	Special Guarantee Fund		
ASSETS					
Cash and cash equivalents	\$ 493,953	\$ 234,081	\$ 28,150	\$ 750,594	\$ 1,506,778
Prepaid interest	9,045	-	-	-	9,045
Accounts receivable	-	198,827	-	-	198,827
Due from other funds	242,889	92,751	11,154	297,412	644,206
Restricted Assets:					
Cash and cash equivalents	161,457	-	-	-	161,457
Total assets	<u>\$ 907,344</u>	<u>\$ 525,659</u>	<u>\$ 39,304</u>	<u>\$ 1,048,006</u>	<u>\$ 2,520,313</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Deferred revenue	\$ -	\$ 188,902	\$ -	\$ -	\$ 188,902
Total liabilities	<u>-</u>	<u>188,902</u>	<u>-</u>	<u>-</u>	<u>188,902</u>
Fund balances:					
Designated for:					
Capital projects	-	-	-	1,048,006	1,048,006
Reserved for:					
Redevelopment	907,344	-	-	-	907,344
Unreserved:					
Unreserved fund balance	-	336,757	39,304	-	376,061
Total fund balances	<u>907,344</u>	<u>336,757</u>	<u>39,304</u>	<u>1,048,006</u>	<u>2,331,411</u>
Total liabilities and fund balance	<u>\$ 907,344</u>	<u>\$ 525,659</u>	<u>\$ 39,304</u>	<u>\$ 1,048,006</u>	<u>\$ 2,520,313</u>

Spanish Fork City
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2005

	RDA Fund	Debt Service		Capital Projects Funds	Total Non-major Governmental Funds
		Debt Service Fund	Special Guarantee Fund		
REVENUES:					
Taxes	\$ 368,859	\$ 217,282	\$ -	\$ -	586,141
Interest income	3,559	-	-	-	3,559
Total revenues	<u>372,418</u>	<u>217,282</u>	<u>-</u>	<u>-</u>	<u>589,700</u>
EXPENDITURES:					
Current Expenditures:					
RDA	232	-	-	-	232
Debt service:					
Principal retirement	153,000	180,000	-	-	333,000
Interest and fiscal charges	40,733	14,728	-	-	55,461
Total expenditures	<u>193,965</u>	<u>194,728</u>	<u>-</u>	<u>-</u>	<u>388,693</u>
Excess of revenues over (under) expenditures	<u>178,453</u>	<u>22,554</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):					
Transfers in	-	-	-	1,048,006	1,048,006
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,048,006</u>	<u>1,048,006</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>178,453</u>	<u>22,554</u>	<u>-</u>	<u>1,048,006</u>	<u>1,249,013</u>
Fund balances - beginning of year	728,891	314,203	39,304	-	1,082,398
Fund balances - end of year	<u>\$ 907,344</u>	<u>\$ 336,757</u>	<u>\$ 39,304</u>	<u>\$ 1,048,006</u>	<u>\$ 2,331,411</u>

Spanish Fork City
Combining Statement of Net Assets
Non-major Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds					Total Other Funds
	Golf Course Funds	Swimming Pool Fund	Garbage Fund	Storm Drainage Fund	Gun Club Fund	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,124,105	\$ 205	\$ 1,017,738	\$ -	\$ 200	\$ 3,142,248
Accounts receivable	-	-	92,974	32,646	13	125,633
Allowance for doubtful accounts	-	-	(1,730)	(488)	-	(2,218)
Due from other funds	-	-	403,264	20,884	-	424,148
Inventory	96,439	-	-	-	-	96,439
Total current assets	<u>2,220,544</u>					
Noncurrent assets:						
Restricted cash and equivalents				52,703	-	52,703
Capital Assets:						
Land	19,955	-	143,505	10,332	-	173,792
Buildings	419,707	-	48,066	-	28,116	495,889
Improvements	1,137,613	2,151,713	111,779	3,657,139	81,748	7,139,992
Equipment	138,722	13,938	476,647	-	78,949	708,256
Less: accumulated depreciation	(1,362,288)	(1,369,914)	(469,758)	(380,373)	(45,703)	(3,628,036)
Other Assets:						
Equity in joint venture	-	-	1,587,968	-	-	1,587,968
Total noncurrent assets	<u>353,709</u>	<u>795,737</u>	<u>1,898,207</u>	<u>3,339,801</u>	<u>143,110</u>	<u>6,530,564</u>
Total assets	<u>\$ 2,574,253</u>	<u>\$ 795,737</u>	<u>\$ 1,898,207</u>	<u>\$ 3,339,801</u>	<u>\$ 143,110</u>	<u>\$ 6,530,564</u>
LIABILITIES						
Current liabilities:						
Due to other funds	\$ 1,180,034	\$ 7,073	\$ -	\$ -	\$ 84,299	\$ 1,271,406
Accounts payable	55,199	40,456	50,726	7,264	37,672	191,317
Compensated absences	43,000	20,034	2,221	5,483	2,778	73,516
Total current liabilities	<u>1,278,233</u>	<u>67,563</u>	<u>52,947</u>	<u>12,747</u>	<u>124,749</u>	<u>1,536,239</u>
Noncurrent liabilities:						
Deferred revenue	-	-	-	5,000	-	5,000
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total liabilities	<u>1,278,233</u>	<u>67,563</u>	<u>52,947</u>	<u>17,747</u>	<u>124,749</u>	<u>1,541,239</u>
NET ASSETS						
Invested in capital assets, net of related debt	353,709	795,737	310,239	3,287,098	143,110	4,889,893
Restricted for:						
Impact fees	-	-	-	137,919	-	137,919
Unrestricted	942,311	(67,358)	3,047,267	(49,921)	(124,536)	3,747,763
Total net assets	<u>\$ 1,296,020</u>	<u>\$ 728,379</u>	<u>\$ 3,357,506</u>	<u>\$ 3,375,096</u>	<u>\$ 18,574</u>	<u>\$ 8,775,575</u>

Spanish Fork City
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					Total Other Funds
	Golf Course Funds	Swimming Pool Fund	Garbage Fund	Storm Drainage Fund	Gun Club Fund	
Operating revenues:						
Charges for sales and services	\$ 661,572	\$ 205,744	\$ 801,641	\$ 241,761	\$ 269,388	\$ 2,180,106
Other income	-	-	-	136,540	-	136,540
Total operating revenues	<u>661,572</u>	<u>205,744</u>	<u>801,641</u>	<u>378,301</u>	<u>269,388</u>	<u>2,316,646</u>
Operating expenses:						
Landfill fees	-	-	506,671	-	-	506,671
Employee salaries	377,137	148,086	21,176	50,287	21,081	617,767
Materials and supplies	105,733	54,184	3,741	54,282	138,962	356,902
Repairs and maintenance	47,486	20,567	-	1,430	10,794	80,277
Professional services	5,961	3,154	16,384	42,538	71,600	139,637
Motorpool charges	115,274	267	-	17,979	1,225	134,745
Utilities	29,665	28,222	-	12	8,289	66,188
Insurance	8,787	9,914	134	-	837	19,672
Depreciation	51,670	126,259	19,820	91,603	18,159	307,511
Indirect services	44,057	27,624	86,376	82,484	-	240,541
Sundry charges	8,276	-	8,279	-	-	16,555
Total operating expenses	<u>794,046</u>	<u>418,277</u>	<u>662,581</u>	<u>340,615</u>	<u>270,947</u>	<u>2,486,466</u>
Operating income	<u>(132,474)</u>	<u>(212,533)</u>	<u>139,060</u>	<u>37,686</u>	<u>(1,559)</u>	<u>(169,820)</u>
Nonoperating revenues (expenses):						
Interest revenue	-	-	-	6,608	-	6,608
Impact fees	-	-	-	308,673	-	308,673
Reimbursements to private contractors	-	-	-	(399,966)	-	(399,966)
Increase in joint venture	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(84,685)</u>	<u>-</u>	<u>(84,685)</u>
Income (Loss) Before Operating Transfers	<u>(132,474)</u>	<u>(212,533)</u>	<u>139,060</u>	<u>(46,999)</u>	<u>(1,559)</u>	<u>(254,505)</u>
Operating Transfers:						
Operating transfers in	72,610	202,228	-	19,479	-	294,317
Operating transfers out	-	-	(138,690)	-	-	(138,690)
Total Operating Transfers	<u>72,610</u>	<u>202,228</u>	<u>(138,690)</u>	<u>19,479</u>	<u>-</u>	<u>155,627</u>
Change in net assets	<u>(59,864)</u>	<u>(10,305)</u>	<u>370</u>	<u>(27,520)</u>	<u>(1,559)</u>	<u>(98,878)</u>
Total net assets - beginning	<u>1,398,494</u>	<u>758,538</u>	<u>3,359,337</u>	<u>3,408,050</u>	<u>22,886</u>	<u>8,947,305</u>
Prior Period Adjustment (see note 4G)	<u>(42,610)</u>	<u>(19,854)</u>	<u>(2,201)</u>	<u>(5,434)</u>	<u>(2,753)</u>	<u>(72,852)</u>
Total net assets - ending	<u>\$ 1,296,020</u>	<u>\$ 728,379</u>	<u>\$ 3,357,506</u>	<u>\$ 3,375,096</u>	<u>\$ 18,574</u>	<u>\$ 8,775,575</u>

Spanish Fork City
Combining Statement of Cash Flows
Non-major Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					Total
	Golf Course Funds	Swimming Pool Fund	Garbage Fund	Storm Drainage Fund	Gun Club Fund	Non-Major Funds
Cash Flows From Operating Activities						
Receipts from customers	\$ 669,994	\$ 205,744	\$ 794,268	\$ 238,686	\$ 269,388	\$ 2,178,080
Other cash receipts	-	-	-	136,540	-	136,540
Payments to suppliers	(365,239)	(143,932)	(621,585)	(198,725)	(248,284)	(1,577,765)
Payments to employees	-	-	-	-	-	-
Net cash provided (used) by operating activities	<u>304,755</u>	<u>61,812</u>	<u>172,683</u>	<u>176,501</u>	<u>21,104</u>	<u>736,855</u>
Cash Flows From Noncapital Financing Activities						
Decrease (increase) in due from other funds	949,104	-	1,021,133	(20,884)	-	1,949,353
Increase (decrease) in due to other funds	1,180,034	(11,195)	-	(109,344)	44,098	1,103,593
Transfers in (out)	72,610	202,228	(138,690)	19,479	-	155,627
Net Cash Provided (Used) by Noncapital Activities	<u>2,201,748</u>	<u>191,033</u>	<u>882,443</u>	<u>(110,749)</u>	<u>44,098</u>	<u>3,208,573</u>
Cash Flows From Capital and Related Financing Activities						
Purchases of capital assets	(6,051)	(104,939)	(16,232)	(67,377)	(43,946)	(238,545)
Contributions from (reimbursements to) private contractors	-	-	-	(399,966)	-	(399,966)
Impact fees collected	-	-	-	308,673	-	308,673
Net cash provided (used) by capital and related financing activities	<u>(6,051)</u>	<u>(104,939)</u>	<u>(16,232)</u>	<u>(158,670)</u>	<u>(43,946)</u>	<u>(329,838)</u>
Cash Flows From Investing Activities						
Interest and dividends received	-	-	-	6,608	-	6,608
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,608</u>	<u>-</u>	<u>6,608</u>
Net increase (decrease) in cash and cash equivalents	2,500,452	147,906	1,038,894	(86,310)	21,256	3,622,198
Cash and cash equivalents, July 1	400	205	-	189,251	-	189,856
Cash and cash equivalents, June 30	<u>\$ 2,500,852</u>	<u>\$ 148,111</u>	<u>\$ 1,038,894</u>	<u>\$ 102,941</u>	<u>\$ 21,256</u>	<u>\$ 3,812,054</u>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	\$ (132,474)	\$ (212,533)	\$ 139,060	\$ 37,686	\$ (1,559)	(169,820)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	51,670	126,259	19,820	91,603	18,159	307,511
(Increase) decrease in accounts receivable	8,422	-	(7,373)	(8,075)	-	(7,026)
Increase (decrease) in accrued liabilities	-	-	-	-	(16,577)	(16,577)
Increase (decrease) in compensated absences	390	180	20	49	25	664
Increase (decrease) in deferred revenue	-	-	-	5,000	-	5,000
Total adjustments	<u>60,482</u>	<u>126,439</u>	<u>12,467</u>	<u>88,577</u>	<u>1,607</u>	<u>289,572</u>
Net cash provided (used) by operating activities	<u>\$ (71,992)</u>	<u>\$ (86,094)</u>	<u>\$ 151,527</u>	<u>\$ 126,263</u>	<u>\$ 48</u>	<u>\$ 119,752</u>

**SPANISH FORK CITY
MANAGEMENT LETTER
INDEPENDENT AUDITORS' REPORT IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
INDEPENDENT AUDITORS' REPORT
ON LEGAL COMPLIANCE
JUNE 30, 2005**

**SPANISH FORK CITY, UTAH
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JUNE 30, 2005**

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GOVERNMENT AUDITING STANDARDS REPORT



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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

September 13, 2005

The Honorable Mayor and
Members of the City Council
Spanish Fork City, Utah

Mayor and Council Members:

We have audited the accompanying basic financial statements of the Spanish Fork City, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2005, and have issued our report thereon dated September 13, 2005. 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.

Compliance

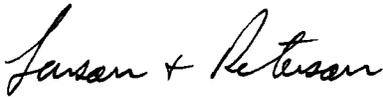
As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over

financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in the management letter.

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



Larson & Peterson
Certified Public Accountants

STATE COMPLIANCE REPORT



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

September 13, 2005

The Honorable Mayor and
Members of the City Council
Spanish Fork City, Utah

Mayor and Council Members:

We have audited the basic financial statements of the Spanish Fork City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 13, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

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

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

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees and Other Development Fees
Asset Forfeiture

The management of the Spanish Fork City, Utah, 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 immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter dated September 13, 2005. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Spanish Fork City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



Larson & Peterson
Certified Public Accountants

MANAGEMENT LETTER

**MANAGEMENT LETTER
CURRENT YEAR FINDINGS**

INTERNAL CONTROL FINDINGS

FINDING – UTILITY AGING REPORT

We noted during our testwork on utility accounts receivable that one particular customer had a large credit balance in the “current” column of the aging report and an offsetting balance in the “past due” column. This had no effect on the customer’s total balance, rather it made the totals on the whole report look distorted.

RECOMMENDATION

We recommend that the aging reports be periodically reviewed for reasonableness and any problems noted be corrected.

CLIENT RESPONSE

The matter was resolved at the time of audit fieldwork and aging reports will be reviewed more closely in the future.

FINDING – COMPENSATED ABSENCES PAYABLE

In the past the entire liability for vacation and sick leave was recorded as a general long term debt. The liability associated with employees whose wages are paid from the enterprise funds were not reflected in the respective fund.

RECOMMENDATION

We recommend that the liability be calculated so that the amounts for each fund can be recorded.

CLIENT RESPONSE

The adjustment to correct the problem was made in the current year financial statements.

**MANAGEMENT LETTER
CURRENT YEAR FINDINGS (CONCLUDED)**

STATE COMPLIANCE FINDINGS

FINDING – BUDGETED REVENUE

State code requires that the amount of revenue budgeted for property tax revenue equal the amount reported on form TC-693. Budgeted revenues on the TC-693 Report do not equal budgeted revenues for property taxes in the City's adopted budget as required.

RECOMMENDATION

We recommend that the City comply with this state regulation by ensuring that the adopted budget for property taxes equals the amount on the TC-693 Report.

CLIENT RESPONSE

The City does not always receive the information on the certified tax rates in a time to reflect that information in the originally adopted budget. The original budget is adopted before June 22 of each year. For Fiscal Year 2005, the tax rate worksheets were not received from Utah County until July 1st. The budget is later adjusted to equal the amount on the TC-693 Report through the public hearing process.

**MANAGEMENT LETTER
STATUS OF PRIOR YEAR FINDINGS**

STATE COMPLIANCE FINDINGS

FINDING – GENERAL FUND BALANCE

Utah State Law requires that the maximum fund balance in the general fund not exceed 18% of the estimated revenues of the general fund. The City's general fund balance exceeded the 18% requirement.

RECOMMENDATION

The prior auditor recommended the City make budgetary adjustments to bring the general fund balance into compliance with state law.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.

FINDING – TREASURERS BOND

Utah State Law requires every public treasurer to secure a fidelity bond based on the previous year's budgeted gross revenue in the amount under rule 4 of the Utah Money Management Council. (Utah Code 51-7-15 and Rule 4 of the Utah Money Management Council.) It was noted the treasurers bond amount was for \$1,200,000 when it should have been approximately \$1,300,000.

RECOMMENDATION

The prior auditor recommended the City maintain the bond amount to reflect 3 percent of prior year's budgeted revenue.

STATUS OF PRIOR YEAR FINDINGS

No problems noted in current audit.