



Historic City of
Toquerville
Settled 1858
"It's the People"

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Financial Section:

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	17
Statement of Net Position – Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	19
Statement of Cash Flows – Proprietary Funds.....	20
Notes to the Financial Statements	21
Supplementary Information – Bond Disclosures	42
Other Communications from Independent Auditors:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	45
Report on State Legal Compliance	47
Findings and Recommendations	49
Responses to Findings.....	51

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Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
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INDEPENDENT AUDITOR'S REPORT

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of Toquerville City as of June 30, 2012, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2012, on our consideration of Toquerville City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Toquerville City's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Toquerville. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we express no opinion on it.

Keddington & Christensen, LLC

December 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Toquerville (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$9,790,636 at the close of the fiscal year.
- Total net position decreased by \$74,701.
- Total revenues from all sources were \$1,013,997 and the total cost of all City programs was \$1,088,698.
- Total revenue in the General Fund was \$64,908 more than the final budget and expenditures were \$72,617 less than the final budget. Net transfers out were \$3,802 less than the final budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$268,420, which is an increase from fiscal year 2011's unassigned fund balance of \$232,744.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or jurisdiction, the availability of capital projects, and condition of the City's assets to accurately assess the overall health of the City. The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, highways and streets, parks and recreation, cemetery, community development, and capital outlay. Property taxes, sales taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City currently only has one proprietary activities fund—it is the water fund.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be 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. Government fund information shows 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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$9,790,636 as of June 30, 2012 as shown on the following condensed statement of net position. The City has chosen to account for its water fund in an enterprise fund, which is shown as a business-type activity.

	Governmental activities		Business-type activities	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 564,803	\$ 1,134,914	\$ 803,043	\$ 853,341
Capital assets	6,737,916	6,647,334	2,885,734	2,551,365
Total assets	<u>7,302,719</u>	<u>7,782,248</u>	<u>3,688,777</u>	<u>3,404,706</u>
Long-term liabilities outstanding	715,000	769,000	331,667	373,667
Other liabilities	140,917	166,131	13,276	12,819
Total liabilities	<u>855,917</u>	<u>935,131</u>	<u>344,943</u>	<u>386,486</u>
Net position:				
Net investment in capital assets	6,022,916	5,878,334	2,565,866	2,208,447
Restricted	150,267	731,416	312,177	368,989
Unrestricted	<u>273,619</u>	<u>237,367</u>	<u>465,791</u>	<u>440,784</u>
Total net position	<u>\$ 6,446,802</u>	<u>\$ 6,847,117</u>	<u>\$ 3,343,834</u>	<u>\$ 3,018,220</u>

Governmental Activities

The cost of all governmental activities this year was \$709,582 (\$1,198,865 including a capital asset transfer to the water fund). \$262,031 of this cost was paid for by those who directly benefited from the programs. The balance of the cost of governmental activities was subsidized by grants or contributions received from other governmental organizations and individuals for operations (\$78,118) and capital activities (\$139,094) or taxes and other general revenues (\$319,307). Total governmental program and general revenues totaled \$798,550.

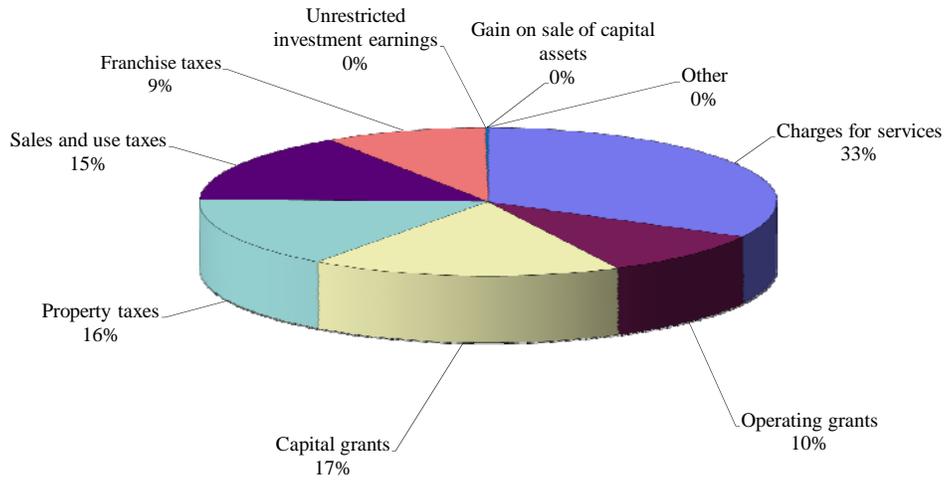
The City's programs include: General Government, Public Safety, Highways and Streets, Culture and Recreation, and Community Development. Each program's revenues and expenses are presented below.

	Governmental activities		Business-type activities	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:				
Program revenues:				
Charges for services	\$ 262,031	\$ 270,514	\$ 190,046	\$ 151,434
Operating grants and contributions	78,118	83,907	-	-
Capital grants and contributions	139,094	27,201	23,958	36,576
General revenues:				
Taxes	317,873	317,238	-	-
Other revenue/(expense)	1,434	2,267	1,443	3,497
Total revenues	<u>798,550</u>	<u>701,127</u>	<u>215,447</u>	<u>191,507</u>
Expenses:				
General government	176,893	171,581	-	-
Public safety	33,797	53,898	-	-
Highways and streets	224,309	90,632	-	-
Culture and recreation	76,307	65,230	-	-
Sanitation	174,541	171,540	-	-
Community development	3,103	750	-	-
Interest on long-term debt	20,632	8,025	-	-
Water distribution	-	-	379,116	346,001
Total expenses	<u>709,582</u>	<u>561,656</u>	<u>379,116</u>	<u>346,001</u>
Increase/(decrease) in net position before transfers	88,968	139,471	(163,669)	(154,494)
Transfers	(489,283)	457,618	489,283	(457,618)
Increase/(decrease) in net position	(400,315)	597,089	325,614	(612,112)
Net position, beginning	6,847,117	6,250,028	3,018,220	3,630,332
Net position, ending	<u>\$ 6,446,802</u>	<u>\$ 6,847,117</u>	<u>\$ 3,343,834</u>	<u>\$ 3,018,220</u>

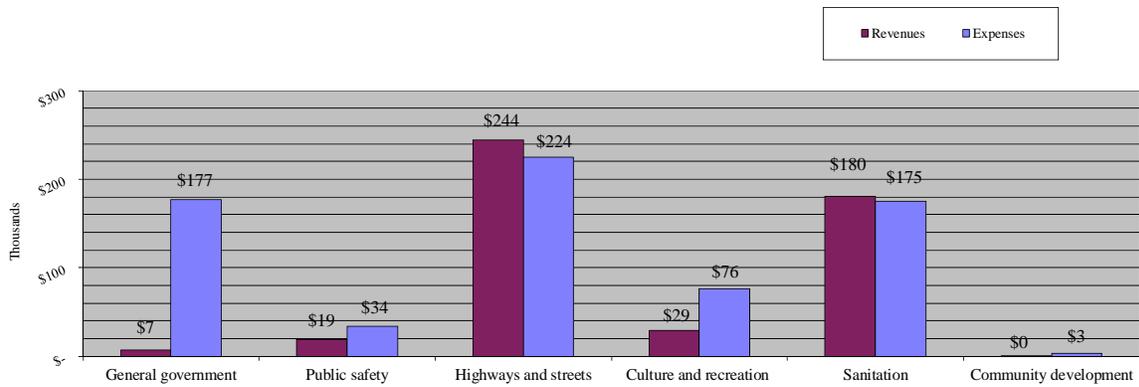
Total resources available during the year to finance governmental operations were \$7,645,667 consisting of net position at July 1, 2011 of \$6,847,117, program revenues of \$479,243, and general revenues of \$319,307. Total governmental activities expenses during the year were \$709,582 and interfund transfers out were \$489,284; thus, governmental net position decreased by \$400,315 to \$6,446,802.

The following graphs provide a breakdown of revenues by source for all government activities and compare program expenses to program revenues.

Revenue By Source - Governmental Activities



Expenses and Program Revenues - Governmental Activities (in Thousands)



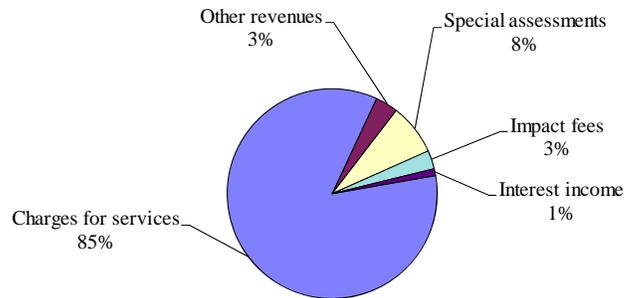
Business-type Activities

The following graphs present water fund revenues and operating expenses compared with prior year activity.

**WATER FUND REVENUES BY SOURCE
Year ended June 30, 2011 and 2012**

	<u>6/30/2011</u>	<u>6/30/2012</u>
REVENUES:		
Charges for services	\$ 142,341	\$ 182,558
Other revenues	9,093	7,488
Special assessments	21,771	16,997
Impact fees	13,566	6,132
Interest income	<u>4,736</u>	<u>2,272</u>
 Total Revenues	 <u><u>\$ 191,507</u></u>	 <u><u>\$ 215,447</u></u>

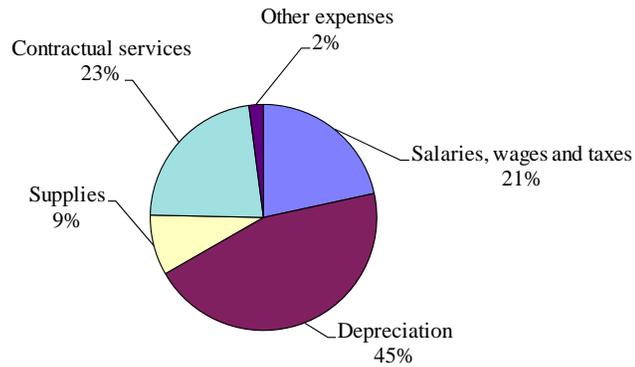
Revenues by Source - Current Year



WATER FUND OPERATING EXPENSES
Year ended June 30, 2011 and 2012

	<u>6/30/2011</u>	<u>6/30/2012</u>
OPERATING EXPENSES:		
Salaries, wages and taxes	\$ 72,381	\$ 76,976
Depreciation	155,549	160,912
Supplies	10,434	30,693
Contractual services	27,348	80,603
Other expenses	<u>12,497</u>	<u>7,377</u>
 Total Operating Expenses	 <u><u>\$ 278,209</u></u>	 <u><u>\$ 356,561</u></u>

Water Fund Operating Expenses - Current Year



Financial Analysis of the Government's Funds

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

Governmental funds – The focus of the City of Toquerville'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 of Toquerville's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Toquerville's governmental funds reported a combined ending fund balance of \$423,886, which is a decrease of \$544,897 from the prior year. Approximately 63% (or \$268,420) of this total amount constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted (or committed or assigned) because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other purposes.

The general fund is the chief operating fund of the City of Toquerville. At the end of the current fiscal year, unassigned fund balance in the general fund was \$268,420, while total fund balance was \$366,856. As a measure of liquidity, it may be useful to compare both unassigned fund balances and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 39% of total general fund expenditures, while total fund balance represents approximately 53% percent of the same amount.

During the year, the City of Toquerville's general fund balance decreased by \$58,228. The key factors are as follows:

- The City budgeted to decrease fund balance by \$199,555.
- The City recognized \$64,908 more in revenues than budgeted primarily due to property, sales and use taxes.
- The City recognized \$72,617 less in expenditures than budgeted primarily due to less general government expenditures than anticipated.

The impact fee capital projects fund has a total fund balance of \$9,151 all of which is restricted for street and park related capital improvements. The net decrease in the fund balance during the year was \$487,916 primarily due to the completion of the Westfield Road project.

General Fund Budgetary Highlights

Actual expenditures for the General Fund at fiscal year end were \$72,617 less than the final budget mainly due to less general government expenditures than anticipated. Actual revenues were more than the final budget by \$64,908 mainly due to property taxes and sales and use taxes. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures for various projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions. Capital assets include land, buildings and improvements, furniture and equipment, computers and software, and infrastructure. At the end of fiscal year 2012, net capital assets of the government activities totaled \$6,737,916 and the net capital assets in the business-type activities totaled \$2,885,734. Depreciation on capital assets is recognized in the government-wide financial statements. (See notes to the financial statements.)

Debt

At fiscal year end, the City had \$715,000 in governmental debt and \$331,667 in business-type debt. During the current fiscal year the City's total debt decreased by \$96,000.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City budget for fiscal year 2012/2013, the City Council and management estimated the budget for operating revenues and expenditures to be similar to fiscal year 2011/2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Toquerville office at 212 North Toquer Blvd, Toquerville, UT 84774 or call 435-635-1094.

BASIC FINANCIAL STATEMENTS

CITY OF TOQUERVILLE
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 261,397	\$ 341,870	\$ 603,267
Receivables (net of allowance)	153,139	46,324	199,463
Temporarily restricted assets:			
Cash and cash equivalents	150,267	100,623	250,890
Special assessment receivable	-	302,427	302,427
Deferred bond issuance costs (net of accumulated amortization)	-	11,799	11,799
Capital assets (net of accumulated depreciation):			
Land	2,033,735	-	2,033,735
Buildings and system	495,993	-	495,993
Improvements other than buildings	506,330	-	506,330
Machinery and equipment	12,594	45,415	58,009
Water distribution system	-	2,835,029	2,835,029
Water rights	-	5,290	5,290
Infrastructure	3,689,264	-	3,689,264
Total assets	<u>7,302,719</u>	<u>3,688,777</u>	<u>10,991,496</u>
Liabilities			
Accounts payable and other current liabilities	52,221	13,276	65,497
Deferred revenue	88,696	-	88,696
Noncurrent liabilities:			
Due within one year	55,000	94,467	149,467
Due in more than one year	660,000	237,200	897,200
Total liabilities	<u>855,917</u>	<u>344,943</u>	<u>1,200,860</u>
Net Position			
Net investment in capital assets	6,022,916	2,565,866	8,588,782
Restricted for:			
Capital projects	20,288	20,207	40,495
Debt service	82,100	291,970	374,070
Perpetual care:			
Expendable	2,791	-	2,791
Nonexpendable	45,088	-	45,088
Unrestricted	273,619	465,791	739,410
Total net position	<u>\$ 6,446,802</u>	<u>\$ 3,343,834</u>	<u>\$ 9,790,636</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 176,893	\$ 5,890	\$ 723	\$ -	\$ (170,280)	\$ -	\$ (170,280)
Public safety	33,797	17,963	652	-	(15,182)	-	(15,182)
Highways and streets	224,309	35,705	72,801	135,772	19,969	-	19,969
Culture and recreation	76,307	21,888	3,942	3,322	(47,155)	-	(47,155)
Sanitation	174,541	180,465	-	-	5,924	-	5,924
Community development	3,103	120	-	-	(2,983)	-	(2,983)
Interest on long-term debt	20,632	-	-	-	(20,632)	-	(20,632)
Total governmental activities	<u>709,582</u>	<u>262,031</u>	<u>78,118</u>	<u>139,094</u>	<u>(230,339)</u>	<u>-</u>	<u>(230,339)</u>
Business-type activities:							
Water distribution	379,116	190,046	-	23,958	-	(165,112)	(165,112)
Total business-type activities	<u>379,116</u>	<u>190,046</u>	<u>-</u>	<u>23,958</u>	<u>-</u>	<u>(165,112)</u>	<u>(165,112)</u>
Total primary government	<u>\$ 1,088,698</u>	<u>\$ 452,077</u>	<u>\$ 78,118</u>	<u>\$ 163,052</u>			
General revenues:							
Taxes:							
Property taxes					123,817	-	123,817
Sales and use taxes					121,708	-	121,708
Franchise taxes					72,348	-	72,348
Unrestricted investment earnings					1,434	1,443	2,877
Transfers					(489,283)	489,283	-
Total general revenues and transfers					<u>(169,976)</u>	<u>490,726</u>	<u>320,750</u>
Change in net position					(400,315)	325,614	(74,701)
Net position - beginning					<u>6,847,117</u>	<u>3,018,220</u>	<u>9,865,337</u>
Net position - ending					<u>\$ 6,446,802</u>	<u>\$ 3,343,834</u>	<u>\$ 9,790,636</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Capital Projects Impact Fees</u>	<u>Permanent Perpetual Care</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 261,397	\$ -	\$ -	\$ 261,397
Accounts receivables, net of allowance for doubtful accounts of \$8,648	29,443	-	-	29,443
Due from other governments	35,000	-	-	35,000
Property tax receivable	88,696	-	-	88,696
Cash - restricted	93,237	9,151	47,879	150,267
Total assets	<u>\$ 507,773</u>	<u>\$ 9,151</u>	<u>\$ 47,879</u>	<u>\$ 564,803</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 28,243	\$ -	\$ -	\$ 28,243
Accrued liabilities	23,978	-	-	23,978
Deferred revenue	88,696	-	-	88,696
Total liabilities	<u>140,917</u>	<u>-</u>	<u>-</u>	<u>140,917</u>
Fund balances				
Nonspendable	-	-	45,088	45,088
Restricted	93,237	9,151	2,791	105,179
Assigned	5,199	-	-	5,199
Unassigned	268,420	-	-	268,420
Total fund balances	<u>366,856</u>	<u>9,151</u>	<u>47,879</u>	<u>423,886</u>
Total liabilities and fund balances	<u>\$ 507,773</u>	<u>\$ 9,151</u>	<u>\$ 47,879</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	\$ 7,344,137
Accumulated depreciation	<u>(606,221)</u>
Net adjustment	6,737,916
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(715,000)</u>
Net position of governmental activities	<u>\$ 6,446,802</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General	Capital Projects Impact Fees	Permanent Perpetual Care	Total Governmental Funds
Revenues				
Property taxes	\$ 123,817	\$ -	\$ -	\$ 123,817
Sales and use taxes	121,708	-	-	121,708
Franchise and energy taxes	72,348	-	-	72,348
Licenses and permits	26,449	-	-	26,449
Intergovernmental revenue	83,201	-	-	83,201
Interest income	1,434	890	167	2,491
Contributions and donations	3,780	-	-	3,780
Charges for services	39,545	-	1,080	40,625
Cemetery	12,883	-	-	12,883
Sanitation charges	180,465	-	-	180,465
Impact fees	-	11,056	-	11,056
Other revenues	2,328	117,399	-	119,727
Total revenues	<u>667,958</u>	<u>129,345</u>	<u>1,247</u>	<u>798,550</u>
Expenditures				
Current:				
General government	159,584	-	-	159,584
Public safety	33,797	-	-	33,797
Highways and streets	192,529	-	-	192,529
Culture and recreation	26,471	-	-	26,471
Cemetery	24,031	-	-	24,031
Sanitation	174,541	-	-	174,541
Economic development	3,103	-	-	3,103
Debt service:				
Debt payment	74,632	-	-	74,632
Capital outlay	-	654,759	-	654,759
Total expenditures	<u>688,688</u>	<u>654,759</u>	<u>-</u>	<u>1,343,447</u>
Excess of revenues over (under) expenditures	(20,730)	(525,414)	1,247	(544,897)
Other financing sources (uses)				
Transfers in	-	37,498	-	37,498
Transfers out	(37,498)	-	-	(37,498)
Total other financing sources (uses)	<u>(37,498)</u>	<u>37,498</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(58,228)	(487,916)	1,247	(544,897)
Fund balances - beginning of year	<u>425,084</u>	<u>497,067</u>	<u>46,632</u>	<u>968,783</u>
Fund balances - end of year	<u>\$ 366,856</u>	<u>\$ 9,151</u>	<u>\$ 47,879</u>	<u>\$ 423,886</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds		\$ (544,897)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 707,001	
Depreciation expense	<u>(127,136)</u>	
Net adjustment		579,865
Transfers of capital assets from governmental funds to proprietary funds decrease net position in the statement of activities but do not appear in the governmental funds because governmental funds report capital outlays as expenditures.		
		(489,283)
The issuance of long-term debt provides current financial resources in the 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 on net position.		
Debt repayments	<u>54,000</u>	
Net adjustment		<u>54,000</u>
Change in net position of governmental activities		<u><u>\$ (400,315)</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 101,300	\$ 101,300	\$ 123,817	\$ 22,517
Sales and use taxes	100,000	100,000	121,708	21,708
Franchise and energy taxes	74,000	74,000	72,348	(1,652)
Licenses and permits	14,000	24,000	26,449	2,449
Intergovernmental revenue	72,500	82,350	83,201	851
Interest income	2,000	2,000	1,434	(566)
Contributions and donations	1,500	1,500	3,780	2,280
Charges for services	29,200	29,200	39,545	10,345
Cemetery	5,200	10,200	12,883	2,683
Sanitation charges	178,500	178,500	180,465	1,965
Other revenues	-	-	2,328	2,328
Total revenues	<u>578,200</u>	<u>603,050</u>	<u>667,958</u>	<u>64,908</u>
Expenditures				
Current:				
General government	182,380	212,880	159,584	53,296
Public safety	31,500	37,500	33,797	3,703
Highways and streets	67,000	198,100	192,529	5,571
Culture and recreation	18,140	24,440	26,471	(2,031)
Cemetery	15,438	25,985	24,031	1,954
Sanitation	167,000	183,000	174,541	8,459
Economic development	4,400	4,400	3,103	1,297
Debt service	23,400	75,000	74,632	368
Total expenditures	<u>509,258</u>	<u>761,305</u>	<u>688,688</u>	<u>72,617</u>
Excess of revenues over (under) expenditures	68,942	(158,255)	(20,730)	137,525
Other financing sources (uses)				
Transfers in	-	2,600	-	(2,600)
Transfers out	-	(43,900)	(37,498)	6,402
Total other financing sources (uses)	<u>-</u>	<u>(41,300)</u>	<u>(37,498)</u>	<u>3,802</u>
Net change in fund balance	68,942	(199,555)	(58,228)	141,327
Fund balance - beginning of year	425,084	425,084	425,084	-
Fund balance - end of year	<u>\$ 494,026</u>	<u>\$ 225,529</u>	<u>\$ 366,856</u>	<u>\$ 141,327</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Net Position
Proprietary Fund
June 30, 2012

	Water Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 341,870
Receivables, net of allowance of \$5,900	46,324
Current portion of special assessments receivable	72,999
Total current assets	461,193
Noncurrent assets:	
Cash - restricted	100,623
Special assessments receivable, net of current portion	229,428
Bond issuance costs, net of accumulated amortization	11,799
Capital assets:	
Machinery and equipment	68,883
Water distribution system	4,246,569
Water rights	5,290
Accumulated depreciation	(1,435,008)
Total noncurrent assets	3,227,584
Total assets	3,688,777
Liabilities	
Current liabilities:	
Accounts payable	7,348
Other accrued liabilities	5,928
Current portion of noncurrent liabilities	94,467
Total current liabilities	107,743
Noncurrent liabilities:	
Loans payable	23,200
Bonds payable	214,000
Total noncurrent liabilities	237,200
Total liabilities	344,943
Net position	
Net investment in capital assets	2,565,866
Restricted for:	
Debt service	291,970
Capital outlay	20,207
Unrestricted	465,791
Total net position	\$ 3,343,834

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2012

	Water Fund
Operating revenues	
Charges for services	\$ 182,558
Other revenues	7,488
Total operating revenues	190,046
Operating expenses	
Salaries and wages	72,162
Payroll taxes	4,814
Depreciation	160,912
Supplies	30,693
Contractual services	80,603
Other expenses	7,377
Total operating expenses	356,561
Operating income (loss)	(166,515)
Non-operating revenues (expenses)	
Special assessment	16,997
Impact fees	6,132
Interest income	2,272
Special assessment expenses	(7,120)
Interest expense	(15,435)
Total non-operating revenues (expenses)	2,846
Income (loss) before capital contributions	(163,669)
Capital contributions	489,283
Change in net position	325,614
Net position, beginning of the year	3,018,220
Net position, end of the year	\$ 3,343,834

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2012

	<u>Water Fund</u>
Cash flows from operating activities:	
Cash received from customers, service fees	\$ 164,143
Cash paid to suppliers	(119,425)
Cash paid to employees	(75,767)
Cash flows from operating activities	(31,049)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,998)
Special assessment collections	65,383
Principal paid on capital debt	(71,000)
Long-term debt proceeds	29,000
Impact fees received	6,132
Special assessment expenses paid	(4,170)
Interest paid on capital debt	(15,435)
Cash flows from capital and related financing activities	3,912
Cash flows from investing activities:	
Interest received	2,272
Cash flows from investing activities	2,272
Net change in cash and cash equivalents	(24,865)
Cash and cash equivalents, including restricted cash, beginning of year	467,358
Cash and cash equivalents, including restricted cash, end of year	\$ 442,493
Reconciliation of operating loss to cash flows from operating activities:	
Operating income (loss)	\$ (166,515)
Adjustments to reconcile net income to cash flows from operating activities:	
Depreciation	160,912
Changes in operating assets and liabilities	
(Increase)/decrease in receivables	(25,903)
Increase/(decrease) in accounts payable	(752)
Increase/(decrease) in accrued liabilities	1,209
Cash flows from operating activities	\$ (31,049)
Schedule of non-cash capital and related financing activities	
Contributions of capital assets	\$ 489,283

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

General

The City of Toquerville (City) is incorporated under the laws of the State of Utah. The City operates under a council form of government and provides the following services: general government, public safety, highways and streets, culture and recreation, sanitation, community development, and water distribution services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Property taxes, sales taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **Impact Fee Capital Projects Fund** is used to account for impact fee revenues and capital outlays relating to streets and parks.

The City reports the following nonmajor governmental fund:

The **Perpetual Care Permanent Fund** is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

The City reports the following major proprietary fund:

The **Water Fund** accounts for the activities related to the City's water operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants as contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables

All trade accounts receivables in the general fund and the proprietary fund are shown net of an allowance for uncollectibles.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the City in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 (lien date) for all real property located in the City. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the City's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

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.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the assets estimated useful lives.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred. Significant renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets in governmental funds, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

In accordance with GASB 34, the City has opted not to retroactively report infrastructure capital assets. Infrastructure normally includes assets such as roads, curb and gutter, sidewalks, street lighting, storm drains and other improvements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and system	15-40 years
Improvements other than buildings	10-30 years
Machinery and equipment	5-20 years
Water distribution system	7-40 years
Infrastructure	40-50 years

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

There are no accruals for compensated absences as they are deemed immaterial.

Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt.

Net Position and Fund Equity

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

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

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

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

Unrestricted net position represents the net amount of the assets and liabilities that are not included in the determination of net investments in capital assets or restricted net position.

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

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

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

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

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

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

Estimates

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

NOTE 2. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

Annual budgets are reported and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1 in accordance with State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State Law, at the department level. Budget amendments are required to increase expenditure budgets and are adopted, in a public hearing, before the end of the fiscal year.

The governmental fund type budgets are prepared using the modified accrual basis of accounting. Budgets for the proprietary fund are prepared using the accrual basis of accounting.

During the current fiscal year, budget amendments were made to prevent budget overruns and to increase appropriations for unanticipated expenditures.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance, and Accountability, Continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the City in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 (lien date) for all real property located in the City. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

NOTE 3. Deposits and Investments

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

Deposits:	
Cash in bank	\$ 580,119
Investments:	
State Treasurer's Investment Pool	<u>274,038</u>
Total deposits and investments	<u><u>\$ 854,157</u></u>

A reconciliation of deposits and investments as shown on the statement of net position is as follows:

Cash and cash equivalents	\$ 603,267
Cash and cash equivalents - restricted	<u>250,890</u>
Total	<u><u>\$ 854,157</u></u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments, Continued

Restricted cash and cash equivalents at June 30, 2012 consists of the following:

General Fund:	
Debt service	\$ 82,100
Capital projects - TRE cash bond	11,137
Total general fund restrictions	93,237
Capital Projects Fund:	
Capital projects - highways and streets	5,830
Capital projects - parks	3,321
Total capital project fund restrictions	9,151
Permanent Fund:	
Cemetery perpetual care	47,879
Total permanent fund restrictions	47,879
Water Fund:	
Debt service	80,416
Capital projects	20,207
Total water fund restrictions	100,623
Total cash - restricted	\$ 250,890

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

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

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2012, \$333,928 of the City's bank balance of \$583,928 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments, Continued

Investments

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

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

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

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

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

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments, Continued

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

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 274,038	\$ 274,038	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 274,038</u>	<u>\$ 274,038</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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

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

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 274,038	\$ -	\$ -	\$ -	\$ 274,038
Total Fair Value	<u>\$ 274,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 274,038</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 4. Receivables

Accounts receivable in the general fund consists of sanitation and storm drain fee billings. Accounts receivable in the proprietary fund consists of water billings.

The balance in due from other governments in the general fund consists of funds due from the State of Utah for sales tax and Class C road revenues.

The balance in property tax receivable relates to estimated property tax revenues that are levied for the subsequent fiscal year, which is why there is a corresponding deferred revenue balance. The receivable has been recognized in these financial statements because there was an enforceable legal claim to the property taxes as of fiscal year end.

The City created the Anderson Junction Special Improvement District (SID) in 2001 to provide for the construction of water system improvements. During fiscal year 2005, assessments associated with the SID were levied upon the real property owners, within the City, who will benefit from the SID. The assessments will be collected by the City during the 11 years following the levy. The total amount levied was \$1,590,000. The current portion consists of \$66,000 for the fiscal year 2013 levy and \$6,999 of uncollected fees and interest relating to previous fiscal years, which is all expected to be collected.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the fiscal year.

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 2,033,735	\$ -	\$ -	\$ 2,033,735
Construction in progress	843,796	654,391	(1,498,187)	-
Total capital assets, not being depreciated	<u>2,877,531</u>	<u>654,391</u>	<u>(1,498,187)</u>	<u>2,033,735</u>
Capital assets, being depreciated:				
Buildings and improvements	587,526	-	-	587,526
Improvements other than buildings	629,173	69,705	-	698,878
Furniture and equipment	46,203	5,997	-	52,200
Infrastructure	2,985,986	985,812	-	3,971,798
Total capital assets, being depreciated	<u>4,248,888</u>	<u>1,061,514</u>	<u>-</u>	<u>5,310,402</u>
Less accumulated depreciation for:				
Buildings and improvements	(76,506)	(15,027)	-	(91,533)
Improvements other than buildings	(168,018)	(24,530)	-	(192,548)
Furniture and equipment	(35,049)	(4,557)	-	(39,606)
Infrastructure	(199,512)	(83,022)	-	(282,534)
Total accumulated depreciation	<u>(479,085)</u>	<u>(127,136)</u>	<u>-</u>	<u>(606,221)</u>
Total capital assets, being depreciated, net	<u>3,769,803</u>	<u>934,378</u>	<u>-</u>	<u>4,704,181</u>
Governmental activities capital assets, net	<u>\$ 6,647,334</u>	<u>\$ 1,588,769</u>	<u>\$(1,498,187)</u>	<u>\$ 6,737,916</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental Activities:	
General government	\$ 17,309
Highways and streets	84,022
Culture and recreation	25,805
Total depreciation expense - governmental activities	<u>\$ 127,136</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the fiscal year.

Business-type Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Water shares	\$ 5,290	\$ -	\$ -	\$ 5,290
Total capital assets, not being depreciated	<u>5,290</u>	<u>-</u>	<u>-</u>	<u>5,290</u>
Capital assets, being depreciated:				
Water distribution system	3,757,286	489,283	-	4,246,569
Equipment	62,885	5,998	-	68,883
Total capital assets, being depreciated	<u>3,820,171</u>	<u>495,281</u>	<u>-</u>	<u>4,315,452</u>
Less accumulated depreciation for:				
Water distribution system	(1,257,374)	(154,166)	-	(1,411,540)
Equipment	(16,722)	(6,746)	-	(23,468)
Total accumulated depreciation	<u>(1,274,096)</u>	<u>(160,912)</u>	<u>-</u>	<u>(1,435,008)</u>
Total capital assets, being depreciated, net	<u>2,546,075</u>	<u>334,369</u>	<u>-</u>	<u>2,880,444</u>
Business-type activities capital assets, net	<u>\$ 2,551,365</u>	<u>\$ 334,369</u>	<u>\$ -</u>	<u>\$ 2,885,734</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Liabilities

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2012</u>	<u>Current Portion</u>
Governmental activities:					
Bonds payable:					
Sales tax revenue bonds	\$ 305,000	\$ -	\$ (16,000)	\$ 289,000	\$ 16,000
Road and storm water revenue bonds	<u>464,000</u>	<u>-</u>	<u>(38,000)</u>	<u>426,000</u>	<u>39,000</u>
Governmental activity long-term liabilities	<u>769,000</u>	<u>-</u>	<u>(54,000)</u>	<u>715,000</u>	<u>55,000</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	14,667	-	(8,000)	6,667	6,667
Special assessment bonds	<u>343,000</u>	<u>-</u>	<u>(63,000)</u>	<u>280,000</u>	<u>66,000</u>
Total bonds payable	<u>357,667</u>	<u>-</u>	<u>(71,000)</u>	<u>286,667</u>	<u>72,667</u>
Loans payable	<u>16,000</u>	<u>29,000</u>	<u>-</u>	<u>45,000</u>	<u>21,800</u>
Total loans payable	<u>16,000</u>	<u>29,000</u>	<u>-</u>	<u>45,000</u>	<u>21,800</u>
Business-type long-term liabilities	<u>373,667</u>	<u>29,000</u>	<u>(71,000)</u>	<u>331,667</u>	<u>94,467</u>
Total long-term liabilities	<u>\$ 1,142,667</u>	<u>\$ 29,000</u>	<u>\$ (125,000)</u>	<u>\$ 1,046,667</u>	<u>\$ 149,467</u>

The annual requirements to amortize long-term debt at June 30, 2012 are as follows:

Fiscal Year Ended June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 55,000	\$ 26,395	\$ 94,467	\$ 14,101
2014	58,000	24,240	74,800	11,113
2015	60,000	21,970	77,800	8,123
2016	62,000	19,610	78,800	5,369
2017	65,000	17,160	5,800	-
2018-2022	307,000	45,170	-	-
2023-2027	<u>108,000</u>	<u>8,200</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 715,000</u>	<u>\$ 162,745</u>	<u>\$ 331,667</u>	<u>\$ 38,706</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Liabilities, Continued

The following is a listing of long-term liabilities as of June 30, 2012:

Governmental activities

Bonds payable:

Sales Tax Revenue Bonds - Series 2006, due in annual principal and interest installments ranging from \$22,550 to \$24,150, starting in fiscal year 2008, bearing interest at 2.50%, maturing January 1, 2027.	\$ 289,000
--	------------

Road and Storm Water Revenue Bonds - Series 2010, due in annual principal and interest installments ranging from \$58,010 to \$59,565, starting in fiscal year 2012, bearing interest at 4.50%, maturing December 1, 2020.	<u>426,000</u>
--	----------------

Total bonds payable, governmental activities	<u><u>715,000</u></u>
--	-----------------------

Business-type activities

Bonds payable:

Water Revenue Bonds - Series 1990, due in annual principal and interest installments ranging from \$6,733 to \$8,227 bearing interest at 1.00%, maturing January 1, 2013.	6,667
---	-------

Special Assessment Bonds - Series 2005, due in annual principal and interest installments ranging from \$179,550 to \$187,690, bearing interest at 4.50%, maturing June 1, 2016.	<u>280,000</u>
--	----------------

Total bonds payable, business-type activities	<u><u>286,667</u></u>
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Loans payable:

Loan payable to Utah State Division of Finance, due in one balloon payment on January 1, 2013, bearing interest at 0%.	16,000
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Loan payable to Utah State Division of Finance, due in annual principal payments of \$5,800, beginning February 1, 2013, bearing interest at 0%.	<u>29,000</u>
--	---------------

Total loans payable, business-type activities	<u><u>45,000</u></u>
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Total long-term liabilities	1,046,667
Less current portion:	<u>(149,467)</u>
Net long-term liabilities	<u><u>\$ 897,200</u></u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Liabilities, Continued

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

The Governmental Accounting Standards Board requires special assessment debt to be recorded on the books when establishment and maintenance of a reserve fund is required; however, the Assessment Bonds are not general obligations of the City, but are payable exclusively out of the Assessment Fund and the Debt Service Reserve Fund. The City shall not be held liable for the payment of the Assessment Bonds, except to the extent of the Assessment Fund and Debt Service Reserve Fund, but shall be held responsible for the lawful levy of all regular assessments, for the maintenance of the Debt Service Reserve Fund as provided by law, and for the faithful accounting, collection, settlement and payment of the assessments and the moneys in said Funds.

NOTE 7. Interfund Transfers

Interfund transfers for the year ended June 30, 2012 are as follows:

	Transfers in:	
Transfer out:	Capital Projects Impact Fees	Total Transfers Out
General Fund	\$ 37,498	\$ 37,498
Total transfers in	\$ 37,498	\$ 37,498

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

See page 16 for details on the \$489,283 capital asset interfund transfer that is recognized in the statement of activities but not in the fund financial statements.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 8. Equity Classifications

At June 30, 2012 the City's nonspendable, restricted and assigned fund balances and restricted net position are as follows:

General Fund:

Restricted for:

Sales tax revenue bonds - series 2006:

Sinking fund: bond account	\$ 11,613
Sinking fund: reserve account	24,300

Road and storm water revenue bonds - series 2010:

Sinking fund: bond account	33,932
Sinking fund: reserve account	12,255
Total debt reserves	82,100

Capital outlay

TRE subdivision completion bond	11,137
Total capital outlay	11,137

Total general fund restricted	\$ 93,237
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Assigned for:

Miss Toquerville City fund	\$ 5,199
Total assigned	\$ 5,199

Capital Projects Fund:

Capital projects fund impact fees:

Impact fees - streets	\$ 5,830
Impact fees - parks	3,321

Total capital project fund restricted	\$ 9,151
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Permanent Fund:

Cemetery perpetual care:

Expendable (restricted)	\$ 2,791
Nonexpendable (nonspendable)	45,088

Total permanent fund	\$ 47,879
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Water Fund:

Debt:

Water revenue bonds - series 1990:

Sinking fund	\$ 3,500
Reserve and repair	8,470

Special assessment bonds -series 2005:

Debt service reserve	68,446
Special assessment receivable	211,554
Total debt restrictions	291,970

Capital outlay:

Impact fees - water	20,207
Total capital outlay	20,207

Total water fund restrictions	\$ 312,177
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CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2012

NOTE 9. Retirement and Pension Plans

As of June 30, 2012, the City did not have any employees that participate in the Utah State-Wide Local Government Retirement System.

NOTE 10. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by Utah Local Governments Trust and CNA Surety. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

NOTE 11. Sewer and Garbage Contracts

The City has sanitation contracts with the Ash Creek Special Service District and the Washington County Solid Waste Special Service District. The City is responsible for monthly billings, collections, and payments to the districts, which is accounted for in the general fund.

NOTE 12. Related-Party Transactions

During fiscal year 2012 A-T Asphalt Paving, Inc. provided roadway improvements and various asphalt repair services to the City. A total of \$17,396 was incurred and paid during fiscal year 2012 for these services. A-T Asphalt Paving, Inc. is partially owned by Daren Cottam who serves as a member of the City Council.

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SUPPLEMENTARY INFORMATION

CITY OF TOQUERVILLE
Supplementary Information – Bond Disclosures
June 30, 2012

The Water System Revenue Bond Resolution and Excise Tax Road and Storm Water Revenue Bond Resolution set forth certain covenants and restrictions. The City is in compliance with all covenants and restrictions for these Bond requirements. Adequate funds are available for reserve requirements.

Additional disclosures required by the resolutions are:

- a. Number of water connections within the boundaries of the City at June 30, 2012 501
- b. Total water billings for the fiscal year ended June 30, 2012 \$ 182,558
- c. Average monthly water billing per customer \$ 30.33
- d. Water rates for the fiscal year ended June 30, 2012 are as follows:

0 to 10,000 gallons	\$ 36.21 per month
10,001 to 30,000 gallons	\$ 4.00 per 1,000 gallons
30,001 gallons and over	\$ 6.00 per 1,000 gallons
- e. Number of storm water utility users within the boundaries of the City at June 30, 2012 499
- f. Total storm water utility billings for the fiscal year ended June 30, 2012 \$ 35,705
- g. Storm water utility rates for the year ended June 30, 2012 are as follows:

Per 5,000 square feet of equivalent residential unit	\$6.00 per month
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- h. Insurance coverage in effect at June 30, 2012:

Type	Policy Number	Effective	Expires	Limits
Coverage with Utah Local Governments Trust:				
General liability aggregate	16620-GL2012	07/01/11	07/01/12	\$ 2,000,000
Auto liability	16620-GL2012	07/01/11	07/01/12	2,000,000
Property	ULGT-APDP-2012	07/01/11	07/01/12	3,045,535
Coverage with CNA Surety:				
Treasurer's bond	71202982	04/16/12	04/16/13	70,000
Recorder's bond	70887458	09/01/11	09/01/13	47,000

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

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

Honorable Mayor and
Members of the City Council
City of Toquerville
Toquerville, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toquerville, as of and for the year ended June 30, 2012, which collectively comprise the City of Toquerville's basic financial statements and have issued our report thereon dated December 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Toquerville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Toquerville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Toquerville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Toquerville's internal control over financial reporting.

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

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

Compliance and Other Matters

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

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Keddington & Christensen, LLC

December 11, 2012



Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH THE
STATE OF UTAH LEGAL
COMPLIANCE AUDIT GUIDE**

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

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

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

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

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

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

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

In our opinion, Toquerville City complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the State of Utah Legal Compliance Audit Guide and which are described in the accompanying Schedule of Findings and Recommendations.

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

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

Keddington & Christensen, LLC

December 11, 2012

**City of Toquerville
Schedule of Findings and Recommendations
For The Year Ended June 30, 2012**

SIGNIFICANT DEFICIENCIES

1. SEGREGATION OF DUTIES

Finding

- **Accounts Payable**

During the test work over the area of accounts payable we found that the employee performing these responsibilities is also authorized to sign checks. She has custody of assets (check) and recording responsibilities. It results in an opportunity to commit theft by manipulating the signed checks then adjusting the accounts payable records to hide the theft. This weakness in internal controls appears to be the consequence of trying to run the office more efficiently.

- **Accounts Receivable**

During the test work over the area of accounts payable we found that the employee performing these responsibilities post receivable payments from the checks instead of from a list of checks. She has custody of company assets and access to the accounting records at the same time. This results in an opportunity to manipulate the accounts to their own advantage. This weakness in internal control appears to be the consequence of trying to run the office more efficiently.

Recommendation

The City should separate the functions of custody of assets and recording of assets to the general ledger by having one individual responsible for the custody of the assets that does not have access to manipulate accounting records and have a second individual responsible to record all transactions in the general ledger but does not have custody of the assets.

2. CONSTRUCTION BONDS & ENCROACHMENT BONDS

Finding

During the audit we noted that the city has construction deposits of \$9,775 which were received before 6-30-10. It is possible that these construction projects have been completed. It is very likely that these amounts are either 1) owed to the individuals and should be paid, or 2) if the city had to pay to have the cleanup done then these amounts should be taken as income. We also noted the city has encroachment permit bonds of \$3,750 which has not changed from the prior year, which indicates that these are all over a year old as well.

Recommendation

We recommend that the City research these amounts and determine who should receive these amounts and get them paid.

City of Toquerville
Schedule of Findings and Recommendations (Continued)
For The Year Ended June 30, 2012

STATE/LEGAL COMPLIANCE FINDINGS

3. FUND BALANCE

Finding

Utah Code 10-6-116 (2) states: The maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. For cities, the total estimated revenue of the general fund is next year's total general fund budgeted revenue. During the test work for state and legal compliance it was noted that the City's general fund balance was over the maximum allowable balance by \$169,430.

Recommendation

The City should ensure that proper training on regulations is provided, and put in place procedures to promptly comply with the State requirements.

4. PROPERTY TAX LIMITATIONS

Finding

Utah Code 59-2-912 states that the "The governing body of each taxing entity shall...adopt a proposed...tax rate for the taxing entity..." During our audit, we noted that the tax rate was not formally adopted by the City during fiscal year 2012.

Recommendation

We recommend that the City receive formal approval from the City Council regarding proposed tax rates as required by Utah State law.

5. EXPENDITURES IN EXCESS OF BUDGET

Finding

Utah State Code Section 53a-17 states, "Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriations for any department or fund". During our audit we noted that Culture and recreation department in the General Fund had expenditures that exceeded total appropriations by \$2,031.

Recommendation

We recommend that the City closely monitor expenditures in the funds to ensure the City is in compliance with Utah State Code.

City of Toquerville
212 N Toquerville Boulevard,
Box 27
Toquerville, UT 84774

Ph: (435) 635-1094,
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Management's Response to the Auditor's Findings

For the Fiscal Year Ended June 30, 2012

Office of the Utah State Auditor

P.O. Box 142310

Salt Lake City, UT 84114

To Whom It May Concern:

This letter is in response to the finding and recommendations made by our independent auditors, Keddington & Christensen, LLC, for the audit of the City of Toquerville, Utah for the year ended June 30, 2012.

Significant Deficiencies:

1. Segregation of Duties

Management's Response: We concur with the auditor's finding; however, the size of the City and its administrative staff may prohibit a complete and proper segregation of duties within the accounting functions. The City has implemented mitigating controls such as independent reviews of bank reconciliations, disbursements, general ledger activity and periodic financial statements. Management has recently made significant changes to the structure of the accounting duties, and we'll continue to consider ways the City can efficiently achieve greater segregation of duties.

2. Construction Bonds & Encroachment Bonds

Management's Response: Management is aware of the construction bonds balance and the City is in the process of resolving this issue. Both of these balances are being monitored more closely now than they have been in past years.

Compliance:

3. Fund Balance

Management's Response: We concur with the auditor's findings and recommendations and we are aware of the compliance requirements involving the fund balance limitations of the general fund. Management will strive to eliminate the excess fund balance as soon as reasonably possible.

4. Property Tax Limitations

Management's Response: We concur with the auditor's findings and recommendations. The City typically adopts the tax rate informally through the adoption of the budget. The City Council will formally approve the tax rate.

5. Expenditures in Excess of Budget

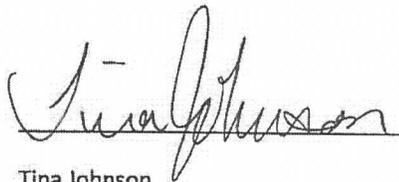
Management's Response: We concur with the auditor's findings and recommendations.

Sincerely,



M. Darrin LeFevre

Mayor



Tina Johnson

Treasurer