

Santaquin City
Utah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2013

Santaquin City
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June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 Santaquin City, Utah (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Santaquin City, Utah, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the supplement on the Modified Approach for Infrastructure Reporting on pages 3-11, and 43-47 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santaquin City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santaquin City's internal control over financial reporting and compliance.



Larson & Company, PC

Spanish Fork, Utah
December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Santaquin City
Management's Discussion and Analysis
June 30, 2013

As management of Santaquin City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

- *Total net position for the City as a whole increased by \$1,743,823.
- *Total unrestricted net position for the City as a whole increased by \$445,880.
- *Total net position for governmental activities increased by \$532,808.
- *Total net position for business-type activities increased by \$1,211,015.

BASIC FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Santaquin City
Management's Discussion and Analysis
June 30, 2013

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

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

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

Santaquin City
Management's Discussion and Analysis
June 30, 2013

FINANCIAL ANALYSIS

Santaquin City's Net Position

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Current and other assets	\$ 2,036,028	1,759,451	4,471,821	3,971,708	6,507,850	5,731,159
Net capital assets	15,802,896	15,424,807	31,272,039	21,505,496	47,074,935	36,930,303
Total assets	<u>17,838,924</u>	<u>17,184,258</u>	<u>35,743,861</u>	<u>25,477,204</u>	<u>53,582,785</u>	<u>42,661,462</u>
Long-term liabilities	992,979	968,001	16,928,256	9,356,720	17,921,235	10,324,721
Other liabilities	773,960	678,332	2,768,103	1,283,999	3,542,063	1,962,330
Deferred inflow of resources	4,853	3,600	-	-	4,853	3,600
Total liabilities	<u>1,771,792</u>	<u>1,649,933</u>	<u>19,696,360</u>	<u>10,640,719</u>	<u>21,468,151</u>	<u>12,290,651</u>
Net position:						
Net investment in capital assets	14,809,917	14,456,805	14,343,783	12,148,776	29,153,700	26,605,581
Restricted	276,188	515,649	2,483,119	3,493,834	2,759,307	4,009,483
Unrestricted	981,028	561,871	(779,401)	(806,124)	201,627	(244,253)
Total net position	<u>\$ 16,067,132</u>	<u>15,534,325</u>	<u>16,047,501</u>	<u>14,836,486</u>	<u>32,114,633</u>	<u>30,370,811</u>

As noted earlier, net position may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities and deferred inflows of resources at the close of the year by \$32,114,633, an increase of \$1,743,823 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net position at the end of the year is \$201,627, which represents an increase of \$445,880 from the previous year. Unrestricted net position are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

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

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

Santaquin City
Management's Discussion and Analysis
June 30, 2013

FINANCIAL ANALYSIS (continued)

Santaquin City's Change in Net Position

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Program revenues:						
Charges for services	1,263,364	1,301,026	2,868,495	2,816,621	4,131,858	4,117,647
Operating grants	386,102	362,914	-	-	386,102	362,914
Capital grants	116,799	2,181,437	2,995,468	378,300	3,112,267	2,559,737
General revenues:						
Property taxes	550,001	606,398	-	-	550,001	606,398
Sales tax	931,029	862,068	-	-	931,029	862,068
Other taxes	556,111	448,718	-	-	556,111	448,718
Other revenues	81,739	163,497	19,260	16,612	100,999	180,109
Total revenues	<u>3,885,145</u>	<u>5,926,059</u>	<u>5,883,222</u>	<u>3,211,532</u>	<u>9,768,368</u>	<u>9,137,590</u>
Expenses:						
General government	1,245,579	1,458,095	-	-	1,245,579	1,458,095
Public safety	1,629,613	1,616,455	-	-	1,629,613	1,616,455
Highways and improvements	762,207	644,132	-	-	762,207	644,132
Sanitation	285,612	360,358	-	-	285,612	360,358
Parks and recreation	871,697	877,510	-	-	871,697	877,510
Cemetery	68,096	74,214	-	-	68,096	74,214
Interest on long-term debt	38,931	62,888	-	-	38,931	62,888
Water	-	-	2,013,218	1,370,725	2,013,218	1,370,725
Sewer	-	-	1,106,252	880,944	1,106,252	880,944
Irrigation	-	-	3,340	1,994	3,340	1,994
Total expenses	<u>4,901,734</u>	<u>5,093,652</u>	<u>3,122,811</u>	<u>2,253,663</u>	<u>8,024,545</u>	<u>7,347,314</u>
Excess (deficiency) before transfers	<u>(1,016,589)</u>	<u>832,407</u>	<u>2,760,412</u>	<u>957,869</u>	<u>1,743,823</u>	<u>1,790,276</u>
Transfers in (out)	1,549,397	1,522,900	(1,549,397)	(1,522,900)	-	-
Change in net position	<u>532,808</u>	<u>2,355,307</u>	<u>1,211,015</u>	<u>(565,031)</u>	<u>1,743,823</u>	<u>1,790,276</u>

For the City as a whole, total revenues increased by \$630,777 compared to the previous year, while total expenses increased by \$677,231. The total net change of \$1,743,823 is, in private sector terms, the net income for the year which is \$46,453 less than the previous year.

Governmental activities revenues of \$3,885,145 is a decrease of \$2,040,913 from the previous year. Grant revenues decreased significantly during the year. Governmental activities expenses of \$4,901,734 is an increase of \$191,917 from the previous year.

Business-type activities revenue of \$5,883,222 is an increase of \$2,671,691 from the previous year. Revenues from capital grants increased by \$2,617,168. Business-type activities expenses of \$3,122,811 is an increase of \$869,148 from the previous year. This is due to an overall increase in operation expenses.

Santaquin City
Management's Discussion and Analysis
June 30, 2013

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

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

General Fund

The fund balance of \$1,132,402 reflects an increase of \$548,426 from the previous year. Total revenues decreased by \$20,165. Tax revenues, including property taxes and sales taxes increased by \$119,957. Intergovernmental revenue increased by \$22,648. Revenues from charges for services increased by \$67,630. All other revenues increased by \$190,069.

Total expenditures increased by \$34,011. Expenditure changes from the previous year, by department: general government decreased by \$33,694; public safety increased by \$24,881; streets and highways decreased by \$151,285; sanitation decreased by \$74,746; parks and recreation increased by \$18,025; and cemetery decreased by \$6,894. Capital outlay expenditures increased by \$10,975. Debt service expenditures increased by \$123,840.

Fund balance restricted for parks and recreation and liabilities amounted to \$21,323 and 44,716, respectively. Assigned fund balances amounted to \$76,908. The unassigned fund balance amounts to \$989,456.

Water Fund

The change in net position (net loss) from operations was \$17,309, which was \$227,675 less than the previous year's amount. The amounts restricted for money in lieu of water, debt service and construction are \$535,435, \$363,111, and \$138,654, respectively. Unrestricted net position amounts to \$1,392,759.

Sewer Fund

The change in net position (net income) was \$331,070, which was \$133,183 less than the previous year's net income. The amounts restricted for debt service and construction were \$367,116 and \$1,078,804, respectively. Unrestricted net position amounts to a deficit of \$2,168,414.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues for the current year, exclusive of transfers and fund balance appropriations, were originally budgeted in the amount of \$3,682,738. This amount was amended in the final budget to \$3,698,238. Actual revenues, excluding transfers, amounted to \$3,745,087.

Expenditures for the current year, excluding transfers, were originally budgeted in the amount of \$4,160,100. This amount was amended in the final budget to \$4,309,407. Actual expenditures amounted to \$4,249,511.

Net transfers in for the year were originally budgeted in the amount of \$476,112. The final budget for transfers out was for the amount of \$1,006,750. Actual net transfers out were made in the amount of \$1,052,850.

Santaquin City
Management's Discussion and Analysis
June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Santaquin City's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Net Capital Assets:						
Land	\$ 819,380	819,380	124,032	124,032	943,412	943,412
Water shares and rights	-	-	535,148	535,148	535,148	535,148
Buildings	3,090,327	3,156,823	39,313	41,877	3,129,640	3,198,700
Water system	-	-	12,408,906	13,097,968	12,408,906	13,097,968
Sewer system	-	-	3,857,185	4,277,354	3,857,185	4,277,354
Infrastructure	10,625,988	7,264,840	-	-	10,625,988	7,264,840
Machinery and equipment	499,726	380,682	4,023	14,474	503,748	395,156
Work in progress	767,476	3,803,082	14,303,433	3,414,643	15,070,908	7,217,725
Totals	<u>\$ 15,802,896</u>	<u>15,424,807</u>	<u>31,272,039</u>	<u>21,505,496</u>	<u>47,074,935</u>	<u>36,930,303</u>

The total amount of capital assets, net of depreciation, of \$47,074,935 is an increase of \$10,144,633 from the previous year.

Governmental activities capital assets, net of depreciation, of \$15,802,896 is an increase of \$378,089 from the previous year.

Business-type activities capital assets, net of depreciation, of \$31,272,039 is an increase of \$9,766,543 from the previous year.

The net increase in capital assets is equal to the amount that investment in new capital assets exceeded depreciation charged on capital assets during the year.

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

Santaquin City
Management's Discussion and Analysis
 June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Santaquin City's Outstanding Debt

	<u>Current Year</u>	<u>Previous Year</u>
Governmental activities:		
Krober Building Lease	\$ -	6,933
2009 Ford F-150 Lease	-	8,291
2007 Fire Truck Lease	-	9,081
2007 Komatsu Lease	-	23,360
2006 Ambulance Lease	20,709	27,551
2006 Fire Truck Lease	80,920	107,644
2005 Sales Tax Revenue (General)	449,000	587,000
2012 (3) Piece Equipment Lease	90,680	111,770
2010 Dump Truck Lease	65,961	86,372
2012 Equipment Lease (EMS)	133,709	-
2013 (4) Piece Equipment Lease	152,000	-
Compensated absences	<u>327,448</u>	<u>277,830</u>
Total governmental	<u>\$ 1,320,427</u>	<u>1,245,831</u>
Business-type activities:		
2003 Zions Goudy Loan	\$ 13,470	25,788
1993B Sewer Bond	198,000	264,000
1993A Sewer Bond	439,000	472,000
2012 Sewer Revenue Refunding	639,000	-
2005 Sales Tax Revenue (Irrigation)	-	6,130,000
2012 P.I. Revenue Refunding	5,806,000	-
2011 A-1 Sewer Revenue Bond	6,034,000	1,700,000
2011B Sewer Revenue Bond	900,000	-
1993C Sewer Bond	-	266,823
1993D Sewer Bond	-	406,388
2011 A-2 Sewer Revenue	2,898,787	91,721
Compensated absences	<u>71,128</u>	<u>67,382</u>
Total business-type	<u>\$ 16,999,384</u>	<u>9,424,102</u>
Total outstanding debt	<u>\$ 18,319,811</u>	<u>10,669,933</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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Santaquin City
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 1,426,949	-	1,426,949
Accounts receivable, net of allowances	62,687	2,081,171	2,143,859
Internal balances	92,473	(92,473)	-
Total current assets	1,582,110	1,988,698	3,570,808
Non-current assets:			
Restricted cash and cash equivalents	453,919	2,483,123	2,937,042
Capital assets:			
Not being depreciated	12,212,843	14,962,613	27,175,456
Net of accumulated depreciation	3,590,053	16,309,426	19,899,479
Total non-current assets	16,256,815	33,755,162	50,011,977
Total assets	\$ 17,838,924	35,743,861	53,582,785
LIABILITIES AND DEFERRED INFLOW OF RESOURCES:			
Liabilities:			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 401,881	2,580,293	2,982,175
Accrued interest payable	12,026	84,782	96,808
Customer security deposits	1,430	31,900	33,330
Long-term debt due within one year	272,859	790,911	1,063,770
Total current liabilities	688,196	3,487,887	4,176,083
Non-current liabilities:			
Compensated absences	327,448	71,128	398,576
Closure and post closure costs	31,174	-	31,174
Long-term debt due after one year	720,120	16,137,345	16,857,465
Total non-current liabilities	1,078,743	16,208,473	17,287,216
Total liabilities	1,766,939	19,696,360	21,463,299
Deferred inflow of resources	4,853	-	4,853
Total liabilities and deferred inflow of resources	1,771,792	19,696,360	21,468,151
NET POSITION:			
Net investment in capital assets	14,809,917	14,343,783	29,153,700
Restricted:			
Parks and recreation	21,323	-	21,323
Bond requirements	-	730,227	730,227
Impact fees	210,149	1,217,457	1,427,606
Money in lieu of water	-	535,435	535,435
Liabilities	44,716	-	44,716
Unrestricted	981,028	(779,401)	201,627
Total net position	16,067,132	16,047,501	32,114,633
Total liabilities, deferred inflow of resources, and net position	\$ 17,838,924	35,743,861	53,582,785

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

Santaquin City
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue (To Next Page)
<u>FUNCTIONS/PROGRAMS:</u>					
Primary government:					
Governmental activities:					
General government	\$ 1,245,579	364,624	-	-	(880,955)
Public safety	1,629,613	244,293	33,508	21,799	(1,330,013)
Highways and public improvements	762,207	-	338,270	-	(423,937)
Sanitation	285,612	431,392	-	-	145,781
Parks, recreation and public property	871,697	186,103	14,325	95,000	(576,270)
Cemetery	68,096	36,952	-	-	(31,145)
Interest on long-term debt	38,931	-	-	-	(38,931)
Total governmental activities	<u>4,901,734</u>	<u>1,263,364</u>	<u>386,102</u>	<u>116,799</u>	<u>(3,135,469)</u>
Business-type activities:					
Water	2,013,218	942,936	-	99,000	(971,283)
Sewer	1,106,252	1,289,397	-	2,896,468	3,079,613
Irrigation	3,340	636,162	-	-	632,822
Total business-type activities	<u>3,122,811</u>	<u>2,868,495</u>	<u>-</u>	<u>2,995,468</u>	<u>2,741,152</u>
Total primary government	<u>\$ 8,024,545</u>	<u>4,131,858</u>	<u>386,102</u>	<u>3,112,267</u>	<u>(394,317)</u>

(continued on next page)

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

Santaquin City
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2013

	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION:			
Net (expense) revenue (from previous page)	<u>\$ (3,135,469)</u>	<u>2,741,152</u>	<u>(394,317)</u>
General revenues:			
Property taxes	550,001	-	550,001
Sales tax	931,029	-	931,029
Other taxes	556,111	-	556,111
Unrestricted investment earnings	10,920	19,260	30,179
Miscellaneous	<u>70,819</u>	<u>-</u>	<u>70,819</u>
Total general revenues	2,118,880	19,260	2,138,140
Transfers in (out)	<u>1,549,397</u>	<u>(1,549,397)</u>	<u>-</u>
Total general revenues and transfers	<u>3,668,277</u>	<u>(1,530,137)</u>	<u>2,138,140</u>
Change in net position	532,808	1,211,015	1,743,823
Net position - beginning	<u>15,534,325</u>	<u>14,836,486</u>	<u>30,370,811</u>
Net position - ending	<u><u>\$ 16,067,132</u></u>	<u><u>16,047,501</u></u>	<u><u>32,114,633</u></u>

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

Santaquin City
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,148,903	278,046	-	1,426,949
Accounts receivable, net of allowances	62,687	-	-	62,687
Due from other funds	92,473	-	-	92,473
Restricted cash and cash equivalents	66,039	-	387,880	453,919
TOTAL ASSETS	\$ 1,494,494	278,046	387,880	2,160,419
 LIABILITIES AND DEFERRED INFLOW OF RESOURCES				
Liabilities:				
Accounts payable	\$ 357,239	-	46,073	403,311
Due to other funds	-	-	124,391	124,391
Total liabilities	357,239	-	170,464	527,703
Deferred inflow of resources	4,853	-	-	4,853
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	362,091	-	170,464	532,555
 FUND BALANCES:				
Restricted for:				
Parks and recreation	21,323	-	-	21,323
Impact fees and grants	-	-	210,149	210,149
Liabilities	44,716	-	-	44,716
Committed for:				
Senior citizens	-	-	7,267	7,267
Assigned for:				
Capital projects	-	278,046	-	278,046
Other	73,872	-	-	73,872
Fire department	3,036	-	-	3,036
Unassigned	989,456	-	-	989,456
TOTAL FUND BALANCES	1,132,402	278,046	217,416	1,627,864
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	\$ 1,494,494	278,046	387,880	2,160,419

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

Santaquin City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2013

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 550,001	-	-	550,001
Sales	931,029	-	-	931,029
Other taxes	556,111	-	-	556,111
Licenses and permits	181,308	-	-	181,308
Intergovernmental revenues	380,678	-	5,425	386,102
Charges for services	900,988	-	15,346	916,334
Fines and forfeitures	165,721	-	-	165,721
Interest	10,920	-	-	10,920
Miscellaneous revenue	68,332	-	2,488	70,819
Total revenues	3,745,087	-	23,259	3,768,346
EXPENDITURES:				
Current:				
General government	1,009,942	141,851	-	1,151,793
Public safety	1,428,157	22,942	9,650	1,460,749
Highways and public improvements	693,566	-	-	693,566
Sanitation	285,612	-	-	285,612
Parks, recreation and public property	754,711	-	33,861	788,572
Cemetery	66,550	-	-	66,550
Capital outlay	10,975	394,779	338,680	744,434
Debt service:				
Principal	-	156,159	138,000	294,159
Interest	-	14,404	24,015	38,419
Total expenditures	4,249,511	730,135	544,206	5,523,852
Excess (Deficiency) of Revenues over (Under) Expenditures	(504,424)	(730,135)	(520,947)	(1,755,506)
Other Financing Sources and (Uses):				
Proceeds from capital leases	-	319,136	-	319,136
Impact fees	-	-	116,799	116,799
Transfers in	1,629,397	323,547	173,000	2,125,944
Transfers (out)	(576,547)	-	-	(576,547)
Total other financing sources and (uses)	1,052,850	642,683	289,799	1,985,332
Net Change in Fund Balances	548,426	(87,452)	(231,148)	229,826
Fund balances - beginning of year	583,977	365,498	448,564	1,398,038
Fund balances - end of year	\$ 1,132,402	278,046	217,416	1,627,864

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

Santaquin City
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION**
 For the Year Ended June 30, 2013

Total Fund Balances for Governmental Funds	<u>\$ 1,627,864</u>
Total net position reported for governmental activities in the statement is different because:	
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.	
Capital assets, at cost	19,494,450
Less accumulated depreciation	<u>(3,691,554)</u>
Net capital assets	<u>15,802,896</u>
Long-term liabilities, for funds other than enterprise funds are recorded in the government-wide statements but not in the fund statements.	
General long-term debt	<u>(992,979)</u>
Interest accrued but not yet paid on long-term debt	<u>(12,026)</u>
Compensated absences	<u>(327,448)</u>
Closure and post closure costs	<u>(31,174)</u>
Total Net Position of Governmental Activities	<u><u>\$ 16,067,132</u></u>

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

Santaquin City
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 229,826

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

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

Capital outlays	744,434
Depreciation expense	<u>(366,345)</u>
Net	<u>378,089</u>

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

Debt issued (319,136)

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

Long-term debt principal repayments 294,159

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

Change in accrued interest (512)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Change in compensated absence liability (49,618)

Change in Net Position of Governmental Activities **\$ 532,808**

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

Santaquin City
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ -	-	-
Accounts receivable, net	204,281	1,876,891	2,081,171
Due from other funds	1,308,309	-	1,308,309
Total current assets	1,512,590	1,876,891	3,389,480
Non-current assets:			
Restricted cash and cash equivalents	1,037,199	1,445,924	2,483,123
Capital assets:			
Not being depreciated	549,180	14,413,433	14,962,613
Net of accumulated depreciation	12,408,906	3,900,521	16,309,426
Total non-current assets	13,995,285	19,759,877	33,755,162
Total assets	\$ 15,507,875	21,636,768	37,144,643
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 5,470	2,574,823	2,580,293
Due to other funds	-	1,400,782	1,400,782
Accrued interest payable	48,770	36,012	84,782
Compensated absences	35,564	35,564	71,128
Customer security deposits	31,900	-	31,900
Long-term debt, current portion	290,000	500,911	790,911
Total current liabilities	411,704	4,548,093	4,959,797
Non-current liabilities:			
Long-term debt, long-term portion	5,516,000	10,621,345	16,137,345
Total non-current liabilities	5,516,000	10,621,345	16,137,345
Total liabilities	5,927,704	15,169,438	21,097,142
NET POSITION:			
Net investment in capital assets	7,152,086	7,191,697	14,343,783
Restricted for:			
Money in lieu of water	535,435	-	535,435
Debt service	363,111	367,116	730,227
Construction	138,654	1,078,804	1,217,457
Unrestricted	1,390,886	(2,170,287)	(779,401)
Total net position	9,580,171	6,467,330	16,047,501
Total liabilities and net position	\$ 15,507,875	21,636,768	37,144,643

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

Santaquin City
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
	<u> </u>	<u> </u>	<u> </u>
Operating income:			
Charges for sales and service	\$ 1,553,141	1,274,951	2,828,092
Connection fees	17,908	5,500	23,408
Other operating income	8,049	8,946	16,994
Total operating revenue	<u>1,579,098</u>	<u>1,289,397</u>	<u>2,868,495</u>
Operating expenses:			
Personnel services	209,903	278,552	488,455
Utilities	124,913	41,421	166,334
Repair and maintenance	265,313	150,358	415,670
Other supplies and expenses	149,361	56,685	206,046
Depreciation expense	848,790	433,184	1,281,975
Total operating expense	<u>1,598,279</u>	<u>960,200</u>	<u>2,558,479</u>
Net operating income (loss)	<u>(19,182)</u>	<u>329,197</u>	<u>310,016</u>
Non-operating income (expense):			
Impact fees	99,000	148,000	247,000
Interest income	4,538	14,722	19,260
Interest on long-term debt	(418,279)	(146,052)	(564,331)
Total non-operating income (expense)	<u>(314,741)</u>	<u>16,670</u>	<u>(298,072)</u>
Income (loss) before transfers and capital contributions	(333,923)	345,867	11,944
Capital contributions	-	2,748,468	2,748,468
Transfers in	397,157	74,000	471,157
Transfers (out)	(1,170,058)	(850,496)	(2,020,554)
Change in net position	(1,106,824)	2,317,839	1,211,015
Net position, beginning	10,686,994	4,149,491	14,836,486
Net position, ending	<u>\$ 9,580,171</u>	<u>6,467,330</u>	<u>16,047,501</u>

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

Santaquin City
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from customers - service	\$ 1,584,466	1,285,711	2,870,178
Cash paid to suppliers	(546,876)	(251,938)	(798,814)
Cash paid to employees	(208,030)	(276,679)	(484,709)
Net cash provided (used) in operating activities	<u>829,560</u>	<u>757,094</u>	<u>1,586,654</u>
Cash flows from noncapital financing activities:			
Change in customer deposits	4,100	-	4,100
Net interfund activity	(1,180,106)	(787,349)	(1,967,455)
Net cash provided (used) in noncapital financing activities	<u>(1,176,006)</u>	<u>(787,349)</u>	<u>(1,963,355)</u>
Cash flows from capital and related financing activities:			
Cash received from bonds issued	6,130,000	8,724,279	14,854,279
Cash received from impact fees	99,000	148,000	247,000
Cash received from capital grants	123,669	981,288	1,104,957
Cash payments for capital assets	(686)	(9,607,476)	(9,608,161)
Cash payments for long-term debt principal	(6,454,000)	(828,743)	(7,282,743)
Cash payments for long-term debt interest	(317,646)	(138,142)	(455,788)
Net cash provided (used) in capital and related financing activities	<u>(419,663)</u>	<u>(720,794)</u>	<u>(1,140,456)</u>
Cash flows from investing activities:			
Cash received from interest earned	4,538	14,722	19,260
Net cash provided (used) in investing activities	<u>4,538</u>	<u>14,722</u>	<u>19,260</u>
Net increase (decrease) in cash	(761,571)	(736,326)	(1,497,898)
Cash balance, beginning	1,798,770	2,182,250	3,981,020
Cash balance, ending	<u>\$ 1,037,199</u>	<u>1,445,924</u>	<u>2,483,123</u>
Cash reported on the statement of net position:			
Cash and cash equivalents	\$ -	-	-
Non-current restricted cash	1,037,199	1,445,924	2,483,123
Total cash and cash equivalents	<u>\$ 1,037,199</u>	<u>1,445,924</u>	<u>2,483,123</u>

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

Santaquin City
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (continued)
For the Year Ended June 30, 2013

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

	Water Fund	Sewer Fund	Total Enterprise Funds
Net operating income (loss)	\$ (19,182)	329,197	310,016
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:			
Depreciation and amortization	848,790	433,184	1,281,975
Changes in assets and liabilities:			
(Increase) decrease in receivables	5,368	(3,685)	1,683
Increase (decrease) in payables	(5,417)	(1,602)	(7,019)
Net cash provided (used) in operating activities	\$ 829,560	757,094	1,586,654

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Santaquin City (the City), is a municipal corporation located in Utah County, Utah. The City operates under a Mayor-Council form of government with an elected mayor and five council members.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

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

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

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

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

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

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

Policy regarding use of restricted resources

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental funds:

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

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

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

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

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

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

Proprietary funds

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

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

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

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

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

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments Fund. Additional information is contained in Note 2.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

1-E-2. Cash and Cash Equivalents

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

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of any allowance for uncollectible accounts. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. For the year ended June 30, 2013, the City reported \$97,105 as allowance for uncollectible accounts receivable.

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

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

1-E-4. Restricted Assets

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

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

1-E-5. Inventories and Prepaid items

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

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

Assets	Years
Buildings	30-45
Improvements	30-45
Water system	30-45
Sewer system	30-45
Infrastructure	30-45
Vehicles and equipment	5-15

1-E-7. Long-term Obligations

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period.

1-E-8. Compensated Absences

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

1-E-9. Fund Equity

Government-wide Financial Statements

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

Net investment in capital assets - 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.

Restricted net position - Net position 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 - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

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

Nonspendable fund balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. Fund balance amounts related to inventories, prepaid expenditures, and endowments are classified as nonspendable.

Restricted fund balance - This classification includes net fund resources that are subject to external constraints that have been placed on the use of the resources either a) imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of the government or b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - This classification includes amounts that can only be used for specific purposes established by formal action of the City Council, with is the City's highest level of decision making authority. Fund balance commitments can only be removed or changed by the same type of action (for example resolution) of the City Council.

Assigned fund balance - This classification includes amounts that the City intends to be used for a specific purpose but are neither restricted nor committed. These are established by the City Council. This category includes the remaining positive fund balances for governmental funds other than the general fund.

Unassigned fund balance - 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 specific purposes within the General Fund.

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

1-E-10. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

1-E-11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not currently have any deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has only one type of deferred inflows of resources for cemetery sales.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 25% of the next year's estimated revenues must be appropriated within the following two years.

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

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of June 30, 2013 consist of the following:

	<u>Fair Value</u>
Cash on hand	
Demand deposits - checking	49,634
State Treasurer's Investment Pool	<u>4,314,356</u>
Total cash	<u>\$ 4,363,991</u>

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

Cash and cash equivalents (current)	\$ 1,426,949
Restricted cash and cash equivalents (non-current)	<u>2,937,042</u>
Total cash and cash equivalents	<u>\$ 4,363,991</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The City maintains monies not immediately needed for expenditure in PTIF accounts.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the City are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. At June 30, 2013, all of the City's demand deposits were insured.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

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

	General Fund	Water Fund	Sewer Fund	Pressurized Irrigation Fund	Total
Property taxes	\$ 2,435	-	-	-	2,435
Intergovernmental	4,903	1,131	1,767,180	-	1,773,214
Installments	4,853	1,500	-	-	6,353
Customers	64,048	170,859	139,152	84,904	458,963
Total receivables	\$ 76,238	173,490	1,906,332	84,904	2,240,964
Allowance for uncollectibles	(13,551)	(36,149)	(29,441)	(17,964)	(97,105)
Net receivables	\$ 62,687	137,341	1,876,891	66,940	2,143,859

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and rights	\$ 819,380	-	-	819,380
Infrastructure	7,264,840	3,361,148	-	10,625,988
Construction in progress	<u>3,803,082</u>	<u>414,740</u>	<u>3,450,346</u>	<u>767,476</u>
Total capital assets, not being depreciated	<u>11,887,301</u>	<u>3,775,888</u>	<u>3,450,346</u>	<u>12,212,843</u>
Capital assets, being depreciated:				
Buildings	4,255,592	89,199	-	4,344,790
Machinery and equipment	<u>2,607,123</u>	<u>329,694</u>	<u>-</u>	<u>2,936,817</u>
Total capital assets, being depreciated	<u>6,862,715</u>	<u>418,892</u>	<u>-</u>	<u>7,281,607</u>
Less accumulated depreciation for:				
Buildings	1,098,768	155,695	-	1,254,463
Machinery and equipment	<u>2,226,441</u>	<u>210,650</u>	<u>-</u>	<u>2,437,091</u>
Total accumulated depreciation	<u>3,325,210</u>	<u>366,345</u>	<u>-</u>	<u>3,691,554</u>
Total capital assets being depreciated, net	<u>3,537,505</u>	<u>52,548</u>	<u>-</u>	<u>3,590,053</u>
Governmental activities capital assets, net	<u>\$ 15,424,807</u>	<u>3,828,436</u>	<u>3,450,346</u>	<u>15,802,896</u>

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

Governmental activities:	
General government	\$ 44,168
Public safety	168,864
Highways and public improvements	68,641
Parks, recreation and public property	83,125
Cemetery	<u>1,547</u>
Total	<u>\$ 366,345</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-C. Capital assets (continued)

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

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land and water shares	\$ 659,180	-	-	659,180
Construction in progress	3,414,643	11,048,518	159,728	14,303,433
Total capital assets, not being depreciated	<u>4,073,823</u>	<u>11,048,518</u>	<u>159,728</u>	<u>14,962,613</u>
Capital assets, being depreciated:				
Buildings and improvements	275,389	-	-	275,389
Water distribution system	18,729,616	159,728	-	18,889,344
Sewer collection/treatment system	9,879,175	-	-	9,879,175
Machinery and equipment	484,589	-	-	484,589
Total capital assets, being depreciated	<u>29,368,769</u>	<u>159,728</u>	<u>-</u>	<u>29,528,497</u>
Less accumulated depreciation for:				
Buildings and improvements	233,513	2,564	-	236,076
Water distribution system	5,631,648	848,790	-	6,480,438
Sewer collection/treatment system	5,601,821	420,169	-	6,021,990
Machinery and equipment	470,114	10,451	-	480,566
Total accumulated depreciation	<u>11,937,096</u>	<u>1,281,975</u>	<u>-</u>	<u>13,219,071</u>
Total capital assets being depreciated, net	<u>17,431,673</u>	<u>(1,122,247)</u>	<u>-</u>	<u>16,309,426</u>
Business-type activities capital assets, net	<u>\$ 21,505,496</u>	<u>9,926,271</u>	<u>159,728</u>	<u>31,272,039</u>

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

Business-type activities:	
Water	\$ 848,790
Sewer	433,184
Total	<u>\$ 1,281,975</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-D. Long-term debt

	Original Principal	%	6/30/2012	Additions	Reductions	6/30/2013	Due Within One Year
Governmental activities:							
KROBER BUILDING Lease Matures 9/30/2012	\$ 60,000	5.50	\$ 6,933	-	6,933	-	-
2009 Ford F-150 Lease Matures 11/1/2012	38,843	7.25	8,291	-	8,291	-	-
2007 Fire Truck Lease Matures 1/1/2013	83,000	4.13	7,576	-	7,576	-	-
2007 Komatsu Loader Lease Matures 1/1/2013	107,350	4.37	23,360	-	23,360	-	-
2006 Ambulance Lease Matures 1/15/2016	64,000	4.355	27,551	-	6,842	20,709	7,146
2006 Fire Truck Lease Matures 1/15/2016	250,000	4.355	107,644	-	26,724	80,920	27,911
2005 Sales Tax Revenue (General) Matures 2/15/2016	1,300,000	4.25	587,000	-	138,000	449,000	143,000
2012 (3) Piece Equipment Lease Matures 8/4/2016	111,770	2.91	111,770	-	21,090	90,680	21,704
2010 Dump Truck Lease Matures 1/8/2017	125,000	3.73	86,372	-	20,411	65,961	10,492
2012 EQUIPMENT LEASE (EMS) Matures 7/15/2017	167,136	-	-	167,136	33,427	133,709	33,427
2013 (4) Piece Equipment Lease Matures 9/12/2017	152,000	2.05	-	152,000	-	152,000	29,179
Total governmental activity long-term liabilities			<u>\$966,497</u>	<u>319,136</u>	<u>292,654</u>	<u>992,979</u>	<u>272,859</u>

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

	Principal	Interest	Total
2014	\$ 272,859	26,761	299,620
2015	293,729	18,387	312,116
2016	295,145	8,210	303,355
2017	99,600	2,187	101,787
2018	31,646	649	32,295
Total	<u>\$992,979</u>	<u>56,193</u>	<u>1,049,172</u>

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-D. Long-term debt (continued)

	Original Principal	% Rate	6/30/2012	Additions	Reductions	6/30/2013	Due Within One Year
Business-type activities:							
2003 Zions Goudy Loan Matures 9/1/2014	\$ 174,097	2.95	\$ 25,788	-	12,318	13,470	13,470
1993B Sewer Bond Matures 6/30/2016	1,307,000	-	264,000	-	66,000	198,000	66,000
1993A Sewer Bond Matures 6/30/2020	1,000,000	-	472,000	-	33,000	439,000	33,000
2012 Sewer Revenue Refunding Matures 6/1/2021	670,000	2.52	-	670,000	31,000	639,000	34,000
2005 Sales Tax Revenue (Irrigation) Matures 9/1/2026	6,600,000	3.50	6,130,000	-	6,130,000	-	-
2012 P.I. Revenue Refunding Matures 9/1/2026	6,130,000	2.52	-	6,130,000	324,000	5,806,000	290,000
2011A-1 Sewer Revenue Bond Matures 1/1/2031	6,034,000	0.01	6,034,000	-	-	6,034,000	314,000
2011B Sewer Revenue Bond Matures 1/1/2033	900,000	1.00	-	900,000	-	900,000	-
1993C Sewer Bond Matures 4/1/2035	333,000	5.45	266,823	-	266,823	-	-
1993D Sewer Bond Matures 4/1/2035	509,200	5.45	406,388	-	406,388	-	-
2011A-2 Sewer Revenue Matures 2/15/2052	2,912,000	3.00	2,912,000	-	13,213	2,898,787	40,441
Total business-type activity long-term liabilities			\$16,510,999	7,700,000	7,282,742	16,928,257	790,911

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

	Principal	Interest	Total
2014	\$ 790,911	314,931	1,105,842
2015	809,672	301,635	1,111,307
2016	842,939	287,975	1,130,914
2017	858,245	273,754	1,131,999
2018	900,591	257,249	1,157,840
2019 - 2023	4,599,617	1,019,425	5,619,043
2024 - 2028	4,115,960	590,922	4,706,881
2029 - 2033	2,202,822	353,798	2,556,620
2034 - 2038	391,258	243,002	634,260
2039 - 2043	454,492	179,768	634,260
2044 - 2052	961,750	130,792	1,092,541
Total	\$16,928,256	3,953,251	20,881,507

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3-D. Long-term debt (continued)

Capital Lease Requirements:

The City acquired the following assets through capital leases. Amortization of assets under capital lease are included in depreciation expense. As of June 30, 2013 the net book values are as follows:

	Governmental Activities	Business-type Activities
Machinery and equipment	863,728	-
Less accumulated depreciation	(477,836)	-
Net book value	\$ 385,892	-

Amortization of capital assets purchased under capital leases is included in depreciation.

The following is the present value of future minimum capital lease payments under these leases as of June 30, 2013:

Fiscal Year		
2014	\$ 140,756	-
2015	152,298	-
2016	144,029	-
2017	101,787	-
2018	32,295	-
Total minimum lease payments	570,985	-
Less amounts representing interest	(27,007)	-
Present value of minimum lease payments	\$ 543,979	-

Compensated absences

Compensated absences	\$ 327,448	71,128
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3-E. Interfund transactions and balances

The City had the following inter-fund transactions for year ended June 30, 2013:

Operating Transfers

	Transfers in	Transfers out
General fund	\$ 1,629,397	576,547
Capital projects fund	323,547	-
Public safety impact fees fund	150,000	-
Senior citizens fund	23,000	-
Water fund	397,157	1,170,058
Sewer fund	74,000	850,496
Total	\$ 2,597,101	2,597,101

Santaquin City
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

3-E. Interfund transactions and balances (continued)

Due to / Due from

	Due to	Due from
General fund	\$ 216,864	-
Public safety impact fees fund	-	124,391
Water fund	1,308,309	-
Sewer fund	-	1,400,782
Total	\$ 1,525,173	1,525,173

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Rounding convention

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

4-C. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Contributory and Noncontributory Retirement Systems and the Public Safety Contributory and Noncontributory Retirement Systems for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

Santaquin City
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

Funding Policy:

Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective system to which they belong. The City is required to contribute a percent of covered salary to the respective systems: 12.74% to the Local Governmental Contributory System; 16.04% to the Local Governmental Noncontributory System; 19.25% to the Public Safety Contributory; and 30.45% to the Public Safety Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the various systems for the years ending June 30, 2013, 2012 and 2011 respectively were: for the Local Governmental Contributory System, \$2,774, \$0 and \$0; for the Local Governmental Noncontributory System, \$151,436, \$126,677, and \$116,167; for the Public Safety Contributory System, \$431, \$0 and \$0; and for the Public Safety Noncontributory, \$113,231, \$112,089, and \$91,544. The contributions were equal to the required contributions for each year.

IRC Code Section 401k Plan:

The City participates in a 401k plan offered through the Utah State Retirement Systems. The City's contributions for the years ending June 30, 2013, 2012 and 2011 amounted to \$31,345, \$33,386 and \$20,213, respectively.

4-E. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 31, 2013, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

Santaquin City
Notes to Required Supplementary Information
June 30, 2013

Budgetary Comparison Schedules

The Budgetary Comparison Schedules presented in this section of the report are for the City's General Fund.

Budgeting and Budgetary Control

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

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

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2013, spending within the sanitation department exceeded budget appropriations by \$5,312.

Santaquin City
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**
(Unaudited)
 For the Year Ended June 30, 2013

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 1,957,500	1,957,500	2,037,141	79,641
Licenses and permits	223,000	223,000	181,308	(41,692)
Intergovernmental revenues	367,526	367,526	380,678	13,152
Charges for services	857,312	857,312	900,988	43,676
Fines and forfeitures	202,000	202,000	165,721	(36,279)
Interest	11,000	11,000	10,920	(80)
Miscellaneous revenue	64,400	79,900	68,332	(11,568)
Total revenues	<u>3,682,738</u>	<u>3,698,238</u>	<u>3,745,087</u>	<u>46,849</u>
Expenditures				
General government	951,599	1,034,344	1,009,942	24,402
Public safety	1,504,593	1,444,587	1,428,157	16,430
Highways and public improvements	609,524	698,700	693,566	5,134
Sanitation	280,300	280,300	285,612	(5,312)
Parks, recreation and public property	741,953	777,476	760,198	17,278
Cemetery	72,131	74,000	72,037	1,963
Total expenditures	<u>4,160,100</u>	<u>4,309,407</u>	<u>4,249,511</u>	<u>59,896</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(477,362)</u>	<u>(611,169)</u>	<u>(504,424)</u>	<u>106,745</u>
Other Financing Sources and (Uses)				
Transfers in	1,075,666	1,629,397	1,629,397	-
Transfers (out)	(599,554)	(622,647)	(576,547)	46,100
Total Other Financing Sources and (Uses)	<u>476,112</u>	<u>1,006,750</u>	<u>1,052,850</u>	<u>46,100</u>
Net Change in Fund Balances	<u>(1,250)</u>	<u>395,581</u>	<u>548,426</u>	<u>152,845</u>
Fund Balances - beginning of year	583,977	583,977	583,977	-
Fund Balances - end of year	<u><u>\$ 582,727</u></u>	<u><u>979,558</u></u>	<u><u>1,132,403</u></u>	<u><u>152,845</u></u>

Santaquin City
MODIFIED APPROACH FOR INFRASTRUCTURE REPORTING
 June 30, 2013

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

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

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

The asset management system will provide:

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

Roads

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

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

Santaquin City
MODIFIED APPROACH FOR INFRASTRUCTURE REPORTING
 June 30, 2013

Condition Level

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

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

Rating	2013	2012	2011	2010	2009
Fair or Better	70%	65%	65%	80%	80%
Poor - Very Poor	30%	35%	35%	20%	20%

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

Fiscal Year	Estimated Spending	Actual Spending
2013	491,000	490,799
2012	462,765	462,130
2011	421,244	407,525
2010	438,205	437,444
2009	341,992	343,693

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

Santaquin City
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	Senior Citizens	Park Impact Fees	Public Safety Impact Fees	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	-	-	-	-
Restricted cash and cash equivalents	7,789	253,226	126,865	387,880
TOTAL ASSETS	7,789	253,226	126,865	387,880
LIABILITIES				
Accounts payable	523	45,550	-	46,073
Due to other funds	-	-	124,391	124,391
TOTAL LIABILITIES	523	45,550	124,391	170,464
FUND BALANCES:				
Restricted for:				
Impact fees and grants	-	207,676	2,473	210,149
Committed for:				
Senior citizens	7,267	-	-	7,267
TOTAL FUND BALANCES	7,267	207,676	2,473	217,416
TOTAL LIABILITIES AND FUND BALANCES	7,789	253,226	126,865	387,880

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

Santaquin City
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES**
NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2013

	Senior Citizens	Park Impact Fees	Public Safety Impact Fees	Total Nonmajor Governmental Funds
REVENUES:				
Intergovernmental	-	5,425	-	5,425
Charges for services	15,346	-	-	15,346
Miscellaneous revenue	(192)	2,680	-	2,488
Total revenues	<u>15,154</u>	<u>8,105</u>	<u>-</u>	<u>23,259</u>
EXPENDITURES:				
Public safety	-	-	9,650	9,650
Parks, recreation and public property	33,700	161	-	33,861
Debt service:				
Principal	-	-	138,000	138,000
Interest	-	-	24,015	24,015
Total expenditures	<u>33,700</u>	<u>338,841</u>	<u>171,665</u>	<u>544,206</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(18,546)</u>	<u>(330,736)</u>	<u>(171,665)</u>	<u>(520,947)</u>
Other Financing Sources and (Uses):				
Impact fees	-	95,000	21,799	116,799
Transfers in	23,000	-	150,000	173,000
Total other financing sources and (uses)	<u>23,000</u>	<u>95,000</u>	<u>171,799</u>	<u>289,799</u>
Net Change in Fund Balances	4,454	(235,736)	135	(231,148)
Fund balances - beginning of year	2,813	443,412	2,339	448,564
Fund balances - end of year	<u>7,267</u>	<u>207,676</u>	<u>2,473</u>	<u>217,416</u>

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

OTHER COMMUNICATIONS

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santaquin, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in a separate management letter that we consider to be significant deficiencies. See finding IC-2013.1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying management letter. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Larson & Company, PC

Spanish Fork, Utah
December 31, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROLS OVER COMPLIANCE
IN ACCORDANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE**

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

REPORT ON COMPLIANCE

We have audited the City of Santaquin, Utah's (herein referred to as the "City") compliance with the general and major state program compliance requirements described in the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2013

The general compliance requirements applicable to the City are identified as follows:

- Cash Management
- Budgetary Compliance
- Fund Balance
- Justice Court Compliance
- Impact Fees
- Utah Retirement Systems
- Transfers from Utility Enterprise Funds
- Government Records Access Management Act
- Conflicts of Interest
- Nepotism
- Utah Public Finance Website
- Open and Public Meetings Act

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

- B&C Road Funds
- Liquor Fund Allotment

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the City's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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 and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the City and its major programs occurred. 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.

Opinion

In our opinion, the City of Santaquin, 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which is described in the accompanying management letter as item SC-2013.1.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

City's Response to the Findings

The City's responses to the findings identified in our audit are described in the accompanying letter to management. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Larson & Company, PC
Spanish Fork, Utah
December 31, 2013

SINGLE AUDIT REPORTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and
City Council Members
City of Santaquin, Utah

Report on Compliance for Each Major Federal Program

We have audited Santaquin City, Utah's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santaquin City's major federal programs for the year ended June 30, 2013. Santaquin City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santaquin City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santaquin 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Santaquin City's compliance.

Opinion on Each Major Federal Program

In our opinion, Santaquin City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance

Management of Santaquin City, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santaquin City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santaquin City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Larson & Company PC". The signature is written in black ink and is positioned above the printed name of the firm.

Larson & Company, PC

Spanish Fork, Utah
December 31, 2013

Santaquin City
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of the Santaquin City.
2. No reportable conditions related to the audit of the financial statements are reported in the Auditors' Report on Internal Controls and Compliance with Laws and Regulations.
3. No instances of noncompliance material to the financial statements of Santaquin City were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award program is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal award programs for Santaquin City, expresses an unqualified opinion.
6. The audit disclosed no audit findings that are required to be reported under OMB Circular A-133.
7. The programs tested as a major programs include:

Water and waste disposal systems for rural communities	10.760
--	--------
8. The threshold for distinguishing Types A and B programs is \$300,000 of federal awards expended.
9. Santaquin City was determined not to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

No findings noted during current period

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted during current period

Santaquin City
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass-Thru/ Grantor/Program Title	Federal CFDA Number	Federal Award/ Contract No.	Amount of Expenditures
GRANTS			
Direct Assistance:			
U.S. Department of Agriculture			
* Water and waste disposal systems for rural communities	10.760	52 025 876000900-06	\$ 1,648,468
Total U.S. Department of Agriculture			<u>1,648,468</u>
U.S. Department of Interior			
Reclamation Rural Water Supply Program	15.548	843	1,000,000
Total U.S. Department of Interior			<u>1,000,000</u>
U.S. Department of Justice			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0370	4,903
Total Federal Emergency Management Agency			<u>4,903</u>
Total Federal Expenditures of Grant Awards			<u>\$ 2,653,371</u>
LOANS			
Direct Assistance:			
U.S. Department of Agriculture			
* Water and waste disposal systems for rural communities	10.760	52 025 876000900-05	\$ 2,820,279
Total U.S. Department of Agriculture			<u>2,820,279</u>
U.S. Department of Interior			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-49000112	3,831,272
Total U.S. Department of Interior			<u>3,831,272</u>
Total Federal Expenditures of Loan Awards			<u>\$ 6,651,551</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,304,922</u>

* Major Program

Santaquin City, Utah
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

1. **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Santaquin City (Municipality). The Municipality reporting entity is defined in Note 1 to the basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed-through other government agencies are included on the schedule of expenditures of federal awards.

2. **BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting for expenditures in governmental fund types and on the accrual basis for expenses in proprietary fund types, which is described in Note 1 to the basic financial statements.

**CITY OF SANTAQUIN, UTAH
COMMUNICATION WITH THOSE CHARGED WITH
GOVERNANCE
(MANAGEMENT LETTER)
JUNE 30, 2013**

**CITY OF SANTAQUIN, UTAH
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YEAR ENDED JUNE 30, 2013**

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

Mayor and Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santaquin City for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 28, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Santaquin City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 31, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

A handwritten signature in cursive script that reads "Larson & Company PC".

Larson & Company, PC

Spanish Fork, Utah
December 31, 2013

SCHEDULE OF FINDINGS

Internal Control Findings – Current Year

IC-2013.1 Separation of Duties – Significant Deficiency

Finding:

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

Recommendation:

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

Client Response:

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

State Compliance Findings – Current Year

SC-2013.1 – Budgetary Compliance:

Finding:

Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that the Sanitation department had expenditures in excess of appropriations by \$5,312.

Recommendation:

We recommend that the City maintain expenditures within approved amounts and make budgetary amendments as necessary.

Client Response:

Management and Council will make necessary adjustments to the expenditures procedure, and if necessary make appropriate budget amendments.

Status of Internal Control Findings – Prior Year

IC-2012.1 Separation of Duties – Significant Deficiency

Finding:

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

Recommendation:

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

Status:

See current year findings.

Status of State Compliance Findings – Prior Year

SC-2012.1 Transfers or Allocations from Utility Funds

Finding:

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

Recommendation:

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

Status:

No issues noted in current period.