

**FRUIT HEIGHTS CITY
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Council, and Management
of Fruit Heights City

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of Fruit Heights City, Utah, 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 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 of Fruit Heights City, 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 general 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 and budgetary comparison information on pages 3 through 7 and pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of Fruit Heights 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 Fruit Heights City's internal control over financial reporting and compliance.

Wood Richards & Associates, PC

Ogden, Utah
December 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

INTRODUCTION

The following is a discussion and analysis of Fruit Heights City's financial performance and activities for the fiscal year ending June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are comprised of the Statement of Net Position, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Position shows the overall net position of the City. Increases and decreases in net position are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Fruit Heights City's business type activities are sewer, water, solid waste and storm water.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fruit Heights City has two governmental funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fruit Heights City has four Proprietary Funds. The Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Fruit Heights City has four Enterprise Funds, the water fund, the sewer fund, the solid waste fund and the storm water fund. An internal service fund is presented in a separate column in the Proprietary Fund financial statements. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

	Governmental Activities		Business-type Activities		Total	
	June 30 2013	June 30 2012	June 30 2013	June 30 2012	June 30 2013	June 30 2012
Cash	\$ 2,089,188	\$ 1,918,859	\$ 2,269,656	\$ 1,388,231	\$ 4,358,844	\$ 3,307,090
Other assets	718,355	669,492	283,365	291,604	1,001,720	961,096
Capital assets	5,888,607	5,790,460	5,945,769	5,959,353	11,834,376	11,749,813
Total assets	8,696,150	8,378,811	8,498,790	7,639,188	17,194,940	16,017,999
Long-term liabilities	28,072	29,739	150,000	165,000	178,072	194,739
Other liabilities	172,033	184,936	266,314	253,037	438,347	437,973
Total liabilities	200,105	214,675	416,314	418,037	616,419	632,712
Deferred inflows of resources	681,990	684,834	-	-	681,990	684,834
Net position:						
Net investment in capital assets	5,888,607	5,790,460	5,780,769	5,758,958	11,669,376	11,549,418
Restricted	641,818	412,775	1,087,507	810,326	1,729,325	1,223,101
Unrestricted	1,283,630	1,276,067	1,214,200	651,867	2,497,830	1,927,934
Total net position	\$ 7,814,055	\$ 7,479,302	\$ 8,082,476	\$ 7,221,151	\$ 15,896,531	\$ 14,700,453

Analysis of Financial Position:

Governmental Activities:

The governmental activities have seen an increase to cash (restricted and unrestricted) of \$170,329. The City has invested into capital assets as the net capital assets has increased by \$98,147. Total assets including receivables, prepaids, and amounts due from other governments has increased by \$317,339.

Total liabilities for the governmental activities stayed close to the same as the prior year with a net decrease of \$14,570.

The total net position increased by \$334,753 of which \$98,147 was from the net investment in capital assets, \$229,043 was from restricted amounts, and \$7,563 in unrestricted net position. Overall the governmental activities net position has improved from the prior year.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Analysis of Financial Position (continued):

Business-Type Activities:

The business-type activities have seen an increase to cash (restricted and unrestricted) of \$881,425. The City's depreciation expense has exceeded new purchases, acquisitions, and construction of capital assets by \$13,584. Total assets including receivables and prepaid expenses have increased by \$859,602.

Total liabilities for the business-type activities stayed close to the same as the prior year with a net decrease of \$1,723.

The total net position increased by \$861,325 of which \$21,811 was from the net investment in capital assets, \$277,181 was from restricted amounts, and \$562,333 in unrestricted net position. Overall the business-type activities net position has improved from the prior year.

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**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Governmental Activities and Business Type Activities

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	June 30 2013	June 30 2012	June 30 2013	June 30 2012	June 30 2013	June 30 2012
Revenues:						
Program revenues:						
Charges for services	\$ 433,159	\$ 536,570	\$ 1,724,352	\$ 1,609,053	\$ 2,157,511	\$ 2,145,623
Grants and contributions:						
Operating	168,792	161,110	-	-	168,792	161,110
Capital	71,360	119,650	399,483	438,700	470,843	558,350
General revenues:						
Property taxes	567,224	558,302	-	-	567,224	558,302
Sales taxes	498,582	469,047	-	-	498,582	469,047
Other taxes	138,603	56,370	-	-	138,603	56,370
Other	40,545	145,942	13,586	11,463	54,131	157,405
Total revenues	<u>1,918,265</u>	<u>2,046,991</u>	<u>2,137,421</u>	<u>2,059,216</u>	<u>4,055,686</u>	<u>4,106,207</u>
Expenses:						
General government	624,505	637,409	-	-	624,505	637,409
Public safety	290,370	261,334	-	-	290,370	261,334
Public works	357,777	306,938	-	-	357,777	306,938
Parks and recreation	190,080	185,025	-	-	190,080	185,025
Water	-	-	523,810	511,371	523,810	511,371
Sewer	-	-	376,847	364,523	376,847	364,523
Solid waste	-	-	307,283	308,865	307,283	308,865
Storm sewer	-	-	188,936	186,203	188,936	186,203
Total expenses	<u>1,462,732</u>	<u>1,390,706</u>	<u>1,396,876</u>	<u>1,370,962</u>	<u>2,859,608</u>	<u>2,761,668</u>
Transfers in (out)	(120,780)	-	120,780	-	-	-
Change in net position	334,753	656,285	861,325	688,254	1,196,078	1,344,539
Net position-beginning	<u>7,479,302</u>	<u>6,823,017</u>	<u>7,221,151</u>	<u>6,532,897</u>	<u>14,700,453</u>	<u>13,355,914</u>
Net position-ending	<u>\$ 7,814,055</u>	<u>\$ 7,479,302</u>	<u>\$ 8,082,476</u>	<u>\$ 7,221,151</u>	<u>\$ 15,896,531</u>	<u>\$ 14,700,453</u>

Governmental Activities

The net change in position for the governmental activities was \$334,753 which is less than the change in net position from 2012 by \$321,532. The reason for the change is a decrease to charges for services of \$103,411, a decrease to capital grants of \$48,290 and an increase to expenses of \$72,026.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Governmental Activities and Business Type Activities (continued)

Business-Type Activities

The business-type activities increased net position by \$861,325, which is better than the results of operations in 2012 by \$173,071. The charges for services increased by \$115,299 and the total expenses only increased by \$25,914, mostly in the water fund and sewer fund.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The table below illustrates the fund balances in each fund, separated into the fund balance types with a two year comparison:

Fund:	Fund Balance/Net Position		Change
	2013	2012	
General			
Nonspendable	\$ 8,690	\$ -	\$ 8,690
Class C Roads	327,882	161,133	166,749
Unassigned	277,886	744,002	(466,116)
	<u>614,458</u>	<u>905,135</u>	<u>(290,677)</u>
Capital Projects			
Impact Fees	313,936	251,642	62,294
Assigned	744,040	273,455	470,585
	<u>1,057,976</u>	<u>525,097</u>	<u>532,879</u>
Water			
Investment in Capital Assets	4,226,787	4,168,641	58,146
Special Assessment	156,532	164,307	(7,775)
Impact Fees	756,360	579,942	176,418
Unrestricted	437,202	35,211	401,991
	<u>5,576,881</u>	<u>4,948,101</u>	<u>628,780</u>
Sewer Unrestricted	<u>223,157</u>	<u>198,037</u>	<u>25,120</u>
Solid Waste Unrestricted	<u>333,512</u>	<u>288,627</u>	<u>44,885</u>
Storm Water			
Investment in Capital Assets	1,553,982	1,590,317	(36,335)
Impact Fees	174,615	66,077	108,538
Unrestricted	138,440	43,099	95,341
	<u>1,867,037</u>	<u>1,699,493</u>	<u>167,544</u>
Internal Service	<u>635,579</u>	<u>645,587</u>	<u>(10,008)</u>

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)

Significant changes to fund balances included a decrease to unassigned fund balance in the General Fund of \$466,116, which was offset with an increase to assigned fund balances in the Capital Projects Fund of \$470,585 as money was transferred over from General to Capital Projects.

The Class C Road restricted fund balance increased by \$166,749 for an ending balance of \$327,882. Park impact fee restrictions in the Capital Projects Fund increased by \$166,749. Water Impact Fee restrictions increased by \$176,418. Storm Water Impact Fee restrictions increased by \$108,538. Unrestricted net position in the Water Fund increased by \$401,991

The unrestricted and unassigned fund balance of the General Fund at June 30, 2013, totaling \$277,886, is 15% of the General Fund total revenues for the year and is available for spending at the discretion of the City.

General Fund Budgets

Fruit Heights City prepares its budget according to state statutes. The General Fund Budget was adjusted during the year.

Significant variations between original and final budget amounts include the following:

- Budgeted revenues for licenses and permits increased by \$155,896 as building increased
- Budgeted revenues for inspection fees increased by \$62,978 as building increased.
- Total budgeted revenues increased by \$178,479.
- Budgeted expenses for roads decreased by \$84,333.
- Total budgeted expenses decreased by \$131,741.

Actual General Fund revenues were \$3,208 above the final budget and \$181,687 above the original adjusted budget.

Actual General Fund expenses before transfers were \$131,741 below the final budget and \$294,748 above the original budget.

Major differences between budgeted amounts and actual amounts include the following:

- State grants were budgeted for \$61,151, but \$0 came in.
- Sales taxes were \$72,355 more than budgeted.
- Actual Class C expenses were \$151,500 less than budgeted.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Capital Assets

Fruit Heights City added \$281,602 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: building improvements of \$9,120, Infrastructure of \$210,743 including sidewalks and land drains, sprinkling system improvements of \$10,409, and a new mower in the Internal Service Fund costing \$51,330.

Fruit Heights City added \$139,310 in new business-type activity capital assets during the fiscal year including \$120,028 in water infrastructure improvements and \$19,282 to water equipment.

For more detail on capital assets please see the notes to the financial statements.

Long-Term Debt

The City currently owes \$165,000 for a municipal revenue obligation in the form of a promissory note. The proceeds from the note were used to finance the City's construction of a secondary water system for a portion of the City. \$15,000 of the debt will be paid in the current year with \$150,000 remaining in long-term debt. Special assessment collections will be used to pay this obligation.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Fruit Heights City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Fruit Heights City, 910 South Mountain Road, Fruit Heights City, Utah 84037.

BASIC FINANCIAL STATEMENTS

FRUIT HEIGHTS CITY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,483,262	\$ 1,182,149	\$ 2,665,411
Restricted cash	605,926	1,087,507	1,693,433
Accounts receivable	1,821	161,312	163,133
Special assessments receivable	-	53,447	53,447
Due from other governmental units	707,844	-	707,844
Prepaid expenses	8,690	68,606	77,296
Capital assets (net of accumulated depreciation):			
Land	1,135,873	98,783	1,234,656
Buildings	703,506	-	703,506
Improvements	3,754,039	5,800,986	9,555,025
Machinery and equipment	294,201	29,885	324,086
Water rights	988	16,115	17,103
TOTAL ASSETS	8,696,150	8,498,790	17,194,940
LIABILITIES			
Accounts payable	39,486	55,387	94,873
Accrued expenses	23,957	-	23,957
Impact fees payable	-	23,800	23,800
Deposits	6,290	172,127	178,417
Subdivider guarantee deposits	102,300	-	102,300
Non-current liabilities:			
Due within one year	-	15,000	15,000
Due in more than one year	28,072	150,000	178,072
TOTAL LIABILITIES	200,105	416,314	616,419
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	681,990	-	681,990
NET POSITION			
Net investment in capital assets	5,888,607	5,780,769	11,669,376
Restricted for:			
Class "C" roads	327,882	-	327,882
Parks impact fees	313,936	-	313,936
Impact fees	-	930,975	930,975
Special assessment	-	156,532	156,532
Unrestricted	1,283,630	1,214,200	2,497,830
TOTAL NET POSITION	\$ 7,814,055	\$ 8,082,476	\$ 15,896,531

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Program Revenues		Primary Government			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 624,505	\$ 85,610	\$ -	\$ -	\$ (538,895)	\$ -	\$ (538,895)
Public safety	290,370	21,196	3,628	-	(265,546)	-	(265,546)
Highways and public improvements	357,777	323,578	165,164	-	130,965	-	130,965
Parks and recreation	190,080	2,775	-	71,360	(115,945)	-	(115,945)
Total governmental activities	<u>1,462,732</u>	<u>433,159</u>	<u>168,792</u>	<u>71,360</u>	<u>(789,421)</u>	<u>-</u>	<u>(789,421)</u>
Business-type activities:							
Water	523,810	727,144	-	291,725	-	495,059	495,059
Sewer	376,847	400,590	-	-	-	23,743	23,743
Solid waste	307,283	350,216	-	-	-	42,933	42,933
Storm water	188,936	246,402	-	107,758	-	165,224	165,224
Total business-type activities	<u>1,396,876</u>	<u>1,724,352</u>	<u>-</u>	<u>399,483</u>	<u>-</u>	<u>726,959</u>	<u>726,959</u>
Total primary government	<u>\$ 2,859,608</u>	<u>\$2,157,511</u>	<u>\$ 168,792</u>	<u>\$ 470,843</u>	<u>(789,421)</u>	<u>726,959</u>	<u>(62,462)</u>
General revenues:							
Property taxes					567,224	-	567,224
Sales taxes					498,582	-	498,582
Fees-in-lieu of taxes					48,153	-	48,153
Franchise tax					90,450	-	90,450
Miscellaneous					40,545	13,586	54,131
Transfers in (out)					(120,780)	120,780	-
Total general revenues and transfers					<u>1,124,174</u>	<u>134,366</u>	<u>1,258,540</u>
Change in net position					334,753	861,325	1,196,078
Net position - beginning					<u>7,479,302</u>	<u>7,221,151</u>	<u>14,700,453</u>
Net position - ending					<u>\$ 7,814,055</u>	<u>\$ 8,082,476</u>	<u>\$ 15,896,531</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 452,885	\$ 746,172	\$ 1,199,057
Restricted cash	291,990	313,936	605,926
Accounts receivable	1,821	-	1,821
Due from other governmental units	707,844	-	707,844
Prepaid expenses	8,690	-	8,690
Total assets	<u>\$ 1,463,230</u>	<u>\$ 1,060,108</u>	<u>\$ 2,523,338</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 34,235	\$ 2,132	\$ 36,367
Accrued expenses	23,957	-	23,957
Customer deposits	6,290	-	6,290
Subdivision guarantee deposits	102,300	-	102,300
Total liabilities	<u>166,782</u>	<u>2,132</u>	<u>168,914</u>
Deferred inflows of resources			
Unavailable revenue - property taxes	<u>681,990</u>	<u>-</u>	<u>681,990</u>
Fund balances:			
Nonspendable - prepaid expenses	8,690	-	8,690
Restricted for:			
Class "C" Roads	327,882	-	327,882
Park impact fees	-	313,936	313,936
Assigned to:			
Capital projects fund	-	744,040	744,040
Unassigned	<u>277,886</u>	<u>-</u>	<u>277,886</u>
Total fund balances	<u>614,458</u>	<u>1,057,976</u>	<u>1,672,434</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,463,230</u>	<u>\$ 1,060,108</u>	<u>\$ 2,523,338</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances - governmental funds: \$ 1,672,434

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

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds.

Land	\$ 1,135,873	
Water rights	988	
Buildings	1,125,876	
Improvements	4,392,526	
Machinery and equipment	108,875	
Accumulated depreciation	<u>(1,148,137)</u>	5,616,001

Internal service funds are used by management to charge the
costs of the vehicle and equipment fund to individual funds.
The assets and liabilities of the Internal Service Fund are
included in governmental activities in the Statement of
Net Position. 553,692

Long-term liabilities, including compensated absences are not
due and payable in the current period and therefore are not
reported in the governmental funds, but they are reported
in the Statement of Net Position.

Compensated absences (28,072)

Net position of governmental activities \$ 7,814,055

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

REVENUES	General Fund	Capital Projects Fund	Total Governmental Funds
Taxes			
Property taxes	\$ 567,224	\$ -	\$ 567,224
Sales taxes	498,582	-	498,582
Fees-in-lieu of taxes	48,153	-	48,153
Franchise tax	90,450	-	90,450
Licenses and permits	204,315	-	204,315
Intergovernmental	168,792	-	168,792
Charges for services	207,648	-	207,648
Fines and forfeitures	21,196	-	21,196
Impact fees	-	71,360	71,360
Miscellaneous revenue	35,378	5,167	40,545
Total revenues	<u>1,841,738</u>	<u>76,527</u>	<u>1,918,265</u>
EXPENDITURES			
Current:			
General government	590,773	-	590,773
Public safety	290,370	-	290,370
Highways and public improvements	280,667	1,716	282,383
Parks and recreation	161,485	-	161,485
Capital outlay:			
General government	9,120	-	9,120
Highways and public improvements	-	210,047	210,047
Parks and recreation	-	11,105	11,105
Total expenditures	<u>1,332,415</u>	<u>222,868</u>	<u>1,555,283</u>
Excess (deficiency) of revenues over expenditures	<u>509,323</u>	<u>(146,341)</u>	<u>362,982</u>
Other financing sources (uses)			
Transfers in	-	800,000	800,000
Transfers (out)	<u>(800,000)</u>	<u>(120,780)</u>	<u>(920,780)</u>
Total other financing sources (uses)	<u>(800,000)</u>	<u>679,220</u>	<u>(120,780)</u>
Net change in fund balances	(290,677)	532,879	242,202
Fund balances - beginning of year	<u>905,135</u>	<u>525,097</u>	<u>1,430,232</u>
Fund balances - end of year	<u>\$ 614,458</u>	<u>\$ 1,057,976</u>	<u>\$ 1,672,434</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS 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

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

Net changes in fund balances - total governmental funds	\$	242,202
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Infrastructure	\$	210,743
Buildings		9,120
Park improvements		10,409
Depreciation expense		(134,384)
		95,888

Internal service funds are used by management to charge the costs of the vehicle and equipment fund to individual funds. The net loss of certain activities of the Internal Service Fund is reported with governmental activities. (5,004)

Some governmental fund expenditures reflect payments related to prior periods. Such amounts should not be included in the government-wide Statement of Activities as they related to prior periods. 1,667

Change in net position of governmental activities \$ 334,753

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities - Enterprise Funds					Governmental-
	Water	Sewer	Solid Waste	Storm Water	Total	Type Activities Internal Service Fund
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 250,620	\$ 239,322	\$ 323,441	\$ 286,877	\$ 1,100,260	\$ 366,092
Accounts receivable	66,769	38,036	33,367	23,140	161,312	-
Special assessments receivable	53,447	-	-	-	53,447	-
Prepaid water	68,606	-	-	-	68,606	-
Total current assets	<u>439,442</u>	<u>277,358</u>	<u>356,808</u>	<u>310,017</u>	<u>1,383,625</u>	<u>366,092</u>
Noncurrent assets:						
Restricted cash and cash equivalents	912,892	-	-	174,615	1,087,507	-
Fixed assets	6,012,235	-	-	1,816,754	7,828,989	759,343
Less: Accumulated depreciation	<u>(1,620,448)</u>	<u>-</u>	<u>-</u>	<u>(262,772)</u>	<u>(1,883,220)</u>	<u>(486,737)</u>
Total noncurrent assets	<u>5,304,679</u>	<u>-</u>	<u>-</u>	<u>1,728,597</u>	<u>7,033,276</u>	<u>272,606</u>
Total assets	<u>5,744,121</u>	<u>277,358</u>	<u>356,808</u>	<u>2,038,614</u>	<u>8,416,901</u>	<u>638,698</u>
<u>LIABILITIES</u>						
Current liabilities:						
Accounts payable	1,690	30,401	23,296	-	55,387	3,119
Revenue bonds payable	15,000	-	-	-	15,000	-
Impact fees payable	-	23,800	-	-	23,800	-
Deposits	550	-	-	171,577	172,127	-
Total current liabilities	<u>17,240</u>	<u>54,201</u>	<u>23,296</u>	<u>171,577</u>	<u>266,314</u>	<u>3,119</u>
Noncurrent liabilities:						
Revenue bonds payable	150,000	-	-	-	150,000	-
Total liabilities	<u>167,240</u>	<u>54,201</u>	<u>23,296</u>	<u>171,577</u>	<u>416,314</u>	<u>3,119</u>
<u>NET POSITION</u>						
Net investment in capital assets	4,226,787	-	-	1,553,982	5,780,769	1,246,080
Restricted - Special assessment	156,532	-	-	-	156,532	-
Restricted - Impact fees	756,360	-	-	174,615	930,975	-
Unrestricted	<u>437,202</u>	<u>223,157</u>	<u>333,512</u>	<u>138,440</u>	<u>1,132,311</u>	<u>(610,501)</u>
Total net position	<u>\$ 5,576,881</u>	<u>\$ 223,157</u>	<u>\$ 333,512</u>	<u>\$ 1,867,037</u>	<u>8,000,587</u>	<u>\$ 635,579</u>

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds

81,889

Net position of business-type activities

\$ 8,082,476

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds					Governmental- Type Activities Internal Service Fund
	Water	Sewer	Solid Waste	Storm Water	Total	
<u>OPERATING REVENUE</u>						
Charges for service	\$ 691,966	\$ 399,162	\$ 350,216	\$ 246,402	\$ 1,687,746	\$ 110,000
Other	29,653	1,428	-	-	31,081	-
Total operating revenue	<u>721,619</u>	<u>400,590</u>	<u>350,216</u>	<u>246,402</u>	<u>1,718,827</u>	<u>110,000</u>
<u>OPERATING EXPENSES</u>						
Operation and maintenance	63,189	3,552	6,400	33,529	106,670	67,236
Sewage treatment	-	359,795	-	-	359,795	-
Source of supply	135,147	-	-	-	135,147	-
Power and pumping	19,134	-	-	-	19,134	6,126
Depreciation	116,559	-	-	36,335	152,894	49,071
Administrative expense	41,000	13,500	13,500	13,500	81,500	-
Salaries	68,578	-	-	46,432	115,010	-
Employee benefits	39,197	-	-	31,640	70,837	-
Waste collection	-	-	146,785	-	146,785	-
Waste disposal	-	-	140,598	-	140,598	-
Vehicle operation	27,500	-	-	27,500	55,000	-
Total operating expenses	<u>510,304</u>	<u>376,847</u>	<u>307,283</u>	<u>188,936</u>	<u>1,383,370</u>	<u>122,433</u>
Operating income (loss)	<u>211,315</u>	<u>23,743</u>	<u>42,933</u>	<u>57,466</u>	<u>335,457</u>	<u>(12,433)</u>
<u>NONOPERATING REVENUE (EXPENSES)</u>						
Connection fees	5,525	-	-	-	5,525	-
Impact fees	291,725	-	-	107,758	399,483	-
Interest revenue	7,937	1,377	1,952	2,320	13,586	2,425
Interest expense	(8,502)	-	-	-	(8,502)	-
Total non operating revenue and expenses	<u>296,685</u>	<u>1,377</u>	<u>1,952</u>	<u>110,078</u>	<u>410,092</u>	<u>2,425</u>
Income (loss) before contributions and transfers	508,000	25,120	44,885	167,544	745,549	(10,008)
Transfers	120,780	-	-	-	120,780	-
Contributed capital	-	-	-	-	-	-
Changes in net position	628,780	25,120	44,885	167,544	866,329	(10,008)
Net position - beginning	<u>4,948,101</u>	<u>198,037</u>	<u>288,627</u>	<u>1,699,493</u>	<u>645,587</u>	<u>645,587</u>
Net position - ending	<u>\$ 5,576,881</u>	<u>\$ 223,157</u>	<u>\$ 333,512</u>	<u>\$ 1,867,037</u>	<u>\$ 635,579</u>	<u>\$ 635,579</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds					<u>(5,004)</u>	
Change in net assets of business-type activities					<u>\$ 861,325</u>	

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds					Governmental
	Water	Sewer	Solid Waste	Storm Water	Total	Type Activities Internal Service Fund
Cash Flows From Operating Activities						
Receipts from customers	\$ 721,916	\$ 398,695	\$ 349,929	\$ 261,518	\$ 1,732,058	\$ -
Receipts from interfund services	-	-	-	-	-	110,000
Payments to employees	(68,578)	-	-	(46,432)	(115,010)	-
Payments to suppliers	(258,759)	(345,491)	(294,200)	(65,408)	(963,858)	(77,547)
Payments for interfund services used	(68,500)	(13,500)	(13,500)	(41,000)	(136,500)	-
Net cash provided (used) by operating activities	<u>326,079</u>	<u>39,704</u>	<u>42,229</u>	<u>108,678</u>	<u>516,690</u>	<u>32,453</u>
Cash Flows From Noncapital Financing Activities						
Interfund transfers	120,780	-	-	-	120,780	-
Change in interfund borrowings	(88,093)	-	14,772	-	(73,321)	-
Net cash provided (used) by noncapital financing activities	<u>32,687</u>	<u>-</u>	<u>14,772</u>	<u>-</u>	<u>47,459</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities						
Receipts for impact fees	271,330	-	-	107,758	379,088	-
Receipts for connection fees	5,525	-	-	-	5,525	-
Principal paid on capital debt	(15,000)	-	-	-	(15,000)	-
Interest paid on capital debt	(8,502)	-	-	-	(8,502)	-
Purchases of capital assets	(139,310)	-	-	-	(139,310)	(51,329)
Net cash provided (used) by capital and related financing activities	<u>114,043</u>	<u>-</u>	<u>-</u>	<u>107,758</u>	<u>221,801</u>	<u>(51,329)</u>
Cash Flows From Investing Activities						
Interest and dividends received	7,937	1,377	1,952	2,320	13,586	2,425
Net cash provided (used) by investing activities	<u>7,937</u>	<u>1,377</u>	<u>1,952</u>	<u>2,320</u>	<u>13,586</u>	<u>2,425</u>
Net increase (decrease) in cash and cash equivalents	480,746	41,081	58,953	218,756	799,536	(16,451)
Cash and cash equivalents, July 1	682,766	198,241	264,488	242,736	1,388,231	382,543
Cash and cash equivalents, June 30	<u>\$ 1,163,512</u>	<u>\$ 239,322</u>	<u>\$ 323,441</u>	<u>\$ 461,492</u>	<u>\$ 2,187,767</u>	<u>\$ 366,092</u>
Cash at June 30th						
Cash and cash equivalents	\$ 250,620	\$ 239,322	\$ 323,441	\$ 286,877	\$ 1,100,260	\$ 366,092
Restricted cash	912,892	-	-	174,615	1,087,507	-
Total cash and cash equivalents	<u>\$1,163,512</u>	<u>\$ 239,322</u>	<u>\$ 323,441</u>	<u>\$ 461,492</u>	<u>\$ 2,187,767</u>	<u>\$ 366,092</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					Governmental Type Activities Internal Service Fund
	Water	Sewer	Solid Waste	Storm Water	Total	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 211,315	\$ 23,743	\$ 42,933	\$ 57,466	\$ 335,457	\$ (12,433)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	116,559	-	-	36,335	152,894	49,071
(Increase) decrease in prepaids	(2,065)	-	-	-	(2,065)	-
(Increase) decrease in accounts receivable	297	(1,895)	(287)	(1,384)	(3,269)	-
Increase (decrease) in accounts payable	(27)	17,856	(417)	(239)	17,173	(4,185)
Increase (decrease) in deposits	-	-	-	16,500	16,500	-
Total adjustments	114,764	15,961	(704)	51,212	181,233	44,886
Net cash provided (used) by operating activities	<u>\$ 326,079</u>	<u>\$ 39,704</u>	<u>\$ 42,229</u>	<u>\$ 108,678</u>	<u>\$ 516,690</u>	<u>\$ 32,453</u>
Noncash Investing, Capital and Financing Activities:						
Contribution of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The City has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*. Accordingly, the City has elected to apply all applicable GASB pronouncements and codified accounting standards issued by GASB. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

Fruit Heights City was incorporated in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety, public utilities, highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards board (GASB).

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. Under GASB Statement No. 61, *The Financial Reporting Entity*, the financial reporting entity consists of the primary government and the following component units:

Fruit Heights City Municipal Building Authority. The Fruit Heights City Municipal Building Authority's governing board is appointed by the government's governing body. The City created a building authority in the form of a non-profit corporation under the Utah Municipal Building Authority Act for the purpose of acquiring, improving, or extending one or more projects, as defined in the Act, and to finance their costs on behalf of the City in accordance with the procedures and subject to limitations of the Act. There was no activity in the current year.

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The *Statement of Net Position* presents the City's non-fiduciary assets and liabilities, with the difference reported as net position. Net position are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

General Fund -This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund -This fund accounts for financial resources to be used for the construction of

The City reports the following major proprietary funds:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund -The water fund is used to account for operations of the water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Solid Waste Fund - The solid waste fund is used to account for operations of the solid waste system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Storm Water Fund - The storm water fund is used to account for operations of the storm water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund type:

Internal Service Fund - The internal service fund is used to account for the operating costs of vehicles and equipment charged to the other departments or funds. The internal service fund primarily benefits the governmental funds and is included as part of governmental-type activities in the government-wide financial statements. The net profit or loss on the internal service fund operations is allocated to the functions that benefited from the goods or services provided on the basis of their proportionate benefit. This technique is commonly known as the look-back approach to internal service fund consolidations on the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued)

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

D. Assets, Liabilities, and Fund Balances/Net Position

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the City, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

Capital Assets

General capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures.

Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Position (Continued)

Infrastructure capital assets which are newly constructed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

Deferred Inflows of Resources – In addition to liabilities, the statement of net position reports 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item reported under this category. *Unavailable revenue- property taxes* are reported as deferred inflows of resources since they are recognized as receivables before the period for which the taxes are levied. These amounts are reported in both the government-wide statements and the governmental fund statements.

Long-term Obligations

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

Equity

Fund financial statements:

In February 2009, GASB issued Statement No. 54 on Fund Balance Reporting and Governmental Fund Type Definitions. The statement is effective for years beginning after June 15, 2010. The statement applies only to governmental fund financial statements and not to government-wide statements or proprietary fund statements. Proprietary fund equity is classified the same as in the government-wide statements. The governmental fund balances may be classified as follows:

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Position (Continued)

Equity(continued)

- a. Non-spendable - Fund balances that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted fund balance - Fund balances are reported as restricted when they are constrained by externally imposed legal restrictions, by law through constitutional provision or enabling legislation, or restrictions set by creditors, grantors, or contributors.
- c. Committed fund balance - Fund balances are reported as committed when the Council formally designates the use of resources by ordinance or resolution for a specific purpose and cannot be used for any other purpose unless the City Council likewise formally changes the use.
- d. Assigned fund balance - Fund balances are reported as assigned when the City Council or Management intends to use funds for a specific purpose. Normally funds are assigned by the appropriation process of setting the budget. Additionally, funds in special revenue, debt service, and capital project funds are by their nature assigned to the purpose of those respective funds.
- e. Unassigned fund balance - Fund balances in the general fund are reported as unassigned when they are neither restricted, committed, nor assigned. They may be used for any governmental purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless City Council has provided otherwise in its commitment or assignment actions.

Government-wide statements:

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

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

It is City's policy to first apply restricted resources when the expense is incurred for purposes for which both restricted and unrestricted net position are available.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues and Expenditures

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

Revenue Availability

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1.

Expenditure Recognition

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both the General Fund and Capital Projects Fund. All annual appropriations lapse at the fiscal year end. Encumbrance accounting is not used by the City.

Summary of City Budget Procedures and Calendar

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.
3. Each year the City publishes a separate budget document prepared according to this legal level of control.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (continued)

4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.
10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.
11. In connection with budget adoption:
 - a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
 - b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.
12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Summary of Action Required for Budget Changes:

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

Current Year Excess of Expenditures Over Appropriations

For the year ended June 30, 2012 expenditures were within appropriations in each fund as a whole.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

H. Compensated Absences

City policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Use of Estimates

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

J. Restricted Resources

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

K. Implementation of New Accounting Pronouncements

Beginning in 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. This statement provided guidance on the presentation of deferred outflows and inflows of resources. GASB No. 63 also changes the name of the first statement from "Statement of Net Assets" to "Statement of Net Position." It also changes the name of equity from "Net Assets" to "Net Position."

The City also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes guidance from the classification of items that were previously reported as assets or liabilities that would now be classified as deferred outflows and inflows of resources. Implementation of this standard on the City's financial statements resulted in a prior year adjustment to the net position and is described below.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are carried at cost.

At June 30, 2013, the carrying amount of the City's deposits was \$179,715 and the bank balance was \$196,428. Of the bank balance, \$196,428 was covered by NCUA and FDIC depository insurance.

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$4,179,129	\$4,200,138

C. Summary

	Carrying Amount
Deposits	\$ 179,715
Investment in Utah Public Treasurer's Investment Fund	4,179,129
Total deposits and investments	\$4,358,844
Unrestricted cash	\$2,665,411
Restricted cash	1,693,433
Total deposits and investments	\$4,358,844

Deposit and Investment Risk Disclosure. Deposits and investments for Fruit Heights City are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial credit risk - deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's policy for limiting credit risk for investments is to comply with the Money Management Act. The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains and losses, net of administrative fees, of the PTIF are allocated based upon the participant's average daily balance. The PTIF pool has not been rated.

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

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

NOTE 3 – DISAGGREGATED RECEIVABLES

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Receivables:			
Individual accounts	\$ 1,821	\$ 163,911	\$ 165,732
Sales tax	90,787	-	90,787
Franchise tax	8,104	-	8,104
Property taxes - current	14,119	-	14,119
Property taxes - unavailable	558,943	-	558,943
Class C Roads	35,891	-	35,891
	<u>709,665</u>	<u>163,911</u>	<u>873,576</u>
Less: Allowance for uncollectibles	<u>-</u>	<u>(2,599)</u>	<u>(2,599)</u>
Net total receivables & due from other governments	<u>\$ 709,665</u>	<u>\$ 161,312</u>	<u>\$ 870,977</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, was as follows:

PRIMARY GOVERNMENT	Balance June 30, 2012	Additions	(Deletions)	Balance June 30, 2013
GOVERNMENTAL ACTIVITIES				
Nondepreciated Assets				
Land	\$ 1,135,873	\$ -	\$ -	\$ 1,135,873
Water rights	988	-	-	988
Total nondepreciated assets	<u>1,136,861</u>	<u>-</u>	<u>-</u>	<u>1,136,861</u>
Depreciated Assets				
Buildings	1,116,756	9,120	-	1,125,876
Infrastructure	3,664,305	210,743	-	3,875,048
Improvements	507,069	10,409	-	517,478
Vehicles	708,013	51,330	-	759,343
Machinery and equipment	108,874	-	-	108,874
Total depreciated assets	<u>6,105,017</u>	<u>281,602</u>	<u>-</u>	<u>6,386,619</u>
Less accumulated depreciation				
Buildings	(392,875)	(29,495)	-	(422,370)
Infrastructure	(287,555)	(75,394)	-	(362,949)
Improvements	(250,568)	(24,971)	-	(275,539)
Vehicles	(437,666)	(49,071)	-	(486,737)
Machinery and equipment	(82,754)	(4,524)	-	(87,278)
Total	<u>(1,451,418)</u>	<u>(183,455)</u>	<u>-</u>	<u>(1,634,873)</u>
Net assets depreciated	<u>4,653,599</u>	<u>98,147</u>	<u>-</u>	<u>4,751,746</u>
Governmental activities capital assets, net	<u>\$ 5,790,460</u>	<u>\$ 98,147</u>	<u>\$ -</u>	<u>\$ 5,888,607</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance June 30, 2013</u>
PRIMARY GOVERNMENT				
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 98,783	\$ -	\$ -	\$ 98,783
Water rights	16,115	-	-	16,115
Total nondepreciated assets	<u>114,898</u>	<u>-</u>	<u>-</u>	<u>114,898</u>
Depreciated Assets				
Improvements-nonbuilding				
Infrastructure	1,040,571	-	-	1,040,571
Water system	4,713,589	120,028	-	4,833,617
Irrigation water system	455,058	-	-	455,058
Storm water system	1,257,645	-	-	1,257,645
Equipment				
Water system	87,522	19,282	-	106,804
Sewer system	20,396	-	-	20,396
Total depreciated assets	<u>7,574,781</u>	<u>139,310</u>	<u>-</u>	<u>7,714,091</u>
Less accumulated depreciation				
Improvements-nonbuilding				
Infrastructure	(118,765)	(29,912)	-	(148,677)
Water system	(1,294,891)	(95,472)	-	(1,390,363)
Irrigation water system	(56,568)	-	-	(56,568)
Storm water system	(165,143)	(25,153)	-	(190,296)
Equipment				
Water system	(74,563)	(2,357)	-	(76,920)
Sewer system	(20,396)	-	-	(20,396)
Total	<u>(1,730,326)</u>	<u>(152,894)</u>	<u>-</u>	<u>(1,883,220)</u>
Net assets depreciated	<u>5,844,455</u>	<u>(13,584)</u>	<u>-</u>	<u>5,830,871</u>
Business-type activities capital assets, net	<u>\$ 5,959,353</u>	<u>\$ (13,584)</u>	<u>\$ -</u>	<u>\$ 5,945,769</u>

DEPRECIATION EXPENSE

	<u>Governmental Types</u>	<u>Business Types</u>	<u>Totals</u>
General government	\$ 30,395	\$ -	\$ 30,395
Highways and public improvements	75,394	-	75,394
Parks	28,595	-	28,595
Internal service	49,071	-	49,071
Water	-	116,559	116,559
Storm water	-	36,335	36,335
TOTAL	<u>\$ 183,455</u>	<u>\$ 152,894</u>	<u>\$ 336,349</u>

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2013, was as follows:

Description	Interest Rate	Outstanding June 30, 2012	Additions	Payments	Outstanding June 30, 2013	Current Portion
BUSINESS TYPE						
Water utility fund: Revenue obligation	5.00%	\$ 180,000	\$ -	\$ (15,000)	\$ 165,000	\$ 15,000
Total water fund		<u>\$ 180,000</u>	<u>\$ -</u>	<u>\$ (15,000)</u>	<u>\$ 165,000</u>	<u>\$ 15,000</u>

On June 15, 2004, the City entered into a loan agreement evidenced by a promissory note in the amount of \$300,000 with interest at the annual rate of 5% simple interest. The proceeds are to be used to fund the Fruit Heights City East Bench Pressure Irrigation Special Improvement district which is the vehicle to construct a pressure irrigation delivery system for some residents in Fruit Heights who will repay their individual assessments for participation in the irrigation system. It is the intent that this obligation is to be a Municipal Revenue Obligation of the specific group of participants/residents of the City and not a General Obligation of the City.

Principal balance shall be repaid as it is received by Fruit Heights City in no more than twenty (20) annual payments of \$15,000 beginning October 31, 2005. The note can be prepaid at any time without prepayment penalty. Interest shall be calculated on the outstanding principal balance quarterly and paid annually on July 31 of each year beginning July 31, 2005. Interest shall commence to accrue as of June 15, 2004.

The special assessment was made to residents. The City will collect the payments from the residents and then make the required payments on the promissory note.

Annual requirements to amortize long-term debt as of June 30, 2013 - Revenue Obligation Promissory Note:

June 30,	Revenue Obligation		
	Principal	Interest	Total
2014	\$ 15,000	\$ 7,753	\$ 22,753
2015	15,000	7,002	22,002
2016	15,000	6,253	21,253
2017	15,000	5,502	20,502
2018	15,000	4,753	19,753
2019	15,000	4,002	19,002
2020	15,000	3,253	18,253
2021	15,000	2,502	17,502
2022	15,000	1,753	16,753
2023	15,000	1,002	16,002
2024	15,000	253	15,253
	<u>\$ 165,000</u>	<u>\$ 44,028</u>	<u>\$ 209,028</u>

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS

Plan Description. Fruit Heights City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

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

Funding Policy:

In the Local Governmental Noncontributory Retirement System (Tier 1), Fruit Heights City is required to contribute 16.04% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

In the Local Governmental Contributory Retirement System (Tier 2), Fruit Heights City is required to contribute 12.74% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Fruit Heights City also participates in a defined contribution 401K plan for employees. The contributions from Fruit Heights City to the three plans for the most recent three years were as follows:

	<u>Contributory</u>	<u>Noncontributory</u>	<u>401(k) Plan</u>	<u>Total Employer Contributions</u>
2013	\$ 5,039	\$ 54,315	\$ 17,682	\$ 77,036
2012	\$ 1,841	\$ 47,699	\$ 18,356	\$ 67,896
2011	\$ -	\$ 47,399	\$ 17,772	\$ 65,171

NOTE 7 - POST-EMPLOYMENT BENEFITS

The only post-employment benefit offered by the City is health insurance for eighteen (18) months following termination. Employees covered and eligible are all employees who were covered by the insurance during employment. The participant is required to pay 100% of the premiums. The City is not required to contribute and therefore incurs no expense.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 - RISK MANAGEMENT

Fruit Heights 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 for which the City carries commercial insurance.

The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2013, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

NOTE 9 - AMOUNT TO BE PROVIDED FOR COMPENSATED ABSENCES

This amount represents the accumulated unpaid vacation and compensatory time which would be paid if employees terminated employment June 30, 2013 was \$28,072.

NOTE 10 - INTERFUND CHARGES FOR SERVICES

During the year ended June 30, 2013, the interfund charges for services were as follows:

Internal Service Fund - vehicle and equipment operating costs charged to:

Water fund	\$ 27,500
Storm water fund	27,500
General fund - roads	27,500
General fund - parks	<u>27,500</u>
	<u>\$ 110,000</u>

General Fund charges for services administrative cost share charged to:

Water fund	\$ 35,000
Solid waste fund	7,500
Storm water fund	7,500
Sewer fund	<u>7,500</u>
	<u>\$ 57,500</u>

General fund building costs share charged to:

Water fund	\$ 6,000
Solid waste fund	6,000
Storm water fund	6,000
Sewer fund	<u>6,000</u>
	<u>\$ 24,000</u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - INTEREST EXPENSE

The proprietary funds incurred \$8,502 in interest expense of which \$8,502 was charged to expense and \$-0- was capitalized. All interest expense was treated as a direct expense to the Water Function in the Statement of Activities.

NOTE 12 - RESTRICTIONS OF FUND BALANCE/NET POSITION

Restricted for Park Impact Fees - This represents park impact fees collected and restricted for park improvements.

Restricted for Water and Storm Water Impact Fees - This represents impact fees collected and restricted for water and storm water improvements.

Restricted for Class "C" Road - This represents the excess of Class "C" Road funds received over the amount spent.

Restricted for Special Assessment - This represents amounts assessed to residents for pressurized irrigation system, collected and held for repayment of loan.

Assigned for Emergency Preparedness - This represents required reserve for unexpended amounts from state grants.

NOTE 13 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the City Council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14 - EXPLANATION OF CERTAIN DIFFERENCES

The proprietary fund Statement of Net Position includes a reconciliation between *net position - total enterprise funds* and *net position of business-type activities* as reported in the government-wide Statement of Net Position. The description of the sole element of that reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this \$18,075 difference are as follows:

Internal receivable representing charges in excess of cost to business type activities – prior years	\$ 86,893
Internal receivable representing costs in excess of charges to business type activities – current year	<u>(5,004)</u>
Net adjustment to increase <i>net position - total enterprise funds</i> to arrive at <i>net position - business-type activities</i>	<u>\$ 81,889</u>

NOTE 15 – INTERFUND BALANCES AND TRANSFERS

As of June 30, 2013 no balances existed between funds. During the year an interfund balances was paid off by the Water Fund. \$73,321 was owed to the General Fund and \$14,772 was owed to the Solid Waste Fund.

During the 2013 year a transfer was made from the Capital Projects Fund to the Water Fund in order for the Capital Projects fund to share in the cost of South Main water line costs. The amount of this transfer was \$120,780.

**REQUIRED SUPPLEMENTARY
INFORMATION**

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 530,000	\$ 531,244	\$ 526,300	\$ (4,944)
Fees-in-lieu taxes	60,000	48,808	48,153	(655)
Redemptions	8,000	51,849	40,924	(10,925)
Franchise tax - cable rent	85,000	54,397	90,450	36,053
Sales tax	460,000	426,227	498,582	72,355
Total taxes	<u>1,143,000</u>	<u>1,112,525</u>	<u>1,204,409</u>	<u>91,884</u>
Licenses and permits:				
Business licenses and permits	4,000	4,110	4,110	-
Building permits	50,000	204,606	198,165	(6,441)
Excavation fee	800	1,980	2,040	60
Total licenses and permits	<u>54,800</u>	<u>210,696</u>	<u>204,315</u>	<u>(6,381)</u>
Intergovernmental:				
Class "C" roads	150,000	159,679	165,164	5,485
State grants	111,151	61,151	-	(61,151)
State liquor allotment	4,000	4,000	3,628	(372)
Total intergovernmental	<u>265,151</u>	<u>224,830</u>	<u>168,792</u>	<u>(56,038)</u>
Charges for services:				
Subdivision and engineering fees	30,000	20,071	20,071	-
Inspection fees	35,000	97,978	103,302	5,324
Building rent	24,000	24,000	24,000	-
Administrative services	57,500	57,500	57,500	-
Park fees	3,500	2,775	2,775	-
Total charges for services	<u>150,000</u>	<u>202,324</u>	<u>207,648</u>	<u>5,324</u>
Fines and forfeitures	<u>25,000</u>	<u>20,306</u>	<u>21,196</u>	<u>890</u>
Other revenues:				
Interest earnings and Class "C"	11,500	21,803	5,784	(16,019)
Miscellaneous	10,600	46,046	29,594	(16,452)
Total other revenues	<u>22,100</u>	<u>67,849</u>	<u>35,378</u>	<u>(32,471)</u>
Total revenues	<u>\$ 1,660,051</u>	<u>\$ 1,838,530</u>	<u>\$ 1,841,738</u>	<u>\$ 3,208</u>

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

<u>Expenditures</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Current:				
General government:				
Mayor and council	44,965	42,597	42,596	1
Judicial	2,000	1,710	1,710	-
Executive	157,180	146,566	145,366	1,200
City Treasurer	97,879	97,830	97,830	-
City Recorder	14,200	14,157	14,157	-
Audit	5,900	5,900	5,900	-
Professional and technical services	18,000	14,277	13,881	396
City Hall operations	41,750	39,714	39,779	(65)
Non-departmental	214,835	199,762	199,865	(103)
Elections	-	-	-	-
Planning and zoning	35,775	35,440	33,610	1,830
Emergency preparedness	8,000	5,199	5,199	-
Total general government	<u>640,484</u>	<u>603,152</u>	<u>599,893</u>	<u>3,259</u>
Public safety:				
Law enforcement	146,345	144,721	145,733	(1,012)
Fire protection	120,801	120,801	120,801	-
Protective inspection	24,025	23,836	23,836	-
Total public safety	<u>291,171</u>	<u>289,358</u>	<u>290,370</u>	<u>(1,012)</u>
Roadways:				
Roads	375,893	291,560	280,667	10,893
Class "C" Roads	151,500	151,500	-	151,500
Total roadways	<u>527,393</u>	<u>443,060</u>	<u>280,667</u>	<u>162,393</u>
Parks and recreation:				
Parks	141,060	133,584	135,505	(1,921)
Recreation	27,055	26,268	25,980	288
Total parks and recreation	<u>168,115</u>	<u>159,852</u>	<u>161,485</u>	<u>(1,633)</u>
Total expenditures	<u>1,627,163</u>	<u>1,495,422</u>	<u>1,332,415</u>	<u>163,007</u>
Excess (deficiency) of revenues over expenditures	<u>32,888</u>	<u>343,108</u>	<u>509,323</u>	<u>(166,215)</u>
Other financing sources (uses)				
Appropriation of fund balance	(32,888)	682,296	-	682,296
Transfers (out)	-	(1,025,404)	(800,000)	(225,404)
Total other financing sources (uses)	<u>(32,888)</u>	<u>(343,108)</u>	<u>(800,000)</u>	<u>456,892</u>
Net change in fund balance	-	-	(290,677)	290,677
Fund balance - beginning of year	<u>905,135</u>	<u>905,135</u>	<u>905,135</u>	<u>-</u>
Fund balance - end of year	<u>\$ 905,135</u>	<u>\$ 905,135</u>	<u>\$ 614,458</u>	<u>\$ 290,677</u>

AUDITORS' REPORTS & FINDINGS

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

To the Mayor and City Council
Fruit Heights City

We have audited, 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 the financial statements of the governmental activities, business-type activities, and each major fund of Fruit Heights City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Fruit Heights City's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fruit Heights 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 Fruit Heights City's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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. 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.

Compliance and Other Matters

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

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.

Wood Richards & Associates, PC

Ogden, UT

December 20, 2013

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

To the Mayor, City Council and Management
of Fruit Heights City

REPORT ON COMPLIANCE

We have audited Fruit Heights City's 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 Fruit Heights City are identified as follows:

Cash Management	Utah Retirement Systems Compliance
Budgetary Compliance	Transfers from Utility Enterprise Funds
Fund Balance	Government Records Access Management Act
Impact Fees	Nepotism

Fruit Heights City did not receive any major assistance programs from the State of Utah during the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Fruit Heights 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 Fruit Heights City and its major programs occurred. An audit includes examining, on a test basis, evidence about Fruit Heights 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 Fruit Heights City's compliance with those requirements.

Opinion

In our opinion, Fruit Heights City, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in the accompanying schedule of findings as item 2013-1, 2013-2, and 2013-3.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Fruit Heights 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 Fruit Heights 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 Fruit Heights 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.

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.

Wood Richards & Associates, PC
Ogden, Utah
December 20, 2013

**FRUIT HEIGHTS CITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

State Legal Compliance:

Finding #2013-01 – Transfers from Utility Enterprise Funds

Finding: Utah State Code 10-6-135 requires either 1) government departments pay for utility services at the same rate charged to other customers of the utility (water and sewer) or 2) if the entity does not charge its departments for utility services, the entity should notify the rate payers and hold a public hearing in compliance with *Utah Code*.

Utah State Code 10-6-135 addresses the allocation of administrative costs and other overhead expenses such as utilities, insurance, and information technology. To substantiate the allocation of costs and the charging of utilities to various departments the state code requires a “formal study and reasonable methodology” be performed at least every five years. The City should perform these formal studies at least every five years. This is a new audit procedure required within the State Legal Compliance Audit Guide.

Recommendation: We recommend the City take one of the two required actions regarding the charging of utility services to government departments and the City conduct a formal study on the allocation of administrative costs.

Response: Management agrees with the recommendation and will follow the recommendation listed above.

Finding #2013-02 – Government Records Access Management Act (GRAMA)

Finding: State Code requires each municipality’s appointed records officer to go through an annual online training course provided by the State Archives on the requirements of GRAMA.

Recommendation: We recommend the City allocate the resources to provide for this training course for the records officer.

Response: Management agrees with the recommendation and will follow the recommendation listed above.

**FRUIT HEIGHTS CITY
SCHEDULE OF FINDINGS (continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Finding #2013-03 – Impact Fees

Finding: State Code requires impact fee monies to be spent or at least dedicated for a specific project within six years from the date of receipt. The City has park impact fees on hand that are more than six years old.

Recommendation: While we understand, there are some projects that have been delayed, we recommend the City take action to expedite those projects and spend the impact fee money that is five years old or more. Otherwise, the City will need to refund the monies that are older than six years.

Response: Management agrees with the recommendation and will follow the recommendation listed above.