

**FRUIT HEIGHTS CITY
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of
Fruit Heights City

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Fruit Heights City, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Fruit Heights City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Fruit Heights City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, the schedule of the proportionate share of the net pension liability, the schedule of contributions, and the notes to the required supplementary information on pages 3–9 and 46–50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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
January 31, 2017

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

INTRODUCTION

The following is a discussion and analysis of Fruit Heights City's financial performance and activities for the fiscal year ending June 30, 2016.

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, 2016**

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 2016	June 30 2015	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Cash	\$ 2,202,781	\$ 1,405,743	\$ 4,275,977	\$ 3,724,929	\$ 6,478,758	\$ 5,130,672
Other assets	1,029,230	952,154	307,242	314,969	1,336,472	1,267,123
Capital assets	8,120,526	8,016,402	7,346,916	7,059,564	15,467,442	15,075,966
Total assets	11,352,537	10,374,299	11,930,135	11,099,462	23,282,672	21,473,761
Deferred outflows of resources	81,659	25,374	34,686	11,236	116,345	36,610
	11,434,196	10,399,673	11,964,821	11,110,698	23,399,017	21,510,371
Long-term liabilities	173,243	125,134	66,154	48,831	239,397	173,965
Other liabilities	463,073	137,589	738,583	343,246	1,201,656	480,835
Total liabilities	636,316	262,723	804,737	392,077	1,441,053	654,800
Deferred inflows of resources	850,960	851,693	6,873	6,359	857,833	858,052
Net position:						
Net investment in capital assets	8,120,526	8,016,402	7,346,916	6,860,733	15,467,442	14,877,135
Restricted	570,473	684,716	1,270,275	1,302,050	1,685,693	1,986,766
Unrestricted	1,255,921	583,937	2,536,020	2,549,479	3,946,996	3,133,416
Total net position	\$ 9,946,920	\$ 9,285,055	\$ 11,153,211	\$ 10,712,262	\$ 21,100,131	\$ 19,997,317

Analysis of Financial Position:

Governmental Activities:

The governmental activities have seen an increase to cash (restricted and unrestricted) of \$797,038. The City has invested its cash into capital assets as the net capital assets has increased by \$104,124. Total assets including receivables, prepaids, and amounts due from other governments has increased by \$978,238.

Total liabilities for the governmental activities increased by \$373,593, mostly due to construction related accounts payable at year end.

The total net position increased by \$661,865 of which \$104,124 was from the net investment in capital assets, while restricted amounts decreased by 114,243, and unrestricted increased by \$671,984. 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, 2016**

Analysis of Financial Position (continued):

Business-Type Activities:

The business-type activities have seen an increase to cash (restricted and unrestricted) of \$551,048. The City's new purchases, acquisitions, construction of capital assets, and contributed capital has exceeded depreciation expense by \$287,352. Total assets including receivables and prepaid expenses have increased by \$830,673.

Total liabilities for the business-type activities increased from the prior year with a net increase of \$412,660, mostly due to a large increase to construction related accounts payable and customer deposits.

The total net position increased by \$501,983 of which \$456,749 was from the net investment in capital assets, the restricted amounts decreased by \$31,775, and the unrestricted net position decreased by \$13,459. 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, 2016**

Governmental Activities and Business Type Activities

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Revenues:						
Program revenues:						
Charges for services	\$ 422,047	\$ 309,381	\$ 2,012,169	\$ 1,998,169	\$ 2,434,216	\$ 2,307,550
Grants and contributions:						
Operating	200,043	168,849	-	-	200,043	168,849
Capital	18,955	133,120	106,112	401,772	125,067	534,892
General revenues:						
Property taxes	866,463	620,875	-	-	866,463	620,875
Sales taxes	620,621	582,798	-	-	620,621	582,798
Other taxes	158,695	144,550	-	-	158,695	144,550
Other	52,915	98,137	31,398	17,461	84,313	115,598
Total revenues	<u>2,339,739</u>	<u>2,057,710</u>	<u>2,149,679</u>	<u>2,417,402</u>	<u>4,489,418</u>	<u>4,475,112</u>
Expenses:						
General government	650,725	674,104	-	-	650,725	674,104
Public safety	395,801	347,811	-	-	395,801	347,811
Public works	440,248	414,574	-	-	440,248	414,574
Parks and recreation	191,100	155,072	-	-	191,100	155,072
Water	-	-	612,406	638,081	612,406	638,081
Sewer	-	-	452,364	404,651	452,364	404,651
Solid waste	-	-	326,893	325,666	326,893	325,666
Storm sewer	-	-	256,033	200,745	256,033	200,745
Total expenses	<u>1,677,874</u>	<u>1,591,561</u>	<u>1,647,696</u>	<u>1,569,143</u>	<u>3,325,570</u>	<u>3,160,704</u>
Transfers in (out)	-	-	-	-	-	-
Change in net position	661,865	466,149	501,983	848,259	1,163,848	1,314,408
Net position-beginning	<u>9,285,055</u>	<u>8,818,906</u>	<u>10,651,228</u>	<u>9,864,003</u>	<u>19,936,283</u>	<u>18,682,909</u>
Net position-ending	<u>\$ 9,946,920</u>	<u>\$ 9,285,055</u>	<u>\$ 11,153,211</u>	<u>\$ 10,712,262</u>	<u>\$ 21,100,131</u>	<u>\$ 19,997,317</u>

Governmental Activities

The net change in position for the governmental activities was \$661,865 which is more than the change in net position from 2015 by \$195,716. The reason for the change is from increases to property taxes of \$245,588 and an increase in charges for services of \$112,666.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

Business-Type Activities

The business-type activities increased net position by \$501,983, which is less than the results of operations in 2015 by \$346,276. The reason for the sharp decrease is from a decrease to capital contributions of \$295,660. Expenses increased by \$78,553, mostly in the 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
	2016	2015	
General			
Nonspendable	\$ 4,981	\$ 4,917	\$ 64
Class C Roads	395,702	368,489	189,319
Transportation tax	13,129		13,129
Unassigned	445,558	298,705	(15,253)
	<u>859,370</u>	<u>672,111</u>	<u>187,259</u>
Capital Projects			
Impact Fees	174,771	316,227	(141,456)
Transportation fees	168,335		168,335
Assigned	585,970	339,887	246,083
	<u>929,076</u>	<u>656,114</u>	<u>272,962</u>
Water			
Investment in Capital Assets	5,286,582	4,777,364	509,218
Special Assessment	152,426	120,903	31,523
Impact Fees	800,688	1,181,147	(380,459)
Unrestricted	1,353,665	1,168,917	184,748
	<u>7,593,361</u>	<u>7,248,331</u>	<u>345,030</u>
Sewer Unrestricted	<u>287,329</u>	<u>261,912</u>	<u>25,417</u>
Solid Waste Unrestricted	<u>423,646</u>	<u>423,157</u>	<u>489</u>
Storm Water			
Investment in Capital Assets	2,060,334	2,083,369	(23,035)
Impact Fees	317,161	-	-
Unrestricted	409,294	652,620	73,835
	<u>2,786,789</u>	<u>2,735,989</u>	<u>50,800</u>
Internal Service	<u>595,970</u>	<u>557,544</u>	<u>38,426</u>

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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 property taxes increased by \$65,478.
- Budgeted revenues for sales tax increased by \$86,500.
- Total budgeted expenses decreased by \$139,264.

Actual General Fund revenues were \$199,678 above the final budget and \$114,271 above the original budget.

Actual General Fund expenses before transfers were \$186,347 below the final budget and \$137,046 below the original budget.

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

- Sales taxes were \$51,303 more than budgeted.
- Class C Road expenditures were \$138,115 less than budgeted.

Capital Assets

Fruit Heights City added \$359,970 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: building improvements of \$20,367, construction in progress of roads and parks of \$319,284, and park improvements of \$6,167.

Fruit Heights City added \$473,382 in new business-type activity capital assets during the fiscal year all of which was construction in progress in the water fund and storm water funds of \$466,853, and \$6,529 respectively.

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

Long-Term Debt

The City paid off its only debt of \$150,000 in special assessment debt in 2016. Other long-term liabilities on the financial statements are related to employee compensation such as accrued vacation leave and pension liabilities.

**FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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.

FRUIT HEIGHTS CITY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,336,639	\$ 3,322,863	\$ 4,659,502
Restricted cash	866,142	1,270,275	2,136,417
Accounts receivable	28,073	174,222	202,295
Special assessments receivable	-	32,026	32,026
Due from other governmental units	948,268	-	948,268
Due from other governmental units - restricted	47,901	-	47,901
Prepaid expenses	4,981	100,985	105,966
Net pension asset	7	9	16
Capital assets			
Land	1,135,873	98,783	1,234,656
Construction in progress	319,284	473,382	792,666
Water rights	988	16,115	17,103
Buildings	1,238,312	-	1,238,312
Infrastructure and Improvements	6,583,011	9,026,547	15,609,558
Machinery and equipment	1,076,503	113,375	1,189,878
Less: accumulated depreciation	(2,233,445)	(2,381,286)	(4,614,731)
Total capital assets, net	<u>8,120,526</u>	<u>7,346,916</u>	<u>15,467,442</u>
TOTAL ASSETS	<u>11,352,537</u>	<u>12,247,296</u>	<u>23,599,833</u>
Deferred outflows of resources - pensions	81,659	34,686	116,345
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>11,434,196</u>	<u>12,281,982</u>	<u>23,716,178</u>
LIABILITIES			
Accounts payable	383,061	568,850	951,911
Accrued expenses	8,412	8,735	17,147
Deposits	2,200	160,998	163,198
Subdivider guarantee deposits	69,400	-	69,400
Non-current liabilities:			
Due within one year	-	-	-
Due in more than one year	173,243	66,154	239,397
TOTAL LIABILITIES	<u>636,316</u>	<u>804,737</u>	<u>1,441,053</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	835,367	-	835,367
Related to pensions	15,593	6,873	22,466
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>850,960</u>	<u>6,873</u>	<u>857,833</u>
NET POSITION			
Net investment in capital assets	8,120,526	7,346,916	15,467,442
Restricted for:			
Class "C" roads	395,702	-	395,702
Parks impact fees	174,771	-	174,771
Impact fees	-	1,117,849	1,117,849
Special assessment	-	152,426	152,426
Unrestricted	1,255,921	2,536,020	3,791,941
TOTAL NET POSITION	<u>\$ 9,946,920</u>	<u>\$ 11,153,211</u>	<u>\$ 21,100,131</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Program Revenues				Net (Expense) Revenue and Changes in Net Position Primary Government		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 650,725	\$ 86,130	\$ -	\$ -	\$ (564,595)	\$ -	\$ (564,595)
Public safety	395,801	10,782	-	-	(385,019)	-	(385,019)
Highways and public improvements	440,248	321,405	200,043	-	81,200	-	81,200
Parks and recreation	191,100	3,730	-	18,955	(168,415)	-	(168,415)
Total governmental activities	<u>1,677,874</u>	<u>422,047</u>	<u>200,043</u>	<u>18,955</u>	<u>(1,036,829)</u>	<u>-</u>	<u>(1,036,829)</u>
Business-type activities:							
Water	612,406	878,690	-	77,489	-	343,773	343,773
Sewer	452,364	475,839	-	-	-	23,475	23,475
Solid waste	326,893	324,362	-	-	-	(2,531)	(2,531)
Storm water	256,033	333,278	-	28,623	-	105,868	105,868
Total business-type activities	<u>1,647,696</u>	<u>2,012,169</u>	<u>-</u>	<u>106,112</u>	<u>-</u>	<u>470,585</u>	<u>470,585</u>
Total primary government	<u>\$ 3,325,570</u>	<u>\$2,434,216</u>	<u>\$ 200,043</u>	<u>\$ 125,067</u>	<u>(1,036,829)</u>	<u>470,585</u>	<u>(566,244)</u>
General revenues:							
Property taxes					866,463	-	866,463
Sales taxes					620,621	-	620,621
Fees-in-lieu of taxes					61,342	-	61,342
Franchise tax					97,353	-	97,353
Miscellaneous					52,915	31,398	84,313
Transfers in (out)					-	-	-
Total general revenues and transfers					<u>1,698,694</u>	<u>31,398</u>	<u>1,730,092</u>
Change in net position					661,865	501,983	1,163,848
Net position - beginning as restated					<u>9,285,055</u>	<u>10,651,228</u>	<u>19,936,283</u>
Net position - ending					<u>\$ 9,946,920</u>	<u>\$ 11,153,211</u>	<u>\$ 21,100,131</u>

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 463,664	\$ 727,360	\$ 1,191,024
Accounts receivable	11,684	16,389	28,073
Due from other governmental units	948,268	-	948,268
Prepaid expenses	4,981	-	4,981
Restricted assets:			
Restricted cash	523,036	343,106	866,142
Due from other governmental units	47,901	-	47,901
Total assets	<u>\$ 1,999,534</u>	<u>\$ 1,086,855</u>	<u>\$ 3,086,389</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 224,785	\$ 157,779	\$ 382,564
Accrued expenses	8,412	-	8,412
Customer deposits	2,200	-	2,200
Subdivision guarantee deposits	69,400	-	69,400
Total liabilities	<u>304,797</u>	<u>157,779</u>	<u>462,576</u>
Deferred inflows of resources			
Unavailable revenue - property taxes	<u>835,367</u>	<u>-</u>	<u>835,367</u>
Fund balances:			
Nonspendable - prepaid expenses	4,981	-	4,981
Restricted for:			
Class "C" Roads	395,702	-	395,702
Park impact fees	-	174,771	174,771
Transportation tax/fees	13,129	168,335	181,464
Assigned to:			
Capital projects fund	-	585,970	585,970
Unassigned	445,558	-	445,558
Total fund balances	<u>859,370</u>	<u>929,076</u>	<u>1,788,446</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,999,534</u>	<u>\$ 1,086,855</u>	<u>\$ 3,086,389</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, 2016

Total fund balances - governmental funds:		\$ 1,788,446
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	
Construction in progress	319,284	
Water rights	988	
Buildings	1,238,312	
Improvements	6,583,011	
Machinery and equipment	123,026	
Accumulated depreciations	<u>(1,668,734)</u>	
		7,731,760
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.		
		533,891
Deferred inflows of resources, a use of net position that applies to future periods, is not shown in the fund statements.		
		(15,593)
Deferred outflows of resources, a consumption of net position that applies to future periods, is not shown in the fund statements.		
		81,659
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.		
Net pension liability		(151,857)
Compensated absences		<u>(21,386)</u>
Net position of governmental activities		<u><u>\$ 9,946,920</u></u>

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, 2016

REVENUES	General Fund	Capital Projects Fund	Total Governmental Funds
Taxes			
Property taxes	\$ 866,463	\$ -	\$ 866,463
Sales taxes	620,621	-	620,621
Fees-in-lieu of taxes	61,342	-	61,342
Franchise tax	97,353	-	97,353
Licenses and permits	91,531	-	91,531
Intergovernmental	200,043		200,043
Charges for services	151,399	168,335	319,734
Fines and forfeitures	10,782	-	10,782
Impact fees	-	18,955	18,955
Miscellaneous revenue	38,416	14,499	52,915
Total revenues	<u>2,137,950</u>	<u>201,789</u>	<u>2,339,739</u>
EXPENDITURES			
Current:			
General government	640,610	-	640,610
Public safety	395,801	-	395,801
Highways and public improvements	238,004	-	238,004
Parks and recreation	165,133	-	165,133
Capital outlay:			
General government	20,367	-	20,367
Highways and public improvements	176,258	-	176,258
Parks and recreation	-	163,345	163,345
Total expenditures	<u>1,636,173</u>	<u>163,345</u>	<u>1,799,518</u>
Excess (deficiency) of revenues over expenditures	<u>501,777</u>	<u>38,444</u>	<u>540,221</u>
Other financing sources (uses)			
Transfers in	-	234,518	234,518
Transfers (out)	<u>(314,518)</u>	<u>-</u>	<u>(314,518)</u>
Total other financing sources (uses)	<u>(314,518)</u>	<u>234,518</u>	<u>(80,000)</u>
Net change in fund balances	187,259	272,962	460,221
Fund balances - beginning of year	<u>672,111</u>	<u>656,114</u>	<u>1,328,225</u>
Fund balances - end of year	<u>\$ 859,370</u>	<u>\$ 929,076</u>	<u>\$ 1,788,446</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, 2016

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

Net changes in fund balances - total governmental funds	\$	460,221
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.		
Construction in progress	\$	319,284
Infrastructure		-
Park improvements		6,167
Buildings		20,367
Machinery and equipment		14,152
Depreciation expense		(184,688)
		175,282

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. 19,213

Some revenues only represent long-term economic resources and are, therefore reported in the government-wide statements but, not in the fund financial statements. The amount of contributed capital is as follows -

The Statement of Activities includes the net pension benefit (expense) from the adoption of GASB 68, which is not included in the fund financial statements. 13,273

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. (6,124)

Change in net position of governmental activities \$ 661,865

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

ASSETS	Business-Type Activities - Enterprise Funds				Total	Governmental-
	Water	Sewer	Solid Waste	Storm Water		Internal Service Fund
Current assets:						
Cash and cash equivalents	\$ 1,654,994	\$ 280,351	\$ 418,428	\$ 907,004	\$ 3,260,777	\$ 207,701
Accounts receivable	67,205	45,110	30,665	31,242	174,222	-
Special assessments receivable	32,026	-	-	-	32,026	-
Prepaid water	100,985	-	-	-	100,985	-
Total current assets	1,855,210	325,461	449,093	938,246	3,568,010	207,701
Noncurrent assets:						
Restricted cash and cash equivalents	953,114	-	-	317,161	1,270,275	-
Net pension asset	5	-	-	4	9	-
Land	98,783	-	-	-	98,783	-
Construction in progress	466,853	-	-	6,529	473,382	-
Water rights	16,115	-	-	-	16,115	-
Improvements	6,572,138	-	-	2,454,409	9,026,547	-
Machinery and equipment	113,375	-	-	-	113,375	953,477
Less: Accumulated depreciation	(1,980,682)	-	-	(400,604)	(2,381,286)	(564,711)
Total noncurrent assets	6,239,701	-	-	2,377,499	8,617,200	388,766
Total assets	8,094,911	325,461	449,093	3,315,745	12,185,210	596,467
Deferred outflows of resources - pensions	21,040	-	-	13,646	34,686	-
Total assets and deferred outflows of resources	8,115,951	325,461	449,093	3,329,391	12,219,896	596,467
LIABILITIES						
Current liabilities:						
Accounts payable	473,169	38,132	25,447	32,102	568,850	497
Compensated absences	5,422	-	-	3,313	8,735	-
Deposits	-	-	-	160,998	160,998	-
Total current liabilities	478,591	38,132	25,447	196,413	738,583	497
Noncurrent liabilities:						
Net pension liability	39,869	-	-	26,285	66,154	-
Total liabilities	518,460	38,132	25,447	222,698	804,737	497
Deferred inflows of resources - pensions	4,130	-	-	2,743	6,873	-
Total liabilities and deferred inflows of resources	522,590	38,132	25,447	225,441	811,610	497
NET POSITION						
Net investment in capital assets	5,286,582	-	-	2,060,334	7,346,916	388,766
Restricted - Special assessment	152,426	-	-	-	152,426	-
Restricted - Impact fees	800,688	-	-	317,161	1,117,849	-
Unrestricted	1,353,665	287,329	423,646	409,294	2,473,934	207,204
Total net position	\$ 7,593,361	\$ 287,329	\$ 423,646	\$ 2,786,789	11,091,125	\$ 595,970
Adjustment for consolidation of Internal Service Fund related to Enterprise Funds					62,086	
Net position of business-type activities					\$ 11,153,211	

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, 2016

	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	\$ 858,774	\$ 475,839	\$ 324,362	\$ 333,278	\$ 1,992,253	\$ 112,000
Other	18,471		-		18,471	-
Total operating revenue	<u>877,245</u>	<u>475,839</u>	<u>324,362</u>	<u>333,278</u>	<u>2,010,724</u>	<u>112,000</u>
<u>OPERATING EXPENSES</u>						
Operation and maintenance	79,884	3,670	3,942	74,788	162,284	77,053
Sewage treatment	-	434,994	-	-	434,994	-
Source of supply	199,092	-	-	-	199,092	-
Power and pumping	28,113	-	-	-	28,113	6,184
Depreciation	136,943	-	-	50,095	187,038	71,160
Administrative expense	41,200	13,700	13,700	13,700	82,300	-
Salaries	76,473	-	-	53,672	130,145	-
Employee benefits	40,872	-	-	35,778	76,650	-
Waste collection	-	-	158,785	-	158,785	-
Waste disposal	-	-	150,466	-	150,466	-
Vehicle operation	28,000	-	-	28,000	56,000	-
Total operating expenses	<u>630,577</u>	<u>452,364</u>	<u>326,893</u>	<u>256,033</u>	<u>1,665,867</u>	<u>154,397</u>
Operating income (loss)	<u>246,668</u>	<u>23,475</u>	<u>(2,531)</u>	<u>77,245</u>	<u>344,857</u>	<u>(42,397)</u>
<u>NONOPERATING REVENUE (EXPENSES)</u>						
Connection fees	1,445	-	-	-	1,445	-
Impact fees	77,489	-	-	28,623	106,112	-
Gain (loss) on sale of asset	-	-	-	-	-	-
Interest revenue	20,470	1,942	3,020	5,966	31,398	823
Interest expense	(1,042)	-	-	-	(1,042)	-
Total non operating revenue and expenses	<u>98,362</u>	<u>1,942</u>	<u>3,020</u>	<u>34,589</u>	<u>137,913</u>	<u>823</u>
Income (loss) before contributions and transfers	345,030	25,417	489	111,834	482,770	(41,574)
Transfers	-	-	-	-	-	80,000
Contributed capital	-	-	-	-	-	-
Changes in net position	345,030	25,417	489	111,834	482,770	38,426
Net position - beginning - as restated	<u>7,248,331</u>	<u>261,912</u>	<u>423,157</u>	<u>2,674,955</u>	<u>557,544</u>	<u>557,544</u>
Net position - ending	<u>\$ 7,593,361</u>	<u>\$ 287,329</u>	<u>\$ 423,646</u>	<u>\$ 2,786,789</u>	<u>\$ 595,970</u>	<u>\$ 595,970</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds					<u>19,213</u>	
Change in net assets of business-type activities					<u>\$ 501,983</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, 2016

	Business-Type Activities - Enterprise Funds					Governmental
	Water	Sewer	Solid Waste	Storm Water	Total	Activities Internal Service Fund
Cash Flows From Operating Activities						
Receipts from customers	\$ 887,245	\$ 473,022	\$ 329,973	\$ 318,780	\$ 2,009,020	\$ -
Receipts from interfund services	-	-	-	-	-	112,000
Payments to employees	(81,635)	-	-	(57,409)	(139,044)	-
Payments to suppliers	(347,135)	(436,942)	(313,302)	(78,544)	(1,175,923)	(84,115)
Payments for interfund services used	(69,200)	(13,700)	(13,700)	(41,700)	(138,300)	-
Net cash provided (used) by operating activities	<u>389,275</u>	<u>22,380</u>	<u>2,971</u>	<u>141,127</u>	<u>555,753</u>	<u>27,885</u>
Cash Flows From Noncapital Financing Activities						
Impact fee payback	-	1,700	-	-	1,700	-
Transfers	-	-	-	-	-	80,000
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>1,700</u>	<u>80,000</u>
Cash Flows From Capital and Related Financing Activities						
Receipts for impact fees	77,489	-	-	28,623	106,112	-
Receipts for connection fees	1,445	-	-	-	1,445	-
Proceeds from sale of assets	-	-	-	-	-	-
Principal paid on capital debt	(150,000)	-	-	-	(150,000)	-
Interest paid on capital debt	(8,044)	-	-	-	(8,044)	-
Purchases of capital assets	-	-	-	(6,529)	(6,529)	-
Net cash provided (used) by capital and related financing activities	<u>(79,110)</u>	<u>-</u>	<u>-</u>	<u>22,094</u>	<u>(57,016)</u>	<u>-</u>
Cash Flows From Investing Activities						
Interest and dividends received	20,470	1,942	3,020	5,966	31,398	823
Net cash provided (used) by investing activities	<u>20,470</u>	<u>1,942</u>	<u>3,020</u>	<u>5,966</u>	<u>31,398</u>	<u>823</u>
Net increase (decrease) in cash and cash equivalents	330,635	26,022	5,991	169,187	531,835	108,708
Cash and cash equivalents, July 1	<u>2,277,473</u>	<u>254,329</u>	<u>412,437</u>	<u>737,817</u>	<u>3,682,056</u>	<u>98,993</u>
Cash and cash equivalents, June 30	<u>\$ 2,608,108</u>	<u>\$ 280,351</u>	<u>\$ 418,428</u>	<u>\$ 907,004</u>	<u>\$ 4,213,891</u>	<u>\$ 207,701</u>
Cash at June 30th						
Cash and cash equivalents	\$ 1,654,994	\$ 280,351	\$ 418,428	\$ 907,004	\$ 3,260,777	\$ 207,701
Restricted cash	953,114	-	-	-	953,114	-
Total cash and cash equivalents	<u>\$ 2,608,108</u>	<u>\$ 280,351</u>	<u>\$ 418,428</u>	<u>\$ 907,004</u>	<u>\$ 4,213,891</u>	<u>\$ 207,701</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, 2016

	<u>Business-Type Activities - Enterprise Funds</u>					Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>	Type Activities Internal Service Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 246,668	\$ 23,475	\$ (2,531)	\$ 77,245	\$ 344,857	\$ (42,397)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	136,943	-	-	50,095	187,038	71,160
(Increase) decrease in prepaids	(5,057)	-	-	-	(5,057)	-
(Increase) decrease in receivables	8,918	(2,817)	5,611	(1,171)	10,541	-
Increase (decrease) in payables	5,883	1,722	(109)	32,022	39,518	(878)
Increase (decrease) in compensated absences	(1,791)	-	-	1,640	(151)	-
Increase (decrease) in pension liability	(3,371)	-	-	(5,377)	(8,748)	-
Increase (decrease) in deposits	1,082	-	-	(13,327)	(12,245)	-
Total adjustments	142,607	(1,095)	5,502	63,882	210,896	70,282
Net cash provided (used) by operating activities	<u>\$ 389,275</u>	<u>\$ 22,380</u>	<u>\$ 2,971</u>	<u>\$ 141,127</u>	<u>\$ 555,753</u>	<u>\$ 27,885</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, 2016

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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 major capital projects.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

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

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.

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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund type:

C. Measurement Focus and Basis of Accounting

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.

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.

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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the deferred contributions and differences between projected and actual earnings on its pension plan assets.

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 two types 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. Deferred inflows related to pensions are also reported in this category.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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:

- 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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Equity

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.

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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.
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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

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, 2016 expenditures exceeded appropriations in the general fund by \$49,301. Expenditures also exceeded appropriations in the storm water fund and sewer fund by \$28,781 and \$164, respectively. Other funds maintained their actual expenditures within their appropriations.

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.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

Deposits & Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by some of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of city funds in a "qualified depository".

The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2016, \$47,221 of the City's bank balances of \$181,988 was uninsured and uncollateralized.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

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

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers' Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurers' Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act (*Utah Code*, Title 51, Chapter 7). The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

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

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Fair Value of Investments

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At June 30, 2016, the City had the following recurring fair value measurements.

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Utah Public Treasurer's Investment Fund	\$ 6,293,612	\$ -	\$ 6,293,612	\$ -
Total debt securities	\$ 6,293,612	\$ -	\$ 6,293,612	\$ -

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds: quoted prices for similar securities in active markets;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund;
- Utah Public Treasurers' Investment Fund: application of the June 30, 20xx fair value factor, as calculated by the Utah State Treasurer, to the City's average daily balance in the Fund; and,

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days - 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 5 years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2016, the City's investments had the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
PTIF Investments	6,293,612	6,293,612	-	-	-
	6,293,612	6,293,612	-	-	-

Credit Risk

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

At June 30, 2016, the City's investments had the following quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
PTIF Investments	6,293,612	-	-	-	6,293,612
	6,293,612	-	-	-	6,293,612

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

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 or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

Cash on hand and on deposit:	
Cash on deposit	\$ 184,755
Petty cash	391
PTIF investment	<u>6,293,612</u>
Total cash and investments	<u><u>\$ 6,478,758</u></u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash	\$ 4,659,502
Restricted Cash	<u>1,819,256</u>
Total cash and investments	<u><u>\$ 6,478,758</u></u>

NOTE 3 – DISAGGREGATED RECEIVABLES AND PAYABLES

	<u>Governmental Activities</u>	<u>Enterprise Funds</u>	<u>Total</u>
Receivables:			
Individual accounts	\$ 16,389	\$ 176,821	\$ 193,210
Special assessments	-	32,026	32,026
Sales tax	119,516	-	119,516
Franchise tax	11,685	-	11,685
Property taxes - current	10,962	-	10,962
Property taxes - unavailable	817,789	-	817,789
Class C Roads	<u>47,901</u>	<u>-</u>	<u>47,901</u>
	1,024,242	208,847	1,233,089
Less: Allowance for uncollectibles	<u>-</u>	<u>(2,599)</u>	<u>(2,599)</u>
Net total receivables & due from other governments	<u><u>\$ 1,024,242</u></u>	<u><u>\$ 206,248</u></u>	<u><u>\$ 1,230,490</u></u>
 Statement of Net Position:			
Accounts receivable	\$ 28,073	\$ 174,222	\$ 202,295
Special assessments	-	32,026	32,026
Due from other governments	948,268	-	948,268
Due from other governments - restricted	<u>47,901</u>	<u>-</u>	<u>47,901</u>
	<u><u>\$ 1,024,242</u></u>	<u><u>\$ 206,248</u></u>	<u><u>\$ 1,230,490</u></u>

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – DISAGGREGATED RECEIVABLES AND PAYABLES (Continued)

	Accounts Payable Due To:			Payable from Restricted Assets
	Other Governments	Vendors	Total	
General Fund	\$ 56,190	\$ 168,593	\$ 224,783	\$ 154,000
Capital Projects Fund	-	157,781	157,781	149,320
Water Fund	-	473,168	473,168	443,510
Sewer Fund	36,431	-	36,431	-
Solid Waste Fund	-	25,447	25,447	-
Storm Water Fund	-	32,101	32,101	6,203
Internal Service Fund	-	497	497	-
Total	\$ 74,107	\$ 23,830	\$ 950,208	\$753,033.00

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	(Deletions)	Balance June 30, 2016
<u>PRIMARY GOVERNMENT</u>				
GOVERNMENTAL ACTIVITIES				
Nondepreciated Assets				
Land	\$ 1,135,873	\$ -	\$ -	\$,135,873
Construction In Progress	-	319,284	-	319,284
Water rights	988	-	-	988
Total nondepreciated assets	1,136,861	319,284	-	1,456,145
Depreciated Assets				
Buildings	1,217,944	20,367	-	1,238,311
Infrastructure	5,934,880	-	-	5,934,880
Improvements	641,964	6,167	-	648,131
Vehicles	953,477	-	-	953,477
Machinery and equipment	108,874	14,152	-	123,026
Total depreciated assets	8,857,139	40,686	-	8,897,825
Less accumulated depreciation				
Buildings	(483,898)	(34,338)	-	(518,236)
Infrastructure	(577,648)	(118,697)	-	(696,345)
Improvements	(326,849)	(26,731)	-	(353,580)
Vehicles	(493,551)	(71,160)	-	(564,711)
Machinery and equipment	(95,650)	(4,922)	-	(100,572)
Total	(1,977,596)	(255,848)	-	(2,233,444)
Net assets depreciated	6,879,543	(215,162)	-	6,664,381
Governmental activities capital assets, net	\$ 8,016,404	\$ 104,122	\$ -	\$8,120,526

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2015	Additions	(Deletions)	Balance June 30, 2016
<u>PRIMARY GOVERNMENT</u>				
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 98,783	\$ -	\$ -	\$ 98,783
Construction In Progress	-	473,382	-	473,382
Water rights	16,115	-	-	16,115
Total nondepreciated assets	114,898	473,382	-	588,280
Depreciated Assets				
Improvements-nonbuilding				
Water system	6,117,080	-	-	6,117,080
Irrigation water system	455,059	-	-	455,059
Storm water system	2,454,407	-	-	2,454,407
Equipment				
Water system	111,038	-	-	111,038
Sewer system	2,338	-	-	2,338
Total depreciated assets	9,139,922	-	-	9,139,922
Less accumulated depreciation				
Improvements-nonbuilding				
Water system	(1,692,025)	(122,292)	-	(1,814,317)
Irrigation water system	(83,872)	(9,101)	-	(92,973)
Storm water system	(350,509)	(50,095)	-	(400,604)
Equipment				
Water system	(65,504)	(5,550)	-	(71,054)
Sewer system	(2,338)	-	-	(2,338)
Total	(2,194,248)	(187,038)	-	(2,381,286)
Net assets depreciated	6,945,674	(187,038)	-	6,758,636
Business-type activities capital assets, net	\$ 7,060,572	\$ 286,344	\$ -	\$ 7,346,916

DEPRECIATION EXPENSE

	Governmental Types	Business Types	Totals
General government	\$ 34,338	\$ -	\$ 34,338
Highways and public improvements	123,619	-	123,619
Parks	26,731	-	26,731
Internal service	71,160	-	71,160
Water	-	136,943	136,943
Storm water	-	50,095	50,095
TOTAL	\$ 255,848	\$ 187,038	\$ 442,886

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2016, was as follows:

Description	Interest Rate	Outstanding June 30, 2015	Additions	Payments	Outstanding June 30, 2016	Current Portion
BUSINESS TYPE						
Water utility fund:						
Revenue obligation	5.00%	\$ 150,000	\$ -	\$(150,000)	\$ -	\$ -
Total water utility		<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$(150,000)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS

General Information about the Pension Plan

Plan Description:

Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

Defined Benefit Plans

- Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms. URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S., Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS (Continued)

Benefits Provided:

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

Summary of Benefits by System

System	Final Average Salary	Years of service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* with actuarial reductions

** All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

Contributions:

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

Utah Retirement Systems

	Employee Paid	Paid by Employer for Employee	Employer Contribution Rates	Employer rate for 401(k) Plan
Contributory System				
111 - Local Government Division Tier 2	N/A	N/A	16.67%	1.78%
Noncontributory System				
15 - Local Government Division Tier 1	N/A	N/A	18.47%	N/A

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS (Continued)

For fiscal year ended June 30, 2016, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 60,557	N/A
Tier 2 Public Employees System	9,476	-
Total Contributions	\$ 70,034	\$ -

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, we reported a net pension asset of \$16 and a net pension liability of \$218,010.

	Proportionate Share	Net Pension Asset	Net Pension Liability
Noncontributory System	0.0385280%	\$ -	\$ 218,010
Tier 2 Public Employees System	0.0072274%	16	-
Total Net Pension Asset/Liability		\$ 16	\$ 218,010

The net pension asset and liability was measure as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2016, we recognized pension expense of \$51,232. At June 30, 2016, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,224
Changes in assumptions	-	12,243
Net difference between projected and actual earnings on pension plan investments	74,031	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,556	-
Contributions subsequent to the measurement date	35,757	-
Total	\$ 116,344	\$ 22,467

\$35,757 was reported as deferred outflows of resources related to pensions resulting from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2014. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Deferred Outflows (Inflows) of Resources
	\$
2016	13,452
2017	13,452
2018	13,666
2019	17,820
2020	(48)
Thereafter	(219)

Actuarial assumptions:

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.50 - 10.50 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS (Continued)

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the five year period of January 1, 2008 – December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-term Expected Portfolio Real Rate of Return
Equity Securities	40%	7.06%	2.82%
Debt Securities	20%	0.80%	0.16%
Real Assets	13%	5.10%	0.66%
Private Equity	9%	11.30%	1.02%
Absolute Return	18%	3.15%	0.57%
Cash and Cash Equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
		Inflation	2.75%
		Expected arithmetic nominal return	7.98%

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75%, a real return of 4.75% that is net of investment expense.

Discount Rate:

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

**FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - PENSION PLANS AND RETIREMENT BENEFITS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate:

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated used a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

<u>System</u>	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Noncontributory System	\$ 460,634	\$ 218,010	\$ 15,468
Tier 2 Public Employees System	2,893	(16)	(2,221)
Total	\$ 463,527	\$ 217,994	\$ 13,247

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

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.

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, 2016, 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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - AMOUNT TO BE PROVIDED FOR COMPENSATED ABSENCES

The accumulated unpaid vacation and compensatory time which would be paid if employees terminated employment June 30, 2016 was \$30,121.

NOTE 10 - INTERFUND CHARGES FOR SERVICES

During the year ended June 30, 2016, the interfund charges for services were as follows:

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

Water fund	\$ 28,000
Storm water fund	28,000
General fund - roads	28,000
General fund - parks	28,000
	<u>28,000</u>
	<u>\$ 112,000</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	7,500
	<u>7,500</u>
	<u>\$ 57,500</u>

General fund building costs share charged to:

Water fund	\$ 6,200
Solid waste fund	6,200
Storm water fund	6,200
Sewer fund	6,200
	<u>6,200</u>
	<u>\$ 24,800</u>

NOTE 11 - INTEREST EXPENSE

The proprietary funds incurred \$1,042 in interest expense of which \$1,042 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.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 Impact Fees - This represents impact fees collected and restricted for 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.

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	1 st 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, 2016**

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 difference are as follows:

Internal receivable representing charges in excess of cost to business type activities - prior years	\$ 42,873
Internal receivable representing costs in excess of charges to business type activities - current year	19,213
Interfund borrowing to cover expenditures in excess of revenues and available cash.	<u>-</u>
Net adjustment to increase <i>net position - total enterprise funds</i> to arrive at <i>net position - business-type activities</i>	<u><u>\$ 62,086</u></u>

NOTE 15 – INTERFUND BALANCES AND TRANSFERS

As of June 30, 2016 no balances existed between funds.

During the 2016 year a transfer was made from the General Fund to the Capital Projects Fund in order for those resources to be available for the capital project expenses incurred in 2016 and committed in 2017. The amount of this transfer was \$234,518. An additional \$80,000 was transferred to the Internal Service Fund from the General Fund.

**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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 784,522	\$ 850,000	\$ 849,339	\$ (661)
Fees-in-lieu taxes	50,000	50,000	61,342	11,342
Redemptions	12,000	18,000	17,124	(876)
Franchise tax - cable rent	65,000	46,050	97,353	51,303
Sales tax	525,000	611,500	620,621	9,121
Total taxes	<u>1,436,522</u>	<u>1,575,550</u>	<u>1,645,779</u>	<u>70,229</u>
Licenses and permits:				
Business licenses and permits	3,200	3,750	3,830	80
Building permits	100,000	85,000	87,581	2,581
Excavation fee	1,500	500	120	(380)
Total licenses and permits	<u>104,700</u>	<u>89,250</u>	<u>91,531</u>	<u>2,281</u>
Intergovernmental:				
Class "C" roads	165,000	165,000	186,960	21,960
State grants	-	-	-	-
Local Option Tax	-	1,200	13,083	11,883
State liquor allotment	4,000	3,750	-	(3,750)
Total intergovernmental	<u>169,000</u>	<u>169,950</u>	<u>200,043</u>	<u>30,093</u>
Charges for services:				
Subdivision and engineering fees	45,000	16,000	15,779	(221)
Inspection fees	45,000	48,000	49,590	1,590
Building rent	24,800	24,800	24,800	-
Administrative services	57,500	57,500	57,500	-
Park fees	3,500	3,500	3,730	230
Total charges for services	<u>175,800</u>	<u>149,800</u>	<u>151,399</u>	<u>1,599</u>
Fines and forfeitures	<u>15,000</u>	<u>12,373</u>	<u>10,782</u>	<u>(1,591)</u>
Other revenues:				
Interest earnings	17,000	35,000	6,876	(28,124)
Miscellaneous	20,250	20,620	31,540	10,920
Total other revenues	<u>37,250</u>	<u>55,620</u>	<u>38,416</u>	<u>(17,204)</u>
Total revenues	<u>\$ 1,938,272</u>	<u>\$ 2,052,543</u>	<u>\$ 2,137,950</u>	<u>\$ 85,407</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, 2016

<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	47,700	49,525	48,672	853
Executive	145,800	139,550	136,093	3,457
City Treasurer	64,200	66,550	63,301	3,249
City Recorder	14,970	14,070	12,643	1,427
Professional and technical services	35,000	31,975	28,275	3,700
City Hall operations	55,000	49,575	43,862	5,713
Emergency preparedness	8,500	2,330	327	2,003
Non-departmental	277,550	245,740	235,129	10,611
Elections	3,800	3,800	1,733	2,067
Planning and zoning	63,440	91,715	90,942	773
Total general government	<u>715,960</u>	<u>694,830</u>	<u>660,977</u>	<u>33,853</u>
Public safety:				
Law enforcement	157,166	156,907	169,298	(12,391)
Fire protection	204,063	204,063	204,063	-
Protective inspection	38,200	28,475	22,440	6,035
Total public safety	<u>399,429</u>	<u>389,445</u>	<u>395,801</u>	<u>(6,356)</u>
Roadways:				
Roads	458,930	293,500	251,147	42,353
Class "C" Roads	25,000	25,000	163,115	(138,115)
Total roadways	<u>483,930</u>	<u>318,500</u>	<u>414,262</u>	<u>(95,762)</u>
Parks and recreation:				
Parks	171,300	155,300	136,607	18,693
Recreation	2,600	28,797	28,526	271
Total parks and recreation	<u>173,900</u>	<u>184,097</u>	<u>165,133</u>	<u>18,964</u>
Total expenditures	<u>1,773,219</u>	<u>1,586,872</u>	<u>1,636,173</u>	<u>(49,301)</u>
Excess (deficiency) of revenues over expenditures	<u>165,053</u>	<u>465,671</u>	<u>501,777</u>	<u>(36,106)</u>
Other financing sources (uses)				
Appropriation of fund balance	-	(9,153)		(9,153)
Transfers (out)	(23,053)	(314,518)	(314,518)	-
Total other financing sources (uses)	<u>(23,053)</u>	<u>(323,671)</u>	<u>(314,518)</u>	<u>(9,153)</u>
Net change in fund balance	142,000	142,000	187,259	(45,259)
Fund balance - beginning of year	561,422	561,422	672,111	-
Fund balance - end of year	<u>\$ 703,422</u>	<u>\$ 703,422</u>	<u>\$ 859,370</u>	<u>\$ (45,259)</u>

FRUIT HEIGHTS CITY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
UTAH RETIREMENT SYSTEMS
DECEMBER 31, 2015
Last 10 fiscal years*

		<u>Noncontributory System</u>	<u>Tier 2 Public Employees System</u>
Proportion of the net pension liability (asset)	2016	0.0385280%	0.0072274%
	2015	0.0366420%	0.0098102%
Proportion share of the net pension liability (asset)	2016 \$	218,010	\$ (16)
	2015 \$	159,108	\$ (297)
Covered employee payroll	2016 \$	326,470	\$ 46,702
	2015 \$	159,108	\$ (297)
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee pay	2016	66.8%	-0.03%
	2015	52.1%	0.6%
Plan fiduciary net position as a percentage of the total pension liability	2016	87.8%	100.2%
	2015	90.2%	103.5%

* In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset) in their RSI. The 10-year schedule will need to be built prospectively. The schedule above is only for the current year.

See accompanying notes to required supplementary information

**FRUIT HEIGHTS CITY
SCHEDULE OF CONTRIBUTIONS
UTAH RETIREMENT SYSTEMS
DECEMBER 31, 2015
Last 10 fiscal years***

	<u>June 30th</u>	<u>Actuarial Determined Contributions</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employee payroll</u>	<u>Contributi on as a percentag e of covered employee payroll</u>
Noncontributory System	2014	49,891	49,891	-	288,555	17.29%
	2015	60,198	60,198	-	325,921	18.47%
	2016	60,557	60,557	-	327,868	18.47%
Tier 2 Public Employees System*	2014	8,659	8,659	-	61,891	13.99%
	2015	5,783	5,783	-	38,709	14.94%
	2016	9,476	9,476	-	63,556	14.91%

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

Paragraph 81.b of GASB 68 requires employers to disclose a 10-year history of contributions in RSI. Contributions as a percentage covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

FRUIT HEIGHTS CITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
UTAH RETIREMENT SYSTEMS
DECEMBER 31, 2015

Changes in Assumptions:

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.50%. Also there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5% to 3.25%. There was an improvement in the post retirement mortality assumption for female educators and minor adjustments to the pre retirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: 1) more members are anticipated to terminate employment prior to retirement, 2) slightly fewer members are expected to become disabled, and 3) members are expected to retire at a slightly later age.

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 Council of
Fruit Heights City

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Fruit Heights City, as of and for the year ended June 30, 2016, 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 January 31, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, Utah
January 31, 2017

**INDEPENDENT AUDITOR'S REPORT
AS REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE ON:**

- **COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS**
- **INTERNAL CONTROL OVER COMPLIANCE**

To the Mayor and Council and Chief Executive Officer of
Fruit Heights City

Report On Compliance with General State Compliance Requirements

We have audited Fruit Heights City's compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on Fruit Heights City for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016 in the following areas:

Budgetary Compliance	Treasurer's Bond
Fund Balance	Cash Management
Utah Retirement Systems	Impact Fees
Restricted Taxes and Related Revenues	
Open and Public Meetings Act	

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on Fruit Heights City's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State 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 direct and material effect on Fruit Heights City 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 on compliance with general state compliance requirements. However, our audit does not provide a legal determination of Fruit Heights City's compliance.

Opinion on General State Compliance Requirements

In our opinion, Fruit Heights City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Fruit Heights City for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the accompanying schedule of findings as items 2016-1, 2016-2, and 2016-3. Our opinion on compliance is not modified with respect to these matters.

Fruit Heights City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings. Fruit Heights City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 of compliance, we considered Fruit Heights City's internal control over compliance with the compliance requirements that could have a direct and material effect on Fruit Heights City to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state compliance requirement 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 general state compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Very truly yours,

Wood Richards & Associates, PC

Ogden, Utah

January 31, 2017

**FRUIT HEIGHTS
SCHEDULE OF FINDINGS
JUNE 30, 2016**

2016-01: State Compliance – Open and Public Meetings Act

Criteria: The Open and Public Meetings Act requires each member of the governing board to receive training each year on the Act. The Act also requires governments to post minutes of the council meetings to the Utah Public Notice Website within three business days after approval of the minutes.

Condition: Not all members of the mayor and council received this training during the year and the two meetings selected for testing were not posted to the website within three days.

Cause: There were some unexpected absences with employees and a member of the governing board that did not allow full compliance with these provisions.

Effect: The City is noncompliant with this requirement. There was no effect on the financial statements.

Management's Response: The City will work to ensure compliance with these provisions going forward.

2016-02: Insufficient Bond Coverage

Criteria: Per Utah Code, Section 51-7-15(1)(a), cities shall be bonded in an amount established by the council. Bond coverage amounts are established by Utah Administration Code, Rule R628-4-4

Condition: Fruit Heights does not have adequate bond coverage as required by Utah Administrative Code. The required amount is \$208,695 and they are bonded for \$200,000.

Cause: Fruit Heights did not evaluate bond coverage for Fiscal Year 2016 to determine if coverage was sufficient.

Effect: The City is not compliant with the State Code.

Recommendation: We recommend that Fruit Heights evaluate bond coverage for each fiscal year and obtain proper coverage as required by law.

Management's Response: Management agrees with the recommendation and will make the necessary coverage change with their provider.

2016-03: Budgetary Compliance

Criteria: Each fund of a municipality is required to maintain actual expenditures within appropriations.

Condition: Some of the City's funds incurred expenditures in excess of their budgeted amounts.

Cause: One large construction project that was posted to various funds moved faster at the end of the year than expected. Therefore, the money was budgeted, but in the 2017 year, not the 2016 year when many of the construction work was completed.

Effect: The City incurred expenditures with accounts payable accruals that were in excess of the budgeted amounts.

Management's Response: Management will work to consider the speed of construction jobs at the end of the year to consider if those costs should be budgeted before June 30th.