

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kanab City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from Kanab City's financial statements for the year ended June 30, 2011 and, in our report dated December 15, 2011, we expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, on our consideration of Kanab City, Utah'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and major fund budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanab City, Utah's basic financial statements. The combining and individual fund financial statements and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures applied in an audit of the basic financial statements and accordingly, we express no opinion on it.



HintonBurdick, PLLC
January 15, 2013

KANAB CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- Total net position increased by \$374,558 (net of the prior period adjustment of \$37,515) which resulted in total assets in excess of total liabilities (net position) of \$14.99 million at the close of the fiscal year.
- Total governmental expenditures exceeded total governmental revenues by \$453,703.
- Total business-type net position increased by \$165,639.
- Total revenues from all sources were \$4.5 million.
- The total cost of all City programs was \$4.1 million.
- The General Fund reported a deficiency of revenues under expenditures of \$178,434, before transfers.
- Actual revenues received in the General Fund were less than the final budget by \$20,271 while actual expenditures were \$152,551 less than the final budget.
- At the end of the current fiscal year, fund balance for the General Fund was \$393,950 or 13% of total General Fund revenues, excluding transfers.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

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

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

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City’s basic services are considered to be governmental activities, including general government, public safety, judicial, public works (streets/storm water), culture and recreation, community support and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The distribution of culinary water and the disposal of waste water are considered to be proprietary activities, as the City charges a fee to customers to cover all or most of the cost of the services provided.

Reporting the City’s Most Significant Funds

Fund Financial Statements

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

- Governmental funds – Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net position and the Statement of Activities.

Reporting the City’s Fiduciary Responsibilities

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, donations for a specific purpose and others. These fiduciary activities are reported in a separate Statement of Fiduciary Net position. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City’s other financial statements because the assets cannot be used to finance operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$14.99 million as of June 30, 2012 as shown in the following condensed statement of net position. The City has chosen to account for its water and sewer operations in enterprise funds which are shown as Business Activities.

Kanab City Statement of Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 1,502,193	\$ 2,097,150	\$ 3,096,048	\$ 2,767,985	\$ 4,598,241	\$ 4,865,135
Capital assets	9,097,473	8,513,022	4,187,276	4,390,049	13,284,749	12,903,071
Total assets	<u>10,599,666</u>	<u>10,610,172</u>	<u>7,283,324</u>	<u>7,158,034</u>	<u>17,882,990</u>	<u>17,768,206</u>
Long-term liabilities outstanding	2,011,021	2,125,239	568,644	642,875	2,579,665	2,768,114
Other liabilities	206,601	311,808	105,382	71,500	311,983	383,308
Total liabilities	<u>2,217,622</u>	<u>2,437,047</u>	<u>674,026</u>	<u>714,375</u>	<u>2,891,648</u>	<u>3,151,422</u>
Net position:						
Invested in capital assets, net of related debt	7,234,187	6,523,519	3,660,507	3,786,280	10,894,694	10,309,799
Restricted	932,706	1,024,425	141,219	149,294	1,073,925	1,173,719
Unrestricted	215,151	625,181	2,807,572	2,508,085	3,022,723	3,133,266
Total net position	<u>\$ 8,382,044</u>	<u>\$ 8,173,125</u>	<u>\$ 6,609,298</u>	<u>\$ 6,443,659</u>	<u>\$ 14,991,342</u>	<u>\$ 14,616,784</u>

Governmental Activities

The cost of all Governmental activities this year was \$2,998,582. As shown on the statement of Changes in Net Position on the following page, \$918,097 of this cost was paid for by those who directly benefited from the programs through charges for services, and \$303,110 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$2,023,809.

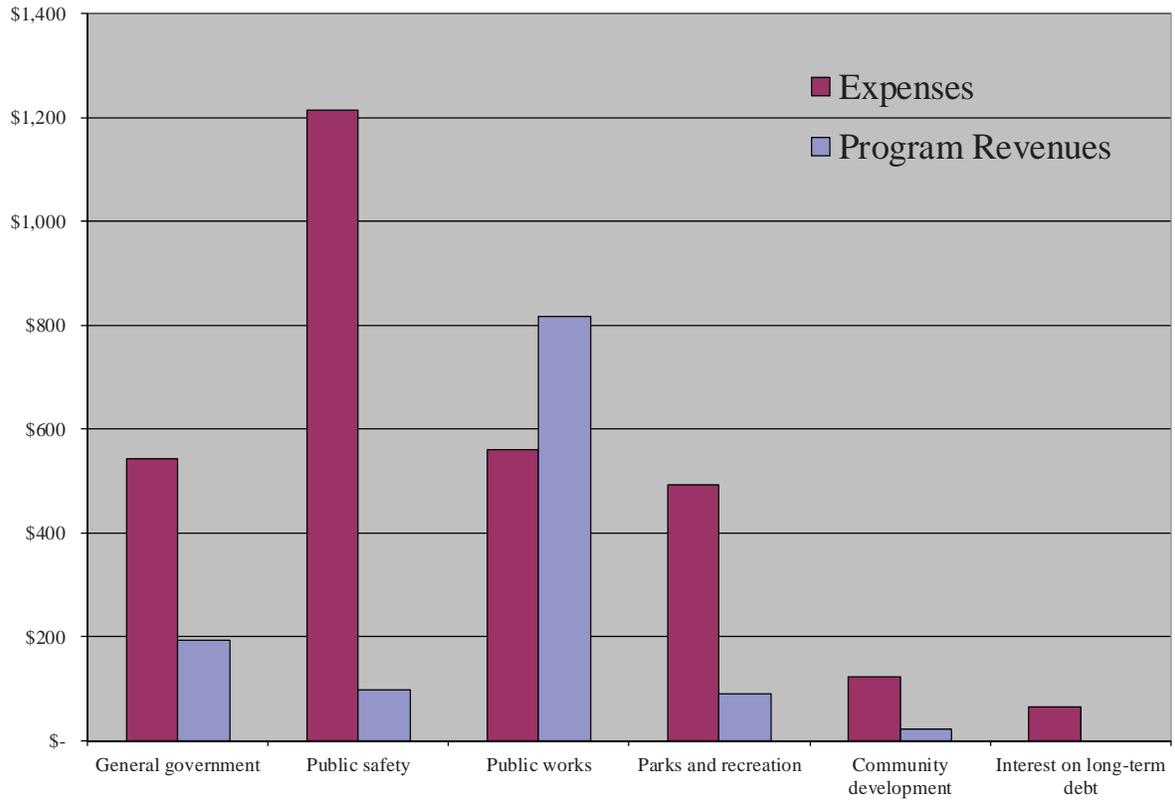
The City's programs include: General Government, Public Safety, Public Works, Parks & Recreation and Community Development. Each program's revenues and expenses are presented below.

Kanab City
Changes in Net Position

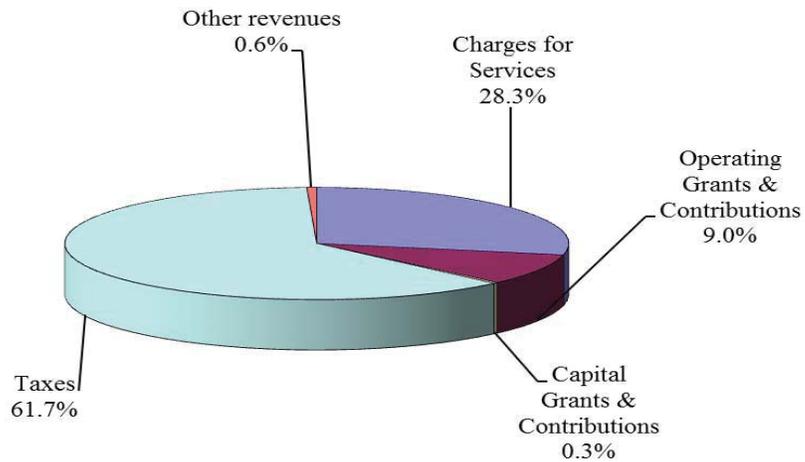
	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 918,097	\$ 538,974	\$ 1,251,201	\$ 1,149,930	\$ 2,169,298	\$ 1,688,904
Operating grants and contributions	293,522	268,167	-	-	293,522	268,167
Capital grants and contributions	9,588	1,159,590	-	-	9,588	1,159,590
General revenues:						
Taxes	2,003,200	1,830,254	-	-	2,003,200	1,830,254
Other	20,609	9,742	12,780	9,492	33,389	19,234
Total revenues	<u>3,245,016</u>	<u>3,806,727</u>	<u>1,263,981</u>	<u>1,159,422</u>	<u>4,508,997</u>	<u>4,966,149</u>
Expenses:						
General government	543,126	454,533	-	-	543,126	454,533
Public safety	1,213,069	1,205,609	-	-	1,213,069	1,205,609
Public works	560,360	730,635	-	-	560,360	730,635
Parks and recreation	493,372	596,342	-	-	493,372	596,342
Community development	123,863	93,791	-	-	123,863	93,791
Interest on long-term debt	64,792	68,944	-	-	64,792	68,944
Water and sewer	-	-	1,098,342	1,017,005	1,098,342	1,017,005
Total expenses	<u>2,998,582</u>	<u>3,149,854</u>	<u>1,098,342</u>	<u>1,017,005</u>	<u>4,096,924</u>	<u>4,166,859</u>
(Decrease)/Increase in net position						
before transfers	246,434	656,873	165,639	142,417	412,073	799,290
Transfers	-	-	-	-	-	-
(Decrease)/Increase in net position	246,434	656,873	165,639	142,417	412,073	799,290
Net position, beginning	8,173,125	7,516,252	6,443,659	6,371,242	14,616,784	13,887,494
Prior period adjustment	(37,515)	-	-	(70,000)	(37,515)	(70,000)
Net position, ending	<u>\$ 8,382,044</u>	<u>\$ 8,173,125</u>	<u>\$ 6,609,298</u>	<u>\$ 6,443,659</u>	<u>\$ 14,991,342</u>	<u>\$ 14,616,784</u>

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



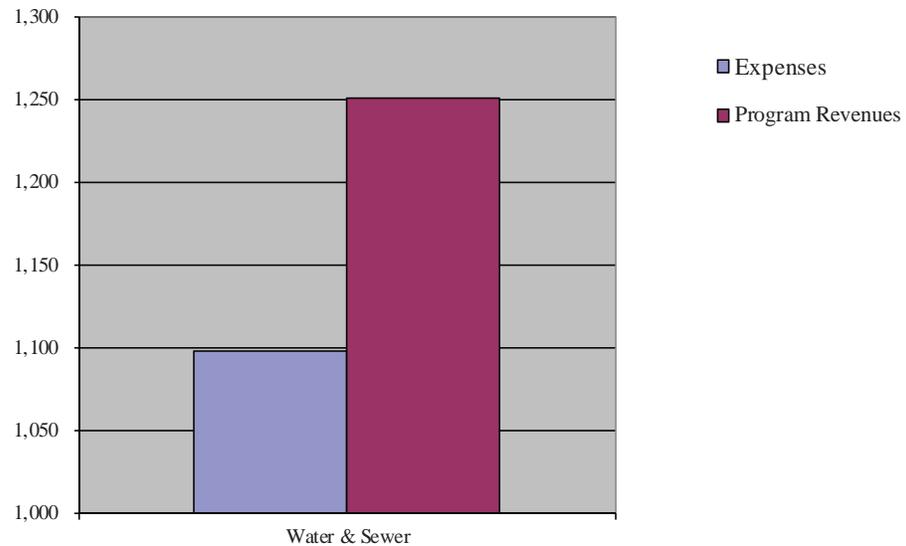
Revenue By Source - Governmental Activities



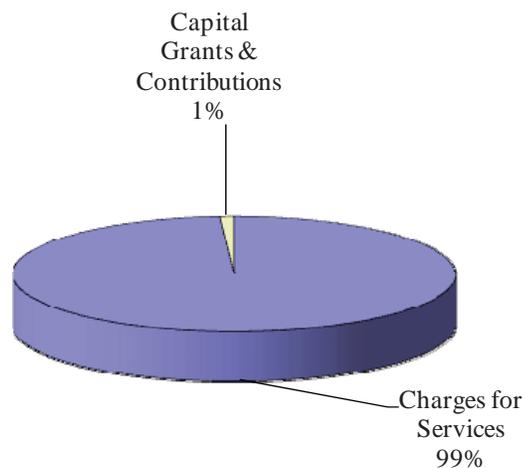
Business Type Activities

Net position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position was \$6.6 million. The cost of providing all Proprietary (Business Type) activities this year was \$1,098,342. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$1,251,201. The Net position increased by \$ 165,639.

Expenses and Program Revenues - Business- type Activities (in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the fiscal year ending June 30, 2012, the City's governmental funds reported combined ending fund balances of \$1,326,656, a decrease of \$453,703 in comparison with the prior year.

The general fund is the chief operating fund of the City. As of the end of the fiscal year ending June 30, 2012, total fund balance is \$393,950. The City budgeted to reduce the general fund balance by \$507,845 during the year and the general fund balance actually decreased by \$361,984. Key factors in this change are as follows:

- Actual sales tax revenues were greater than anticipated.
- Actual expenditures for public works were less than anticipated.

Other governmental funds consist of the Debt Service fund, Recreation fund, Impact Fee Capital Projects fund, Bridge Replacement Fund, and the Perpetual Care fund which have a combined total fund balance of \$932,706.

Proprietary funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the Water/Sewer fund were \$6,609,298, consisting of \$3,660,507 invested in capital assets, net of related debt, \$149,219 in restricted for debt service and \$2,807,572 in unrestricted net position.

General Fund Budgetary Highlights

The actual expenditures for the General Fund at year-end were \$152,551 less than the final budget. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures by the Public Works department for road and other projects. Actual revenues were less than the final budget by \$20,271 mainly due to the fact that charges for services were less than expected and expected grant funding had not yet been received. Budget amendments and supplemental appropriations were made during the year to prevent departmental budget overruns.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2012, total capital assets of the government activities totaled \$9 million and the total capital assets of the business-type activities totaled \$4.2 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$2,011,021 in governmental type debt, and \$568,644 in proprietary debt. The debt is a liability of the government and amounts to \$598 per capita. During the current fiscal year, the City's total debt decreased by \$188,449. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2012/2013, the City Council and management were cautious as to the growth of revenues and expenditures, with revenues projected to grow slowly.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Kanab, 76 North Main, 84741.

BASIC FINANCIAL STATEMENTS

KANAB CITY, UTAH
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 149,136	\$ 2,716,141	\$ 2,865,277
Receivables (net of allowance)	246,565	127,994	374,559
Inventory	50,000	110,694	160,694
Temporarily restricted assets:			
Cash and cash equivalents	1,056,492	141,219	1,197,711
Capital assets not being depreciated:			
Land	189,386	162,236	351,622
Construction in progress	43,367	-	43,367
Capital assets, net of accumulated depreciation:			
Buildings	2,761,603	202,724	2,964,327
Improvements	3,454,331	-	3,454,331
Machinery and equipment	315,044	121,740	436,784
Library books	15,815	-	15,815
Automobiles and trucks	81,247	11,068	92,315
Distribution system	-	3,689,508	3,689,508
Infrastructure	2,236,680	-	2,236,680
Total assets	<u>10,599,666</u>	<u>7,283,324</u>	<u>17,882,990</u>
Liabilities			
Accounts payable and other current liabilities	165,870	99,112	264,982
Due to other governments	9,667	-	9,667
Interest payable	31,064	6,270	37,334
Noncurrent liabilities:			
Due within one year	165,377	115,000	280,377
Due in more than one year	1,845,644	453,644	2,299,288
Total liabilities	<u>2,217,622</u>	<u>674,026</u>	<u>2,891,648</u>
Net Position			
Net investment in capital assets	7,234,187	3,660,507	10,894,694
Restricted for:			
Debt service	40,417	141,219	181,636
Capital projects	620,820	-	620,820
Perpetual care	271,469	-	271,469
Unrestricted	215,151	2,807,572	3,022,723
Total Net Position	<u>\$ 8,382,044</u>	<u>\$ 6,609,298</u>	<u>\$ 14,991,342</u>

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

KANAB CITY, UTAH
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 543,126	\$ 193,207	\$ -	\$ -	\$ (349,919)	\$ -	\$ (349,919)
Public safety	1,213,069	67,579	24,990	5,670	(1,114,830)	-	(1,114,830)
Public works	560,360	597,674	219,073	32	256,419	-	256,419
Parks and recreation	493,372	52,893	34,090	3,886	(402,503)	-	(402,503)
Community development	123,863	6,744	15,369	-	(101,750)	-	(101,750)
Interest on long-term debt	64,792	-	-	-	(64,792)	-	(64,792)
Total governmental activities	2,998,582	918,097	293,522	9,588	(1,777,375)	-	(1,777,375)
Business-type activities:							
Water & Sewer	1,098,342	1,251,201	-	-	-	152,859	152,859
Total business-type activities	1,098,342	1,251,201	-	-	-	152,859	152,859
Total primary government	\$ 4,096,924	\$ 2,169,298	\$ 293,522	\$ 9,588			
General Revenues:							
Taxes:							
Property taxes levied for general purposes					455,975	-	455,975
Sales and use taxes					1,451,507	-	1,451,507
Franchise taxes					95,718	-	95,718
Unrestricted investment earnings					13,109	12,780	25,889
Gain (loss) on sale of assets					7,500	-	7,500
Total general revenues & transfers					2,023,809	12,780	2,036,589
Change in net position					246,434	165,639	412,073
Net position - beginning					8,173,125	6,443,659	14,616,784
Prior period adjustment					(37,515)	-	(37,515)
Net position- ending					\$ 8,382,044	\$ 6,609,298	\$ 14,991,342

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

KANAB CITY, UTAH
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 149,136	\$ -	\$ -	\$ 149,136
Receivables	108,451	-	-	108,451
Due from other governments	138,114	-	-	138,114
Inventory	50,000	-	-	50,000
Restricted cash and cash equivalents	113,460	244,296	698,736	1,056,492
Total assets	<u>\$ 559,161</u>	<u>\$ 244,296</u>	<u>\$ 698,736</u>	<u>\$ 1,502,193</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	122,271	9,976	350	132,597
Accrued liabilities	33,273	-	-	33,273
Due to other governments	9,667	-	-	9,667
Total liabilities	<u>165,211</u>	<u>9,976</u>	<u>350</u>	<u>175,537</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	40,417	40,417
Capital outlay	-	234,320	386,500	620,820
Perpetual care	-	-	271,469	271,469
Committed for:				
Historic homes book fund	867	-	-	867
Assigned to:				
Fire Department	4,668	-	-	4,668
Equipment replacement	258,070	-	-	258,070
Old library	3,166	-	-	3,166
Sick leave reimbursement	71,979	-	-	71,979
Subsequent year	123,900	-	-	123,900
Unassigned	(68,700)	-	-	(68,700)
Total fund balances	<u>393,950</u>	<u>234,320</u>	<u>698,386</u>	<u>1,326,656</u>
Total liabilities and fund balance	<u>\$ 559,161</u>	<u>\$ 244,296</u>	<u>\$ 698,736</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,097,473
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(2,042,085)

Net position of governmental activities	<u>\$ 8,382,044</u>
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The accompanying notes are an integral part of the financial statements.

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

	<u>General</u>	<u>Recreation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 225,156	\$ 169,854	\$ 24,370	\$ 419,380
Fees in lieu of property taxes	36,595	-	-	36,595
Sales and use taxes	1,451,507	-	-	1,451,507
Franchise taxes	95,718	-	-	95,718
Licenses, permits and fees	74,344	-	-	74,344
Intergovernmental revenue	756,118	-	-	756,118
Sanitation service revenues	8,930	-	-	8,930
Charges for services	2,596	23,385	7,400	33,381
Fines and forfeitures	85,735	-	-	85,735
Contributions and donations	264,223	2,620	-	266,843
Investment earnings	9,965	1,958	4,542	16,465
Total revenues	<u>3,010,887</u>	<u>197,817</u>	<u>36,312</u>	<u>3,245,016</u>
Expenditures				
Current:				
General government	526,453	-	-	526,453
Public safety	1,182,612	-	-	1,182,612
Public works	1,191,442	-	-	1,191,442
Parks and recreation	184,147	175,359	-	359,506
Community development	104,667	-	-	104,667
Debt service:				
Principal	-	-	126,217	126,217
Interest	-	-	66,260	66,260
Capital outlay	-	-	141,562	141,562
Total expenditures	<u>3,189,321</u>	<u>175,359</u>	<u>334,039</u>	<u>3,698,719</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(178,434)</u>	<u>22,458</u>	<u>(297,727)</u>	<u>(453,703)</u>
Other Financing Sources (Uses)				
Transfers in	14,377	122,300	207,963	344,640
Transfers out	<u>(197,927)</u>	<u>(81,485)</u>	<u>(65,228)</u>	<u>(344,640)</u>
Total other financing sources and uses	<u>(183,550)</u>	<u>40,815</u>	<u>142,735</u>	<u>-</u>
Net change in fund balances	<u>(361,984)</u>	<u>63,273</u>	<u>(154,992)</u>	<u>(453,703)</u>
Fund balances, beginning of year	793,449	171,047	853,378	1,817,874
Prior period adjustment	<u>(37,515)</u>	<u>-</u>	<u>-</u>	<u>(37,515)</u>
Fund balances, beginning of year, as adjusted	<u>755,934</u>	<u>171,047</u>	<u>853,378</u>	<u>1,780,359</u>
Fund balances, end of year	<u>\$ 393,950</u>	<u>\$ 234,320</u>	<u>\$ 698,386</u>	<u>\$ 1,326,656</u>

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

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

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances - total governmental funds	\$ (453,703)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	584,451
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	126,217
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(10,531)
Change in net position of governmental activities	\$ 246,434

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

KANAB CITY, UTAH
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 208,000	\$ 250,800	\$ 225,156	\$ (25,644)
Fees in lieu of property taxes	26,850	26,850	36,595	9,745
Sales and use taxes	1,325,861	1,409,800	1,451,507	41,707
Franchise taxes	102,500	102,500	95,718	(6,782)
Licenses, permits and fees	71,000	71,000	74,344	3,344
Intergovernmental revenue	237,500	797,508	756,118	(41,390)
Sanitation service revenue	7,000	7,000	8,930	1,930
Fines and forfeitures	86,150	86,150	85,735	(415)
Contributions and donations	241,700	241,700	264,223	22,523
Charges for services	63,550	30,850	2,596	(28,254)
Investment earnings	7,000	7,000	9,965	2,965
Total revenues	<u>2,377,111</u>	<u>3,031,158</u>	<u>3,010,887</u>	<u>(20,271)</u>
Expenditures				
Current:				
General government	367,215	502,280	526,453	(24,173)
Public safety	1,121,507	1,168,707	1,182,612	(13,905)
Public works	580,118	1,369,418	1,191,442	177,976
Parks and recreation	139,767	195,517	184,147	11,370
Community development	105,950	105,950	104,667	1,283
Debt service:				
Principal	11,400	-	-	-
Interest	-	-	-	-
Total expenditures	<u>2,325,957</u>	<u>3,341,872</u>	<u>3,189,321</u>	<u>152,551</u>
Excess (deficiency) of revenues over (under) expenditures	<u>51,154</u>	<u>(310,714)</u>	<u>(178,434)</u>	<u>132,280</u>
Other Financing Sources (Uses)				
Transfers in	13,500	2,000	14,377	12,377
Transfers out	(242,948)	(199,131)	(197,927)	1,204
Total other financing sources and uses	<u>(229,448)</u>	<u>(197,131)</u>	<u>(183,550)</u>	<u>13,581</u>
Net change in fund balances	(178,294)	(507,845)	(361,984)	145,861
Fund balances, beginning of year	793,449	793,449	793,449	-
Prior period adjustment	-	-	(37,515)	(37,515)
Fund balance, beginning of year, as adjusted	<u>793,449</u>	<u>793,449</u>	<u>755,934</u>	<u>(37,515)</u>
Fund balances, end of year	<u>\$ 615,155</u>	<u>\$ 285,604</u>	<u>\$ 393,950</u>	<u>\$ 108,346</u>

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

KANAB CITY, UTAH
Statement of Net Position
Proprietary Funds
June 30, 2012
(With Comparative Totals for June 30, 2011)

	<u>Water & Sewer 6/30/2012</u>	<u>Water & Sewer 6/30/2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,716,141	\$ 2,350,127
Receivables, net of allowance	127,994	120,863
Inventory	110,694	110,694
Due from other funds	-	37,007
Total current assets	<u>2,954,829</u>	<u>2,618,691</u>
Noncurrent assets:		
Restricted cash and cash equivalents	141,219	149,294
Capital assets:		
Land	162,236	162,236
Buildings	333,501	333,501
Machinery and equipment	566,071	509,523
Automobiles and trucks	202,746	202,746
Distribution system	7,995,566	7,995,566
Less: Accumulated depreciation	<u>(5,072,844)</u>	<u>(4,813,523)</u>
Total noncurrent assets	<u>4,328,495</u>	<u>4,539,343</u>
Total assets	<u>7,283,324</u>	<u>7,158,034</u>
Liabilities		
Current liabilities:		
Accounts payable	65,116	15,840
Accrued liabilities	16,332	7,797
Customer deposits	17,664	18,200
Deferred revenue	-	23,393
Interest payable	6,270	6,270
Current portion of noncurrent liabilities	<u>115,000</u>	<u>112,000</u>
Total current liabilities	<u>220,382</u>	<u>183,500</u>
Noncurrent liabilities:		
Compensated absences	41,875	39,106
Bonds payable	526,769	603,769
Less current portion of noncurrent liabilities	<u>(115,000)</u>	<u>(112,000)</u>
Total noncurrent liabilities	<u>453,644</u>	<u>530,875</u>
Total liabilities	<u>674,026</u>	<u>714,375</u>
Net Position		
Net investment in capital assets	3,660,507	3,786,280
Restricted for debt service	141,219	149,294
Unrestricted	<u>2,807,572</u>	<u>2,508,085</u>
Total net position	<u>\$ 6,609,298</u>	<u>\$ 6,443,659</u>

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

KANAB CITY, UTAH
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

	<u>Water & Sewer 6/30/2012</u>	<u>Water & Sewer 6/30/2011</u>
Operating revenues:		
Charges for services	\$ 1,121,116	\$ 1,086,540
Connection fees	20,455	18,194
Other revenues	109,630	45,196
Total operating revenues	<u>1,251,201</u>	<u>1,149,930</u>
Operating expenses:		
Rent	1,265	1,165
Salaries and wages	380,540	360,015
Employee benefits	163,141	164,209
Distribution system repairs and maintenance	96,057	86,010
Office expense	39,341	39,751
Insurance	11,534	13,014
Depreciation	259,321	253,915
Utilities	61,689	60,291
Professional services	4,684	5,570
Travel and training	805	135
Miscellaneous	11,562	11,118
Contract services	10,878	10,000
Total operating expenses	<u>1,040,817</u>	<u>1,005,193</u>
Operating income	<u>210,384</u>	<u>144,737</u>
Nonoperating revenues (expenses):		
Interest income	12,780	9,492
Interest expense and fiscal charges	(12,525)	(11,812)
Payment to Kane County Water Conservancy Dist.	(45,000)	-
Total nonoperating revenues (expenses)	<u>(44,745)</u>	<u>(2,320)</u>
Change in net position	165,639	142,417
Total net position, beginning of year	<u>6,443,659</u>	<u>6,301,242</u>
Total net position, end of year	<u>\$ 6,609,298</u>	<u>\$ 6,443,659</u>

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

KANAB CITY, UTAH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(With Comparative Totals for June 30, 2011)

	<u>Water & Sewer 6/30/2012</u>	<u>Water & Sewer 6/30/2011</u>
Cash flows from operating activities:		
Cash received from customers, service fees	\$ 1,127,063	\$ 1,078,640
Cash received from customers, other	130,085	63,390
Cash paid to suppliers	(188,539)	(229,115)
Cash paid to employees	(532,377)	(515,342)
Cash flows from operating activities	<u>536,232</u>	<u>397,573</u>
Cash flows from noncapital financing activities:		
Transfers (to) from other funds	-	-
Cash flows from noncapital financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(77,000)	(76,000)
Interest paid	(12,525)	(14,255)
Purchase of fixed assets	(56,548)	(68,365)
Payment to Kane County Water Conservancy Dist.	(45,000)	-
Impact fees	-	-
Cash flows from capital and related financing activities:	<u>(191,073)</u>	<u>(158,620)</u>
Cash flows from investing activities:		
Interest on investments	<u>12,780</u>	<u>9,492</u>
Net change in cash and cash equivalents	<u>357,939</u>	<u>248,445</u>
Cash and cash equivalents, including restricted cash, beginning of year	<u>2,499,421</u>	<u>2,250,976</u>
Cash and cash equivalents, including restricted cash, end of year	<u>\$ 2,857,360</u>	<u>\$ 2,499,421</u>
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income	\$ 210,384	\$ 144,737
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation/amortization	259,321	253,915
Changes in operating assets and liabilities:		
(Increase) Decrease in receivables	29,340	(31,293)
(Increase) Decrease in inventory	-	13,945
Increase (Decrease) in deferred revenue	(23,393)	23,393
Increase (Decrease) in accounts payable	49,276	(16,006)
Increase (Decrease) in accrued liabilities	11,304	8,882
Cash flows from operating activities	<u>\$ 536,232</u>	<u>\$ 397,573</u>
Supplemental Schedule of Non-cash Financing and Investing Activities:	None	None

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

General

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

Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is whether or not the City exercises significant influence over the potential component unit. Significant influence or accountability is based primarily on operational or financial relationships with the City.

The accompanying financial statements include all activities of Kanab City (the primary government) and its component units. Blended component units, although legally separate entities, are in substance, part of the government's operations. Data from these units are combined with data of the primary government.

The following **blended component unit's** transactions are blended into the audit report issued by the City. No separate audit report is issued:

The Municipal Building Authority of the City of Kanab (the Authority) was formally recognized by the State of Utah as an incorporated entity in 1986. The Authority was formed for the purpose of accomplishing the public purposes for which the City of Kanab exists by acquiring, improving, or extending one or more projects and financing the cost of such projects on behalf of the City of Kanab. The Authority is governed by the board of trustees comprised of the elected officials of the City of Kanab.

Government-Wide and Fund Financial Statements

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

The City reports the following major governmental funds:

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

The Recreation Special Revenue Fund is used to account for the receipt and use of Recreation Tax revenues.

The City reports the following major proprietary fund:

The Water & Sewer Fund is used to account for the provision of water & sewer services to the residents of the City.

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

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

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

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Deposits and Investments

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to" or "due from other funds." All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectable amounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years
Infrastructure	20 years

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and comp time in the proprietary funds are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Accumulated unpaid vacation pay and comp time are accrued based upon the City's expected legal obligation as of the statement date. No provision is made for accumulated sick leave because the City is not obligated to pay accumulated sick leave upon termination or retirement.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

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

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

Unrestricted net position is all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

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

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

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

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

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

Utah Minimum Fund Balance

Utah code 10-6-116(4) indicates that only the “fund balance in excess of 5% of total revenue of the general fund may be utilized for budget purposes”. The remaining 5% must be maintained as a minimum fund balance. The City does not currently have any other fund balance stabilization arrangements.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

Prior-Year Summarized Comparative Information

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ (1,700,511)
Capital leases payable	(162,775)
Compensated absences	(147,735)
Accrued interest payable	<u>(31,064)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$ (2,042,085)</u></u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 1,117,414
Depreciation expense	<u>(532,963)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 584,451</u>

Another element of the reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Change in compensated absences	(11,999)
Change in accrued interest	<u>1,468</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (10,531)</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 3. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The City Council observes the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first meeting in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are required for the General Fund, Debt Service Fund, Capital Projects funds, Permanent funds and the Enterprise Funds.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to June 22, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is authorized to transfer budgeted amounts within departments; however, to transfer budgeted amounts between departments requires City Council approval. Any revisions that alter the total expenditures of any fund must be approved through public hearing by the City Council and can be made at any time during the fiscal year.

Budgets for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds are prepared on the modified accrual method of accounting. Budgets for the Enterprise Funds are prepared on the accrual basis of accounting. Control is maintained at the function level. (i.e. Public Safety, Highways and Public Improvements, etc.) All appropriations lapse at year-end. Utah State law requires budgets to be prepared and reported on for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds. The budget was amended during the current fiscal year.

Taxes

Property taxes are collected by the Kane County Treasurer and remitted to the City in three installments: July, December, and March. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 4. Deposits and Investments

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

Deposits	
Cash on hand	\$ 100
Cash in bank	92,386
Investments	
State treasurer's investment pool	<u>3,970,501</u>
Total deposits and investment	<u><u>\$ 4,062,987</u></u>

A reconciliation of cash and investments as shown of the Statement of Net Assets follows:

Cash and cash equivalents	\$ 2,851,941
Restricted cash and cash equivalents	<u>1,211,046</u>
Total cash and cash equivalents	<u><u>\$ 4,062,987</u></u>

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

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

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2012, all of the City's deposits were covered by FDIC insurance or otherwise collateralized.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 4. Deposits and Investments, Continued

Investments

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

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

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

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

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 4. Deposits and Investments, Continued

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investments Maturities (in Years)</u>			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 3,970,501	\$ 3,970,501	\$ -	\$ -	\$ -
Total Fair Value	\$ 3,970,501	\$ 3,970,501	\$ -	\$ -	\$ -

Interest rate risk

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

Credit risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 3,970,501	\$ -	\$ -	\$ -	\$ 3,970,501
Total Fair Value	\$ 3,970,501	\$ -	\$ -	\$ -	\$ 3,970,501

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 189,386	\$ -	\$ -	\$ 189,386
Construction in Progress	148,703	43,367	(148,703)	43,367
Total capital assets, not being depreciated	<u>338,089</u>	<u>43,367</u>	<u>(148,703)</u>	<u>232,753</u>
Capital assets, being depreciated:				
Buildings	3,623,802	-	-	3,623,802
Improvements	4,861,824	17,737	-	4,879,561
Machinery & equipment	1,208,454	54,333	-	1,262,787
Library books	164,677	-	-	164,677
Automobiles and trucks	268,339	-	(22,974)	245,365
Infrastructure	4,828,652	1,150,680	-	5,979,332
Total capital assets, being depreciated	<u>14,955,748</u>	<u>1,222,750</u>	<u>(22,974)</u>	<u>16,155,524</u>
Less accumulated depreciation for:				
Buildings	(711,951)	(150,248)	-	(862,199)
Improvements	(1,187,555)	(237,675)	-	(1,425,230)
Machinery & equipment	(909,429)	(38,314)	-	(947,743)
Library books	(145,279)	(3,583)	-	(148,862)
Automobiles and trucks	(164,557)	(22,535)	22,974	(164,118)
Infrastructure	(3,662,044)	(80,608)	-	(3,742,652)
Total accumulated depreciation	<u>(6,780,815)</u>	<u>(532,963)</u>	<u>22,974</u>	<u>(7,290,804)</u>
Total capital assets, being depreciated, net	<u>8,174,933</u>	<u>689,787</u>	<u>-</u>	<u>8,864,720</u>
Governmental activities capital assets, net	<u>\$ 8,513,022</u>	<u>\$ 733,154</u>	<u>\$ (148,703)</u>	<u>\$ 9,097,473</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets, Continued

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

Governmental Activities:	
General government	\$ 13,525
Public safety	78,581
Public works	246,224
Parks and recreation	175,571
Community development	19,062
Total depreciation expense - governmental activities	<u><u>\$ 532,963</u></u>

Business Type Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated:				
Land	\$ 162,236	\$ -	\$ -	\$ 162,236
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>162,236</u>	<u>-</u>	<u>-</u>	<u>162,236</u>
Capital assets being depreciated:				
Buildings	333,501	-	-	333,501
Machinery & equipment	509,523	56,548	-	566,071
Automobiles and trucks	202,746	-	-	202,746
Distribution system	7,995,566	-	-	7,995,566
Total capital assets, being depreciated	<u>9,041,336</u>	<u>56,548</u>	<u>-</u>	<u>9,097,884</u>
Less accumulated depreciation for:				
Buildings	(121,839)	(8,938)	-	(130,777)
Machinery & equipment	(409,190)	(35,141)	-	(444,331)
Automobiles and trucks	(187,394)	(4,284)	-	(191,678)
Distribution system	(4,095,100)	(210,958)	-	(4,306,058)
Total accumulated depreciation	<u>(4,813,523)</u>	<u>(259,321)</u>	<u>-</u>	<u>(5,072,844)</u>
Total capital assets, being depreciated, net	<u>4,227,813</u>	<u>(202,773)</u>	<u>-</u>	<u>4,025,040</u>
Business-type activities capital assets, net	<u><u>\$ 4,390,049</u></u>	<u><u>\$ (202,773)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,187,276</u></u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-Term Debt

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

	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 188,443	\$ -	\$ (45,932)	\$ 142,511	\$ 47,756
Revenue bonds	1,610,000	-	(52,000)	1,558,000	53,000
Total bonds payable	1,798,443	-	(97,932)	1,700,511	100,756
Capital Leases	191,060	-	(28,285)	162,775	29,621
Accrued Compensated Absences	135,736	45,579	(33,580)	147,735	35,000
Governmental activity					
Long-term liabilities	\$ 2,125,239	\$ 45,579	\$ (159,797)	\$ 2,011,021	\$ 165,377
Business-type activities:					
Revenue bonds	\$ 603,769	\$ -	\$ (77,000)	\$ 526,769	\$ 80,000
Total bonds payable	603,769	-	(77,000)	526,769	80,000
Accrued Compensated Absences	39,106	56,019	(53,250)	41,875	35,000
Business type activity					
Long-term liabilities	\$ 642,875	\$ 56,019	\$ (130,250)	\$ 568,644	\$ 115,000
Total long-term liabilities	\$ 2,768,114	\$ 101,598	\$ (290,047)	\$ 2,579,665	\$ 280,377

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-Term Debt, Continued

Bonds Payable at June 30, 2012 are comprised of the following issues:

General Obligation Bonds:

General Fund:

Fire Station General Obligation Bonds, Series 1991, due in annual principal and interest installments of \$24,752, bearing interest at 5.75%, maturing January 1, 2014 \$ 47,818

Street Improvement General Obligation Bonds, Series 2005, due in annual principal and interest installments ranging from \$28,325 to \$29,050, bearing interest at 2.5% maturing April 1, 2016. 94,693

Revenue Bonds:

General Fund:

Municipal Building Authority Lease Revenue Bonds, Series 2007, due in annual principal and interest installments ranging from \$81,075 to \$82,800, bearing interest at 3.5%, maturing December 1, 2037. 1,378,000

Parity Street Improvement Bonds, Series 2011, due in annual principal installments of \$20,000, bearing interest at 0%, maturing January 1, 2021. 180,000

Water and Sewer Fund:

Parity Water and Sewer Revenue Bonds, Series 1992, due in annual principal and interest installments ranging from \$7,750 to \$8,400, bearing interest at 5.0%, maturing January 1, 2013. 8,000

Parity Water and Sewer Revenue Bonds, Series 1998, due in annual principal and interest installments ranging from \$26,769 to \$89,560, bearing interest at 2.0%, maturing January 1, 2019. 518,769

Total Bonds Payable \$ 2,227,280

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-Term Debt, Continued

Other long-term debt at June 30, 2012 is comprised of the following:

Leases Payable:

Fire Truck lease payable in semi-annual installments of \$36,881 through May 2017, at interest of 4.67%.	\$ 162,775
Total Leases Payable	<u>162,775</u>
Accrued Vacation and Comp Time Payable:	<u>189,610</u>
Total Long-Term Debt	2,579,665
Less Current Portion:	
Business-type Activities	(115,000)
Governmental-type Activities	<u>(165,377)</u>
Net Long-Term Debt	<u><u>\$ 2,299,288</u></u>

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-Term Debt, Continued

The annual requirements to amortize bonds payable at June 30, 2012 are as follows:

Fiscal Year Ended June 30	General Obligation Bonds		Revenue Bonds		Water and Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 47,756	\$ 5,696	\$ 53,000	\$ 48,230	\$ 80,000	\$ 10,580
2014	53,062	3,761	54,000	47,075	81,000	8,560
2015	27,000	1,375	56,000	45,885	82,000	6,920
2016	14,693	700	57,000	44,625	84,000	5,240
2017	-	-	58,000	43,330	86,000	3,520
2018-2022	-	-	292,000	195,615	113,769	1,780
2023-2027	-	-	252,000	155,855	-	-
2028-2032	-	-	300,000	108,500	-	-
2033-2037	-	-	356,000	52,255	-	-
2038	-	-	80,000	2,800	-	-
Total	<u>\$ 142,511</u>	<u>\$ 11,532</u>	<u>\$ 1,558,000</u>	<u>\$ 744,170</u>	<u>\$ 526,769</u>	<u>\$ 36,600</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 7. Capital Leases

The City has entered into a lease purchase agreement, which is considered a capital lease in accordance with Generally Accepted Accounting Principles. The lease is included in governmental noncurrent liabilities on the Statement of Net Position. The lease proceeds were used to purchase a fire truck. The truck is capitalized in machinery and equipment on the Statement of Net Position at \$288,000 with accumulated depreciation of \$74,400 at June 30, 2012. The following is a schedule of future minimum lease payments with an interest rate of 4.67 percent for the capital lease, together with the present value of net minimum lease payments:

Year Ending June 30	
2013	36,881
2014	36,881
2015	36,881
2016	36,881
2017	36,881
Total remaining minimum lease payments	<u>184,405</u>
Less amount representing interest	(21,630)
Present value of net remaining minimum lease payments	<u><u>\$ 162,775</u></u>

NOTE 8. Interfund Transactions and Balances

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursed expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2012, there were no interfund receivables and payables.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 8. Interfund Transactions and Balances, Continued

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

Transfers To:	Transfers From				Total
	General	Recreation Fund	Nonmajor	Cemetery Perpetual Care	
General Fund	\$ -	\$ -	\$ 13,335	\$ 1,042	\$ 14,377
Recreation Capital Project Fund	122,300	-	-	-	122,300
Nonmajor Governmental Funds	<u>75,627</u>	<u>81,485</u>	<u>50,851</u>	<u>-</u>	<u>207,963</u>
Total transfers	<u>\$ 197,927</u>	<u>\$ 81,485</u>	<u>\$ 64,186</u>	<u>\$ 1,042</u>	<u>\$ 344,640</u>

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 10. Defined Benefit Pension Plan

All full-time employees of the City participate in the Utah State-Wide Local Government Retirement Systems (Systems).

Plan Description

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

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

Funding Policy

Kanab City is required to contribute a percent of covered salary to the respective systems, 13.37% to the Noncontributory, 27.07% to the Public Safety Noncontributory and 15.55% to the Firefighters systems. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by Statute and specified by the board.

Kanab City commenced participation in the Public Safety Noncontributory System July 1, 1994.

The contributions were equal to the required contributions for each year.

Kanab City participates in a 457 Defined Contribution System and 401(k) Deferred Contribution System.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 10. Defined Benefit Pension Plan, Continued

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than previously as an "Agency Fund". Now all of the assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries rather than the assets of the employer. The assets are no longer assets of the employer and are not to be included in the employer financial statements.

The required contributions and amounts received for the 2012 fiscal year and the two previous years are as follows:

<u>Year</u>	<u>Employee paid contributions</u>	<u>Employer paid for employee contributions</u>	<u>Employer contributions</u>	<u>Salary subject to retirement contributions</u>
Noncontributory System:				
Local Governmental Division				
2012	N/A	N/A	\$ 84,988	\$ 617,193
2011	N/A	N/A	\$ 102,215	\$ 764,263
2010	N/A	N/A	\$ 88,071	\$ 755,330
Public Safety System:				
Other Division A Noncontributory				
2012	N/A	N/A	\$ 62,072	\$ 229,303
2011	N/A	N/A	\$ 58,625	\$ 224,360
2010	N/A	N/A	\$ 49,919	\$ 213,876
Firefighters System:				
Division A				
2012	\$ 5,509	\$ 1,458	\$ 231	\$ 46,292
2011	-	\$ 1,408	\$ 161	\$ 9,353
2010	-	-	-	-
Defined Contribution System:				
457 Plan				
2012	-	-	-	-
2011	\$ 10,000	-	-	-
2010	\$ 24,000	-	-	-
401 (k) Plan				
2012	\$ 8,960	\$ 11,917	-	-
2011	\$ 23,520	\$ 11,571	-	-
2010	\$ 10,220	\$ 6,700	-	-

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk financing activities are accounted for in various operating funds, with unallocated or City-wide activities being accounted for in the general fund.

The City maintains insurance for general liability, auto liability, and employee dishonesty through Utah Local Government's Insurance Trust and Fred A. Moreton and Company. Worker's compensation coverage is carried through the State Worker's Compensation Fund.

NOTE 12. Segment Information

For information on the Enterprise fund, see the Proprietary Fund financial statements in the basic financial statements.

NOTE 13. Garbage Contract

The City has a solid waste collection and disposal contract with Kane County Special Service District (the District). The contract provides for the collection and disposal of residential and commercial solid waste within the City. In connection with the agreement, the City is responsible for the monthly billing, collection, and payment of residential collections to the District. The fees are accounted for in the General Fund; however, only the City's portion of the net fees are reported in the financial statement.

NOTE 14. Contract with Kane County Water Conservancy District

The City has entered into a contract with the Kane County Water Conservancy District related to the construction of a waterline. Beginning in fiscal year 2012, the City has agreed to pay the Conservancy District \$45,000 per year for 30 years. At the end of the thirty year term title to the waterline will be conveyed to the City. Until the City has made the final payment title to the waterline will remain with the Conservancy District. All debt associated with the construction of the waterline was issued by the Conservancy District. Since the City has not issued any debt related to this project and they do not yet have title to the asset, the City has not recorded a capital asset or any debt related to this project. The city is responsible for maintaining and repairing the waterline. Any subsequent improvements made will be owned by the City.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2012

NOTE 15. Contingencies and Commitments

Pursuant to an agreement with Kane County dated May 10, 1982, the City is making monthly payments to the County for rent of the main City office. The term of the lease is forty years, at which point the portion of the building housing the City office becomes the property of the City. Currently, the monthly payment made by the City is \$500, but the County has the right to increase that amount at the beginning of each five year period

The City is involved with various matters of litigation from year to year. It is the opinion of City officials that these cases will either be handled by the City's insurance coverage or that they will not have a material effect on the City's financial condition.

NOTE 16. Prior Period Adjustment

During the fiscal year 2012 the City learned they had been reimbursed \$37,515 more than they should have been for a prior year airport grant. The Utah Department of Transportation requested the funds be returned and payment was made. Since the City had incorrectly recognized revenue in a prior year an adjustment was needed to correctly report the net position of the City. The result of this adjustment was a \$37,515 reduction of the General Fund's unrestricted fund balance. On the government wide statements, net position of the governmental activities was reduced by the same amount.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Special Revenue Fund

Recreation Special Revenue Fund – This fund is used to account for the receipt and use of Recreation Tax revenues.

KANAB CITY, UTAH
Recreation Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 151,300	\$ 151,300	\$ 169,854	\$ 18,554
Charges for services	-	-	23,385	23,385
Contributions and donations	-	-	2,620	2,620
Investment earnings	500	500	1,958	1,458
	<u>151,800</u>	<u>151,800</u>	<u>197,817</u>	<u>46,017</u>
Expenditures				
Current:				
Parks and recreation	251,517	175,017	175,359	(342)
	<u>251,517</u>	<u>175,017</u>	<u>175,359</u>	<u>(342)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(99,717)</u>	<u>(23,217)</u>	<u>22,458</u>	<u>45,675</u>
Other Financing Sources (Uses)				
Transfers in	177,517	122,300	122,300	-
Transfers out	(81,485)	(81,485)	(81,485)	-
	<u>96,032</u>	<u>40,815</u>	<u>40,815</u>	<u>-</u>
Net change in fund balances	(3,685)	17,598	63,273	45,675
Fund balances, beginning of year	<u>171,047</u>	<u>171,047</u>	<u>171,047</u>	<u>-</u>
Fund balances, end of year	<u>\$ 167,362</u>	<u>\$ 188,645</u>	<u>\$ 234,320</u>	<u>\$ 45,675</u>

KANAB CITY, UTAH

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

Public Safety Fitness Fund – This fund is used to account for the construction of a Public Safety Fitness Skills Facility.

Sidewalk Project Fund – This fund was established to account for a future sidewalk improvement project.

Impact Fee Fund – This fund is used to account for the collection of impact fees and the expenditure of these fees on public facilities and infrastructure.

Bridge Replacement Fund – This fund is used to account for the collection of CIB grant funds and the expenditure of these funds for the replacement of bridges throughout the City.

Debt Service Fund

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

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that support the reporting government's programs.

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

KANAB CITY, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Capital Projects			
	Public Safety Fitness	Sidewalk Project	Impact Fees	Bridge Replacement
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	30,851	10,251	7,944	\$ 337,454
Total assets	<u>\$ 30,851</u>	<u>\$ 10,251</u>	<u>\$ 7,944</u>	<u>\$ 337,454</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	-	-
Capital outlay	30,851	10,251	7,944	337,454
Perpetual care	-	-	-	-
Unreserved, undesignated	-	-	-	-
Total fund balances	<u>30,851</u>	<u>10,251</u>	<u>7,944</u>	<u>\$ 337,454</u>
Total liabilities and fund balance	<u>\$ 30,851</u>	<u>\$ 10,251</u>	<u>\$ 7,944</u>	<u>\$ 337,454</u>

<u>Debt Service</u>	<u>Permanent Fund</u>	
<u>Debt Service Fund</u>	<u>Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -
40,417	271,819	698,736
<u>\$ 40,417</u>	<u>\$ 271,819</u>	<u>\$ 698,736</u>
-	350	350
-	350	350
40,417	-	40,417
-	-	386,500
-	271,469	271,469
-	-	-
<u>40,417</u>	<u>271,469</u>	<u>698,386</u>
<u>\$ 40,417</u>	<u>\$ 271,819</u>	<u>\$ 698,736</u>

KANAB CITY, UTAH
Combining Statement of Revenues, Expenses, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Capital Projects			
	Public Safety Fitness	Sidewalk Project	Impact Fee Fund	Bridge Replacement
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Investment earnings	-	55	317	2,700
Total revenues	-	55	317	2,700
Expenditures				
Current:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	17,736	123,826
Total expenditures	-	-	17,736	123,826
Excess (deficiency) of revenues over (under) expenditures	-	55	(17,419)	(121,126)
Other Financing Sources (Uses)				
Transfers in	30,851	10,196	-	-
Transfers out	-	-	(44,186)	(20,000)
Total other financing sources and uses	30,851	10,196	(44,186)	(20,000)
Net change in fund balances	30,851	10,251	(61,605)	(141,126)
Fund balances, beginning of year	-	-	69,549	478,580
Fund balances, end of year	<u>\$ 30,851</u>	<u>\$ 10,251</u>	<u>\$ 7,944</u>	<u>\$ 337,454</u>

<u>Debt Service</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Debt Service Fund</u>	<u>Perpetual Care</u>	
\$ 24,370	\$ -	\$ 24,370
-	7,400	7,400
-	1,470	4,542
<u>24,370</u>	<u>8,870</u>	<u>36,312</u>
126,217	-	126,217
66,260	-	66,260
-	-	141,562
<u>192,477</u>	<u>-</u>	<u>509,398</u>
<u>(168,107)</u>	<u>8,870</u>	<u>(297,727)</u>
166,916	-	207,963
-	(1,042)	(65,228)
<u>166,916</u>	<u>(1,042)</u>	<u>142,735</u>
(1,191)	7,828	(154,992)
<u>41,608</u>	<u>263,641</u>	<u>853,378</u>
<u>\$ 40,417</u>	<u>\$ 271,469</u>	<u>\$ 698,386</u>

KANAB CITY, UTAH
Public Safety Fitness Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in	-	37,750	30,851	(6,899)
Total other financing sources and uses	-	37,750	30,851	(6,899)
Net change in fund balances	-	37,750	30,851	(6,899)
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 37,750</u>	<u>\$ 30,851</u>	<u>\$ (6,899)</u>

KANAB CITY, UTAH
Sidewalk Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 55	\$ 55
Total revenues	-	-	55	55
Expenditures				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	55	55
Other Financing Sources (Uses)				
Transfers in	-	-	10,196	10,196
Total other financing sources and uses	-	-	10,196	10,196
Net change in fund balances	-	-	10,251	10,251
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,251</u>	<u>\$ 10,251</u>

KANAB CITY, UTAH
Impact Fee Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 500	\$ 500	\$ 317	\$ (183)
Total revenues	<u>500</u>	<u>500</u>	<u>317</u>	<u>(183)</u>
Expenditures				
Capital outlay	-	32,800	17,736	15,064
Total expenditures	<u>-</u>	<u>32,800</u>	<u>17,736</u>	<u>15,064</u>
Excess (deficiency) of revenues over (under) expenditures	<u>500</u>	<u>(32,300)</u>	<u>(17,419)</u>	<u>14,881</u>
Other Financing Sources (Uses)				
Transfers out	-	(37,750)	(44,186)	(6,436)
Total other financing sources and uses	<u>-</u>	<u>(37,750)</u>	<u>(44,186)</u>	<u>(6,436)</u>
Net change in fund balances	500	(70,050)	(61,605)	8,445
Fund balances, beginning of year	<u>69,549</u>	<u>69,549</u>	<u>69,549</u>	<u>-</u>
Fund balances, end of year	<u>\$ 70,049</u>	<u>\$ (501)</u>	<u>\$ 7,944</u>	<u>\$ 8,445</u>

KANAB CITY, UTAH
Bridge Replacement Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 1,400,000	\$ 1,400,000	\$ -	\$ (1,400,000)
Investment earnings	500	500	2,700	2,200
Total revenues	<u>1,400,500</u>	<u>1,400,500</u>	<u>2,700</u>	<u>(1,397,800)</u>
Expenditures				
Capital outlay	1,310,810	1,310,810	123,826	1,186,984
Total expenditures	<u>1,310,810</u>	<u>1,310,810</u>	<u>123,826</u>	<u>1,186,984</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,690</u>	<u>89,690</u>	<u>(121,126)</u>	<u>(210,816)</u>
Other Financing Sources (Uses)				
Transfers Out	(20,000)	(20,000)	(20,000)	-
Total other financing sources and uses	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balances	69,690	69,690	(141,126)	(210,816)
Fund balances, beginning of year	<u>478,580</u>	<u>478,580</u>	<u>478,580</u>	<u>-</u>
Fund balances, end of year	<u>\$ 548,270</u>	<u>\$ 548,270</u>	<u>\$ 337,454</u>	<u>\$ (210,816)</u>

KANAB CITY, UTAH
Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 24,752	\$ 24,752	\$ 24,370	\$ (382)
Investment earnings	1,000	1,000	-	(1,000)
Total revenues	<u>25,752</u>	<u>25,752</u>	<u>24,370</u>	<u>(1,382)</u>
Expenditures				
Debt service:				
Principal	118,282	118,282	126,217	(7,935)
Interest	<u>73,027</u>	<u>73,027</u>	<u>66,260</u>	<u>6,767</u>
Total expenditures	<u>191,309</u>	<u>191,309</u>	<u>192,477</u>	<u>(1,168)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(165,557)</u>	<u>(165,557)</u>	<u>(168,107)</u>	<u>(2,550)</u>
Other Financing Sources (Uses)				
Transfers in	<u>166,916</u>	<u>166,916</u>	<u>166,916</u>	<u>-</u>
Total other financing sources and use:	<u>166,916</u>	<u>166,916</u>	<u>166,916</u>	<u>-</u>
Net change in fund balances	1,359	1,359	(1,191)	(2,550)
Fund balances, beginning of year	<u>41,608</u>	<u>41,608</u>	<u>41,608</u>	<u>-</u>
Fund balances, end of year	<u>\$ 42,967</u>	<u>\$ 42,967</u>	<u>\$ 40,417</u>	<u>\$ (2,550)</u>

KANAB CITY, UTAH
Perpetual Care Permanent Fund
Schedule of Revenues, Expenses, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 6,000	\$ 6,000	\$ 7,400	\$ 1,400
Investment earnings	2,000	2,000	1,470	(530)
Total revenues	<u>8,000</u>	<u>8,000</u>	<u>8,870</u>	<u>870</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,000</u>	<u>8,000</u>	<u>8,870</u>	<u>870</u>
Other Financing Sources (Uses)				
Transfers out	<u>(2,000)</u>	<u>(2,000)</u>	<u>(1,042)</u>	<u>958</u>
Total other financing sources and uses	<u>(2,000)</u>	<u>(2,000)</u>	<u>(1,042)</u>	<u>958</u>
Net change in fund balances	6,000	6,000	7,828	1,828
Fund balances, beginning of year	<u>263,641</u>	<u>263,641</u>	<u>263,641</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 269,641</u></u>	<u><u>\$ 269,641</u></u>	<u><u>\$ 271,469</u></u>	<u><u>\$ 1,828</u></u>

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SUPPLEMENTARY INFORMATION

KANAB CITY
Supplementary Information
June 30, 2012

The Water and Sewer System Revenue Bond Resolutions set forth certain covenants and restrictions. The City of Kanab is in compliance with all covenants and restrictions for the Water and Sewer Bonds.

Additional disclosures required by the Resolutions are:

	<u>Water</u>	<u>Sewer</u>
a. Number of water and sewer connections within the boundaries of the City at June 30, 2012	1,992	1,129
b. Total water and sewer billings for fiscal year ended June 30, 2012	\$ 925,310	\$ 195,479
c. Average monthly billing per customer	\$ 38.71	\$ 14.43
d. Net water and sewer revenues were 12.36 times the aggregate water and sewer fund debt service for fiscal year ended June 30, 2012.		
e. Water rates for fiscal year ended June 30, 2012 are as follows:		
0 to 10,000 gallons	\$ 27.00	
10,001 gallons on up	\$ 1.10 per 1,000	
F. Reserve funds see financial statement footnote 9.		

KANAB CITY
Supplementary Information, Continued
June 30, 2012

g. Insurance coverage in effect at June 30, 2012:

<u>Type</u>	<u>Policy Number</u>	<u>Expires</u>	<u>Limits</u>
Coverage with Affiliated Ins. through Fred A. Moreton & Company:			
Blanket Property	TS958	07/01/12	\$ 6,367,719
Coverage with Great American Insurance through Fred A. Moreton & Company:			
Auto Physical	CAP1708324	07/01/12	\$ 50,000
Off-Duty Vehicle	CAP1708324	07/01/12	\$ 1,000,000
Coverage with Commerce and Industry through Fred A. Moreton & Company:			
Airport Liability	AP3749135705	12/01/12	\$ 10,000,000
Coverage with Hartford Fire through Fred A. Moreton & Company:			
Employee Dishonesty	34PEBW7430	12/09/12	\$ 100,000
Coverage with Cincinnati Insurance through Fred A. Moreton & Company:			
Treasurer's Bond	0335683	12/09/12	\$ 325,000
Coverage with Travelers Insurance through Fred A. Moreton & Company:			
Mayor and Treasurer's Bond	105574596	03/01/14	\$ 630,000
Pres. and Sec. Bond (Kanab Municipal Building Authority)	105609824	04/26/13	\$ 25,650
Coverage with Cincinnati Insurance through Fred A. Moreton & Company:			
Treasurer's Bond	8897653	03/01/13	\$ 300,000

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FEDERAL AND STATE REPORTS

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**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***

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Kanab City, Utah, as of and for the year ended June 30, 2012, which collectively comprise Kanab City, Utah's basic financial statements and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying letter of findings and recommendations we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

07-01. Controls Over Accounting and Reconciliations

12-01. Water and Sewer Fund Inventory

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. We consider the deficiency described in the accompanying letter of Findings and Recommendations to be a significant deficiency.

07-03. Capital Asset Accounting

Compliance and Other Matters

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

We noted certain other matters that we reported to management in a separate letter dated January 15, 2103.

Kanab City's responses to the findings identified in our audit are described in the Management's Response to the Findings listed in the table of contents. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
January 15, 2013

**Independent Auditors' Report on Compliance in Accordance
with the State of Utah Legal Compliance Audit Guide**

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

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

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property tax Limitations
- Liquor Law Enforcement
- Justice Courts
- B & C Road Funds
- Other General Compliance Issues
- Uniform Building Code
- Impact Fees & Other Development Fees
- Asset Forfeitures
- Utah Retirement System
- Fund Balance

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

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

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

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

In our opinion, Kanab City, Utah, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in our letter to management dated January 15, 2013, as items 12-02, 07-01 and 04-04.

Management's responses to the findings identified in our audit are described in Management's Response to the Findings listed in the table of contents. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, the mayor, audit committee, and various federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
January 15, 2013



**Findings, Recommendations and Responses
For the Year Ended June 30, 2012**

The Honorable Mayor and
City Council
Kanab, Utah

Ladies & Gentlemen:

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of the funds of Kanab City for the fiscal year ended June 30, 2012, we noted several improvements in the City's accounting and budgeting system and wish to commend the City for their achievements. We noted a few areas needing corrective action in order for the City to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Material Weaknesses:

07-01. Controls over Accounting and Reconciliations

During our audit, we noted a number of adjustments and other items that were not initially identified by the City's internal control. For example, during the course of the audit we learned that \$62,599 billed to the BLM in fiscal year 2011 had not been received by the City and the City had not pursued collection. In addition, we learned the company which processes fuel sales at the airport has not been remitting payment to the City in a timely manner. At the time of our fieldwork approximately \$65,000 was owed to the City for fuel sales from January – June 2012. Overall, there were slightly less audit adjustments in fiscal year 2012 as there were in 2011. Statement on Auditing Standards No. 112 (SAS 112) indicates that the identification by the auditor of such misstatements in the financial statements may be a material weakness in the City's internal controls. The combination of this and other deficiencies with reconciliations and year end accounting constitute a material weakness.

Recommendation

We recommend that management review and understand the adjustments proposed by the auditor and develop a plan to ensure that all significant adjustments are posted to the general ledger before the annual audit takes place. We recommend that the City continue its efforts to perform monthly reconciliations of subsidiary ledgers to the general ledger and that investigated differences be adjusted. The City should continue to improve its internal controls to a level where they will at least identify material misstatements.

12-01. Water and Sewer Fund Inventory

The City did not conduct an inventory of parts and supplies on hand for the Water and Sewer Fund. It is important to conduct an inventory at least annually to verify that actual amounts on hand agree to the amounts shown in the financial records. If amounts are not verified it is possible for the City's financial statements to inaccurately report the value of inventory.

Recommendation

We recommend that City personnel conduct an annual inventory of parts and supplies on hand for the Water and Sewer Fund. The inventory should include the number of each item on hand and the cost of each item. The total value of inventory should then be reconciled to the general ledger.

Significant Deficiencies:

07-03. Capital Asset Accounting

We noted during our audit, that a complete record of capital asset additions and deletions is not being maintained throughout the year. We also noted that the City did not perform a physical inventory of capital assets during the year under audit.

Recommendation

We recommend that the City do the following:

1. Maintain throughout the year a detail list of capital asset additions and deletions for the fiscal year that shows a description, date of purchase and cost for each item. The list should be maintained for each capital asset general ledger account and should be maintained in such a way as to allow reconciliations to the general ledger.
2. Conduct year-end physical asset inventories and when practical, tagging of assets with an inventory tag/identification number.
3. Reconcile the year-end physical inventory of capital assets to the general ledger control accounts.

COMPLIANCE AND OTHER MATTERS:

12-02. Impact Fee Schedule Remittance

The City did not remit the required annual impact fee schedule to the Utah State Auditor's Office as required by State law.

Recommendation

We recommend that the City prepare and remit to the Utah State Auditor's Office the required schedule of impact fees as required by State law.

07-01. Budgetary Compliance

Utah law states that “officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund.” The “Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual” report identifies the departments which have over-expended budget amounts. In addition, we noted the City did not establish a budget for the Sidewalk Project Capital Project Fund.

Recommendation

We recommend that the City continue to closely monitor the expenditures for each department to ensure that budget overruns do not occur in future fiscal periods. We also recommend that the City properly amend its budget when additional revenues or expenditures are anticipated, which are not included in the original or a previously amended budget.

04-04. Impact Fee Fund Balances

It appears that Police impact fees have not been expended or encumbered within the six year period as per State law.

Recommendation

We noted that the City monitors the impact fee fund balances. We recommend that the City continue its efforts to maintain and review an impact fee ledger and that appropriate measures be taken to encumber or refund the Police impact fees as required by State law.

The City of Kanab, Utah’s written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This letter is intended solely for the use of the Mayor, City Council and management and is not intended to be used and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,



HintonBudick, PLLC
January 15, 2013

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Mayor

Nina Laycook

City Manager

Duane Huffman

Treasurer

RaeLene Johnson



KANAB
— UTAH —

City Council

James G. Sorenson

Cheryl Brown

Kirt Carpenter

Joe B. Wright

Brent Chamberlain

**Management's Response to the Auditor's Findings
For the Fiscal Year Ended June 30, 2012**

Office of the Utah State Auditor
P.O. Box 142310
Salt Lake City, UT 84114

To Whom It May Concern:

This letter is in response to the findings and recommendations made by our independent auditor, HintonBurdick CPAs & Advisors, for the audit of Kanab City, UT for the year ended June 30, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Material Weaknesses:

07-01. Controls over Accounting and Reconciliations

Management Response:

Management concurs with the auditor's findings and recommendations. It has been Kanab City's practice over many years to rely on auditors to help identify needed adjustments; however, the items discovered this year by the auditors show that this practice is no longer acceptable. It is management's policy that all adjustments be reviewed by the City Manager monthly, and we will continue to perform monthly reconciliation of all subsidiary ledgers to the general ledger, including stricter reviews of expected revenues and expenditures.

12-01. Water and Sewer Fund Inventory

Management Response:

Management concurs with the auditor's findings and recommendations. Management is reviewing staffing breakdowns that led to the failure to perform inventory during the fiscal year ending June 30, 2012, and will take actions needed to ensure needed inventories occur in the future.

— A Western Classic —

Significant Deficiencies:

07-03. Capital Asset Accounting

Management Response:

Management concurs with the auditor's findings and recommendations. As Kanab City has failed to account properly for all assets for some time, we are in the process of formulating and implementing a new process to meet all of the recommendations in this area.

COMPLIANCE AND OTHER MATTERS:

12-02. Impact Fee Schedule Remittance

Management Response:

Management concurs with the auditor's findings and recommendations. All past due schedules will be promptly submitted, and future schedules will be submitted in compliance with State law.

07-01. Budgetary Compliance

Management Response:

Management concurs with the auditor's findings and recommendations, and will complete the listed tasks regarding compliance with state budgetary laws. However, management would like to note that the expenditures or encumbrances in excess of the total appropriation for the departments in question equate to roughly 2% of total expenditures for those departments, and that overall, total expenditures were well short of the budgeted amount.

04-04. Impact Fee Fund Balances

Management Response:

Management concurs with the auditor's findings and recommendations, and will complete the listed tasks regarding encumbering or refunding Police impact fees as part of recommended amendments to the FY 13 budget.

Sincerely,



Duane Huffman, City Manager