

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

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

MEMBERS:

CHAD B. ATKINSON
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
TODD B. FELTNER
BRENT R. HALL
TODD R. HESS
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic 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.

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 governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Kanab City as of June 30, 2009, 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 December 17, 2009, on our consideration of Kanab City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The management's discussion and analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanab City'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.

Hinton, Burdick, Hall & Spilker, PLLC
HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 17, 2009

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, 2009. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets decreased by \$257,207 which resulted in total assets in excess of total liabilities (net assets) of \$14.38 million at the close of the fiscal year.
- Total governmental expenses exceeded total governmental revenues by \$1,177,765.
- Total business-type revenues exceeded total business-type expenses by \$230,468.
- Total revenues from all sources were \$3.8 million.
- The total cost of all City programs was \$4.06 million.
- The General Fund reported a deficiency of revenues under expenditures of \$670,683.
- Actual resources received in the General Fund were less than the final budget by \$362,177 while actual expenditures were \$99,825 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$936,747 or 30% of total General Fund expenditures, 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 Assets 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 Assets 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 Assets 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 assets and changes in them. Net assets, 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 assets 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 Assets 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, 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 City charges a fee to customers to cover all of 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 Assets 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 Assets 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 Assets. 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 assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$14.38 million as of June 30, 2009 as shown in the following condensed statement of net assets. 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 Assets

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 2,153,369	\$ 3,417,917	\$ 2,403,384	\$ 2,314,480	\$ 4,556,753	\$ 5,732,397
Capital assets	8,336,869	7,778,177	4,665,775	4,809,985	13,002,644	12,588,162
Total assets	<u>10,490,238</u>	<u>11,196,094</u>	<u>7,069,159</u>	<u>7,124,465</u>	<u>17,559,397</u>	<u>18,320,559</u>
Long-term liabilities outstanding	2,109,025	2,238,856	783,388	849,903	2,892,413	3,088,759
Other liabilities	243,309	331,659	41,690	260,950	284,999	592,609
Total liabilities	<u>2,352,334</u>	<u>2,570,515</u>	<u>825,078</u>	<u>1,110,853</u>	<u>3,177,412</u>	<u>3,681,368</u>
Net assets:						
Invested in capital assets, net of related debt	6,109,439	5,562,916	3,912,006	3,997,089	10,021,445	9,560,005
Restricted	1,009,846	1,225,840	149,594	149,594	1,159,440	1,375,434
Unrestricted	1,018,619	1,836,823	2,182,481	1,866,929	3,201,100	3,703,752
Total net assets	<u><u>\$ 8,137,904</u></u>	<u><u>\$ 8,625,579</u></u>	<u><u>\$ 6,244,081</u></u>	<u><u>\$ 6,013,612</u></u>	<u><u>\$ 14,381,985</u></u>	<u><u>\$ 14,639,191</u></u>

Governmental Activities

The cost of all Governmental activities this year was \$3,095,673. As shown on the statement of Changes in Net Assets on the following page, \$501,617 of this cost was paid for by those who directly benefited from the programs, and \$356,649 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$858,266. General taxes and investment earnings totaled \$1,749,732.

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.

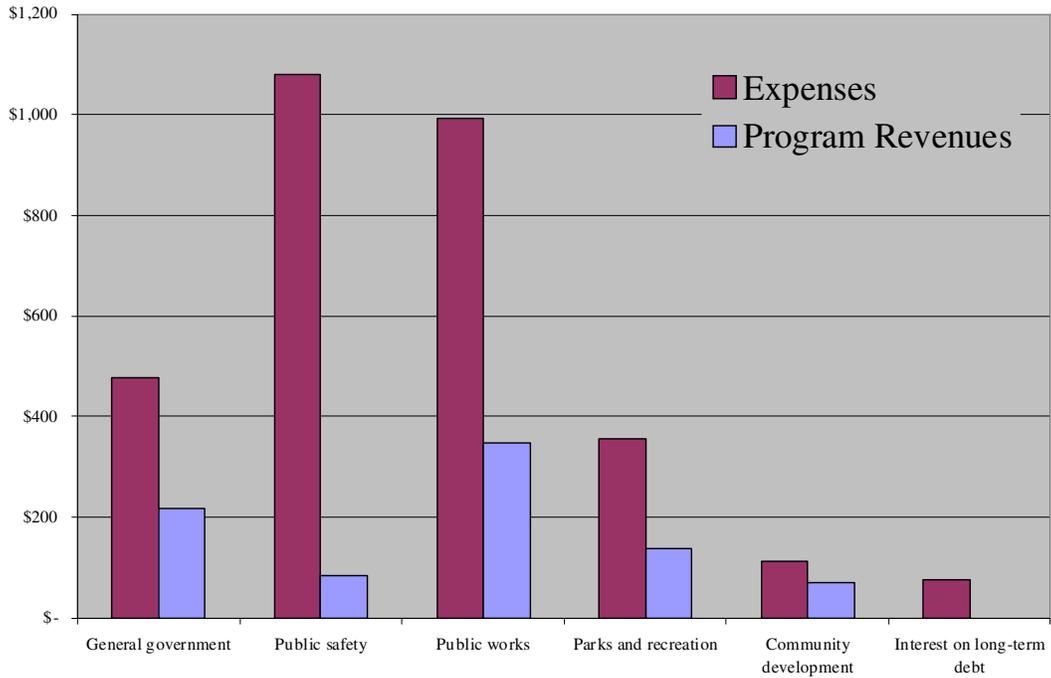
**Kanab City
Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Revenues:						
Program revenues:						
Charges for services	\$ 501,617	\$ 430,192	\$ 1,124,485	\$ 1,003,013	\$ 1,626,102	\$ 1,433,205
Operating grants and contributions	292,105	462,226	-	-	292,105	462,226
Capital grants and contributions	64,544	692,017	35,477	379,982	100,021	1,071,999
General revenues:						
Taxes	1,713,004	1,764,837	-	-	1,713,004	1,764,837
Other	36,728	145,868	39,631	102,301	76,359	248,169
Total revenues	<u>2,607,998</u>	<u>3,495,140</u>	<u>1,199,593</u>	<u>1,485,296</u>	<u>3,807,591</u>	<u>4,980,436</u>
Expenses:						
General government	477,932	499,622	-	-	477,932	499,622
Public safety	1,081,047	626,955	-	-	1,081,047	626,955
Public works	991,605	1,266,298	-	-	991,605	1,266,298
Parks and recreation	356,564	358,144	-	-	356,564	358,144
Community development	112,711	93,384	-	-	112,711	93,384
Interest on long-term debt	75,814	57,426	-	-	75,814	57,426
Water and sewer	-	-	969,125	964,890	969,125	964,890
Total expenses	<u>3,095,673</u>	<u>2,901,829</u>	<u>969,125</u>	<u>964,890</u>	<u>4,064,798</u>	<u>3,866,719</u>
(Decrease)/Increase in net assets						
before transfers	(487,675)	590,311	230,468	520,406	(257,207)	1,110,717
Transfers	-	-	-	-	-	-
(Decrease)/Increase in net assets	(487,675)	590,311	230,468	520,406	(257,207)	1,110,717
Net assets, beginning	8,625,579	8,035,268	6,013,613	5,493,206	14,639,192	13,528,474
Net assets, ending	<u>\$ 8,137,904</u>	<u>\$ 8,625,579</u>	<u>\$ 6,244,081</u>	<u>\$ 6,013,612</u>	<u>\$ 14,381,985</u>	<u>\$ 14,639,191</u>

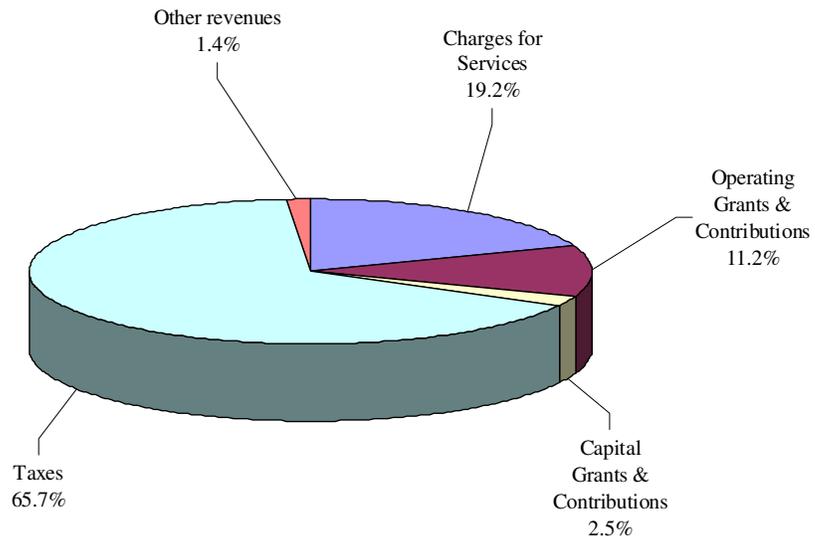
Total resources available during the year to finance governmental operations were \$11.22 million consisting of Net assets at July 1, 2007 of \$8.62 million, program revenues of \$858 thousand and General Revenues of \$1.75 million. Total Governmental Activities during the year were \$3.09 million; thus Governmental Net Assets were decreased by \$487,675 to \$8.13 million.

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)



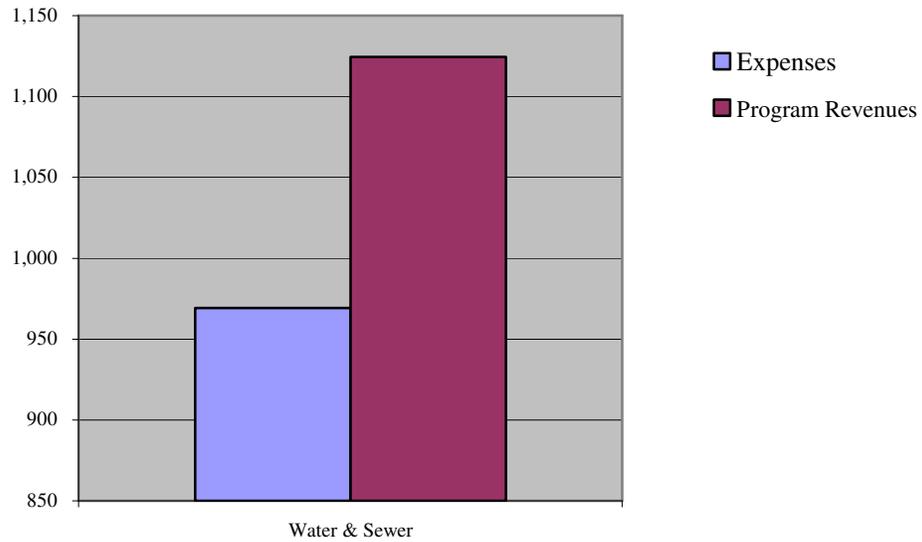
Revenue By Source - Governmental Activities



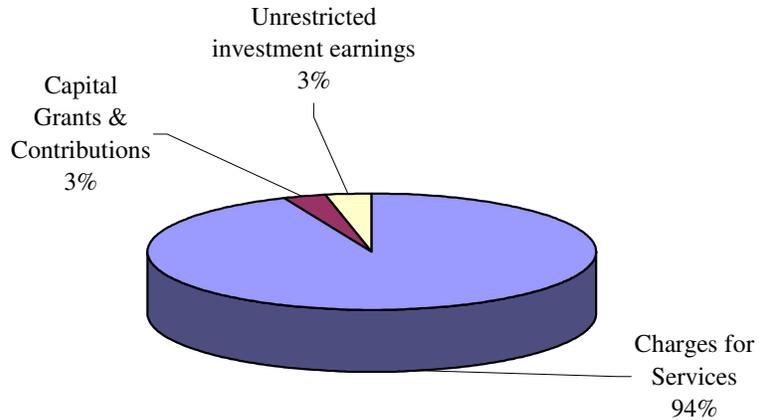
Business Type Activities

Net assets of the Business Type activities at June 30, 2009, as reflected in the Statement of Net Assets were \$6.24 million. The cost of providing all Proprietary (Business Type) activities this year was \$969,125. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1,124,485 with \$35,477 subsidized by capital grants and contributions. Interest earnings were \$39,631. The Net Assets increased by \$230,468.

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 current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,946,593, a decrease of \$1,177,765 in comparison with the prior year. Approximately, 21% of this total amount or \$424,595 constitutes unreserved, undesignated fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is reserved or designated because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for perpetual care costs and other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance in the general fund was \$424,595, and total fund balance is \$936,957. As a measure of liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Total fund balance and unreserved, undesignated fund balance represents 30% and 13% of total general fund expenditures. The City budgeted to reduce the general fund balance by \$598,337 during the year and the general fund balance actually decreased by \$914,629. Key factors in this change are as follows:

- Actual sales tax revenues were less than anticipated.
- Actual contributions and donations were less than anticipated.
- Transfers in were less and anticipated and transfers out were more than anticipated.

The Recreation capital project fund has a total fund balance of \$148,917, all of which is reserved for capital outlay. The majority of the fund balance in the recreation capital project fund was expended during fiscal year 2009 for the construction of the City pool.

Other governmental funds consist of the Debt Service fund, Impact Fee Capital Projects fund, Bridge Replacement Fund, and the Perpetual Care fund which have a combined total fund balance of \$860,719, the majority of which is reserved and designated for specific use.

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 assets of the Water/Sewer fund were \$6,244,081 consisting of \$3,912,006 invested in capital assets, net of related debt, \$149,594 in restricted for debt service and \$2,182,481 in unrestricted net assets.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$99,825 greater than actual expenditures. 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 which carried over to the next fiscal year. Actual revenues were less than the final budget by \$362,177 mainly due to the fact that revenue from sales taxes and contributions was much lower than expected. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

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 2009, net capital assets of the government activities totaled \$8.3 million and the net capital assets of the business-type activities totaled \$4.6 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 \$2,109,025 in governmental type debt, and \$783,388 in proprietary debt. The debt is a liability of the government and amounts to \$768 per capita. During the current fiscal year, the City's total debt decreased by \$196,347 which is net of additions of \$84,639 and retirements of \$280,986. (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 2009/2010, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2008/2009.

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 Assets
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,059,515	\$ 1,557,018	\$ 2,616,533
Receivables (net of allowance)	78,832	106,562	185,394
Inventory	-	210,340	210,340
Temporarily restricted assets:			
Cash and cash equivalents	1,015,022	529,464	1,544,486
Capital assets (net of accumulated depreciation):			
Land	189,386	162,236	351,622
Buildings	3,164,534	229,539	3,394,073
Improvements	2,990,072	-	2,990,072
Machinery and equipment	365,749	164,730	530,479
Library books	27,302	-	27,302
Automobiles and trucks	163,842	35,476	199,318
Distribution system	-	3,763,735	3,763,735
Infrastructure	1,435,984	-	1,435,984
Construction in progress	-	310,059	310,059
Total assets	<u>10,490,238</u>	<u>7,069,159</u>	<u>17,559,397</u>
Liabilities			
Accounts payable and other current liabilities	206,776	32,977	239,753
Deferred revenue	-	-	-
Interest payable	36,533	8,713	45,246
Noncurrent liabilities:			
Due within one year	168,107	109,000	277,107
Due in more than one year	1,940,918	674,388	2,615,306
Total liabilities	<u>2,352,334</u>	<u>825,078</u>	<u>3,177,412</u>
Net Assets			
Invested in capital assets, net of related debt	6,109,439	3,912,006	10,021,445
Restricted for:			
Debt service	35,732	149,594	185,326
Capital projects	729,827	-	729,827
Perpetual care	244,077	-	244,077
Other purposes	210	-	210
Unrestricted	1,018,619	2,182,481	3,201,100
Total Net Assets	<u>\$ 8,137,904</u>	<u>\$ 6,244,081</u>	<u>\$ 14,381,985</u>

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

KANAB CITY, UTAH
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 477,932	\$ 217,424	\$ -	\$ -	\$ (260,508)	\$ -	\$ (260,508)
Public safety	1,081,047	64,057	16,335	4,583	(996,072)	-	(996,072)
Public works	991,605	147,761	194,998	4,128	(644,718)	-	(644,718)
Parks and recreation	356,564	72,375	10,683	55,833	(217,673)	-	(217,673)
Community development	112,711	-	70,089	-	(42,622)	-	(42,622)
Interest on long-term debt	75,814	-	-	-	(75,814)	-	(75,814)
Total governmental activities	3,095,673	501,617	292,105	64,544	(2,237,407)	-	(2,237,407)
Business-type activities:							
Water & Sewer	969,125	1,124,485	-	35,477	-	190,837	190,837
Total business-type activities	969,125	1,124,485	-	35,477	-	190,837	190,837
Total primary government	\$ 4,064,798	\$ 1,626,102	\$ 292,105	\$ 100,021			
General Revenues:							
Taxes:							
Property taxes levied for general purposes					417,130	-	417,130
Sales and use taxes					1,185,255	-	1,185,255
Franchise taxes					110,619	-	110,619
Unrestricted investment earnings					36,728	39,631	76,359
Total general revenues & transfers					1,749,732	39,631	1,789,363
Change in net assets					(487,675)	230,468	(257,207)
Net assets - beginning					8,625,579	6,013,613	14,639,192
Net assets - ending					\$ 8,137,904	\$ 6,244,081	\$ 14,381,985

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

KANAB CITY, UTAH
Balance Sheet
Governmental Funds
June 30, 2009

	<u>General Fund</u>	<u>Recreation Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,059,515	\$ -	\$ -	\$ 1,059,515
Receivables	27,787	-	-	27,787
Due from other governments	51,045	-	-	51,045
Restricted cash and cash equivalents	210	154,093	860,719	1,015,022
Total assets	<u>\$ 1,138,557</u>	<u>\$ 154,093</u>	<u>\$ 860,719</u>	<u>\$ 2,153,369</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	181,343	5,176	-	186,519
Accrued liabilities	20,257	-	-	20,257
Deferred revenue	-	-	-	-
Total liabilities	<u>201,600</u>	<u>5,176</u>	<u>-</u>	<u>206,776</u>
Fund Balances:				
Reserved for:				
Debt service	-	-	35,732	35,732
Capital outlay	-	148,917	580,910	729,827
Perpetual care	-	-	244,077	244,077
Other	210	-	-	210
Unreserved, reported in:				
General fund	424,595	-	-	424,595
General fund, designated	512,152	-	-	512,152
Total fund balances	<u>936,957</u>	<u>148,917</u>	<u>860,719</u>	<u>1,946,593</u>
Total liabilities and fund balance	<u>\$ 1,138,557</u>	<u>\$ 154,093</u>	<u>\$ 860,719</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,336,869
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.	(2,145,558)

Net assets of governmental activities	\$ 8,137,904
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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, 2009

	<u>General</u>	<u>Recreation Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 223,903	\$ 130,522	\$ 24,752	\$ 379,177
Fees in lieu of property taxes	37,953	-	-	37,953
Sales and use taxes	1,185,255	-	-	1,185,255
Franchise taxes	110,619	-	-	110,619
Licenses, permits and fees	91,493	-	-	91,493
Intergovernmental revenue	320,799	4,954	-	325,753
Sanitation service revenues	7,818	-	-	7,818
Charges for services	37,182	-	4,600	41,782
Fines and forfeitures	82,706	-	-	82,706
Special assessments	-	-	412	412
Impact fees	-	-	12,104	12,104
Contributions and donations	280,192	1,723	-	281,915
Investment earnings	31,210	9,472	10,329	51,011
Other revenues	-	-	-	-
Total revenues	<u>2,409,130</u>	<u>146,671</u>	<u>52,197</u>	<u>2,607,998</u>
Expenditures				
Current:				
General government	489,948	-	-	489,948
Public safety	1,013,695	-	-	1,013,695
Public works	859,454	-	-	859,454
Parks and recreation	609,740	5,000	-	614,740
Community development	106,976	-	-	106,976
Debt service:				
Principal	-	-	107,187	107,187
Interest	-	-	77,379	77,379
Capital outlay	-	516,384	-	516,384
Total expenditures	<u>3,079,813</u>	<u>521,384</u>	<u>184,566</u>	<u>3,785,763</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(670,683)</u>	<u>(374,713)</u>	<u>(132,369)</u>	<u>(1,177,765)</u>
Other Financing Sources (Uses)				
Transfers in	25,426	-	364,539	389,965
Transfers out	<u>(269,372)</u>	<u>(95,167)</u>	<u>(25,426)</u>	<u>(389,965)</u>
Total other financing sources and uses	<u>(243,946)</u>	<u>(95,167)</u>	<u>339,113</u>	<u>-</u>
Net change in fund balances	(914,629)	(469,880)	206,744	(1,177,765)
Fund balances, beginning of year	<u>1,851,586</u>	<u>618,797</u>	<u>653,975</u>	<u>3,124,358</u>
Fund balances, end of year	<u>\$ 936,957</u>	<u>\$ 148,917</u>	<u>\$ 860,719</u>	<u>\$ 1,946,593</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, 2009

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

Net change in fund balances - total governmental funds (page 15)	\$ (1,177,765)
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 outlays exceeded depreciation in the current period.	558,692
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 assets.	107,187
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	24,211
Change in net assets of governmental activities	\$ (487,675)

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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 198,778	\$ 261,778	\$ 223,903	\$ (37,875)
Fees in lieu of property taxes	37,500	45,500	37,953	(7,547)
Sales and use taxes	1,301,000	1,303,000	1,185,255	(117,745)
Franchise taxes	92,300	92,300	110,619	18,319
Licenses, permits and fees	120,500	120,500	91,493	(29,007)
Intergovernmental revenue	207,678	278,905	320,799	41,894
Sanitation service revenue	7,000	7,000	7,818	818
Fines and forfeitures	96,000	96,000	82,706	(13,294)
Contributions and donations	62,650	505,324	280,192	(225,132)
Charges for services	203,500	-	37,182	37,182
Investment earnings	61,000	61,000	31,210	(29,790)
Total revenues	2,387,906	2,771,307	2,409,130	(362,177)
Expenditures				
Current:				
General government	970,393	533,750	489,948	43,802
Public safety	709,900	1,055,675	1,013,695	41,980
Public works	597,725	876,725	859,454	17,271
Parks and recreation	316,300	579,215	609,740	(30,525)
Community development	90,500	134,273	106,976	27,297
Total expenditures	2,684,818	3,179,638	3,079,813	99,825
Excess (deficiency) of revenues over (under) expenditures	(296,912)	(408,331)	(670,683)	(262,352)
Other Financing Sources (Uses)				
Debt issuance	-	13,000	-	(13,000)
Transfers in	62,000	62,000	25,426	(36,574)
Transfers out	(274,006)	(265,006)	(269,372)	(4,366)
Total other financing sources and uses	(212,006)	(190,006)	(243,946)	(53,940)
Net change in fund balances	(508,918)	(598,337)	(914,629)	(316,292)
Fund balances, beginning of year	1,851,586	1,851,586	1,851,586	-
Fund balances, end of year	\$ 1,342,668	\$ 1,253,249	\$ 936,957	\$ (316,292)

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

KANAB CITY, UTAH
Statement of Net Assets
Proprietary Funds
June 30, 2009

	(Memorandum Only)	
	Water & Sewer 6/30/2009	Water & Sewer 6/30/2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,557,018	\$ 1,260,905
Receivables, net of allowance	106,562	387,321
Inventory	210,340	179,291
Bond discounts and issuance costs, net of accumulated amortization	-	3,873
Total current assets	<u>1,873,920</u>	<u>1,831,390</u>
Noncurrent assets:		
Restricted cash and cash equivalents	529,464	483,091
Capital assets:		
Land	162,236	162,236
Buildings	333,501	333,501
Machinery and equipment	495,223	447,494
Automobiles and trucks	202,746	202,746
Distribution system	7,469,913	7,372,382
Construction in progress	310,059	347,578
Less: Accumulated depreciation	(4,307,903)	(4,055,952)
Total noncurrent assets	<u>5,195,239</u>	<u>5,293,076</u>
Total assets	<u>7,069,159</u>	<u>7,124,466</u>
Liabilities		
Current liabilities:		
Accounts payable	17,210	235,886
Accrued liabilities	2,867	3,009
Customer deposits	12,900	12,817
Interest payable	8,713	9,238
Current portion of noncurrent liabilities	109,000	94,000
Total current liabilities	<u>150,690</u>	<u>354,950</u>
Noncurrent liabilities:		
Compensated absences	29,619	33,134
Bonds payable	753,769	816,769
Less current portion of noncurrent liabilities	(109,000)	(94,000)
Total noncurrent liabilities	<u>674,388</u>	<u>755,903</u>
Total liabilities	<u>825,078</u>	<u>1,110,853</u>
Net Assets		
Invested in capital assets, net of related debt	3,912,006	3,997,089
Restricted for debt service	149,594	149,594
Unrestricted	2,182,481	1,866,930
Total net assets	<u>\$ 6,244,081</u>	<u>\$ 6,013,613</u>

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

KANAB CITY, UTAH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	Water & Sewer 6/30/2009	(Memorandum Only) Water & Sewer 6/30/2008
Operating revenues:		
Charges for services	\$ 1,094,841	\$ 957,524
Connection fees	24,811	35,089
Other revenues	4,833	10,400
Total operating revenues	<u>1,124,485</u>	<u>1,003,013</u>
Operating expenses:		
Rent	600	600
Salaries and wages	358,304	364,163
Employee benefits	167,798	162,873
Distribution system repairs and maintenance	30,653	45,087
Office expense	37,179	42,618
Insurance	13,392	13,556
Depreciation	251,951	216,629
Utilities	54,349	55,486
Professional services	6,407	3,729
Travel and training	6,993	2,499
Miscellaneous	8,247	17,847
Contract services	10,000	10,274
Total operating expenses	<u>945,873</u>	<u>935,361</u>
Operating income	<u>178,612</u>	<u>67,652</u>
Nonoperating revenues (expenses):		
Impact fees	35,477	154,982
Intergovernmental revenue	-	225,000
Interest income	39,631	102,301
Interest expense and fiscal charges	(23,252)	(29,528)
Total nonoperating revenues (expenses)	<u>51,856</u>	<u>452,755</u>
Income before contributions and transfers	<u>230,468</u>	<u>520,407</u>
Transfers to other funds	-	-
Change in net assets	230,468	520,407
Total net assets, beginning of year	<u>6,013,613</u>	<u>5,493,206</u>
Total net assets, end of year	<u><u>\$ 6,244,081</u></u>	<u><u>\$ 6,013,613</u></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, 2009

	(Memorandum Only)	
	Water & Sewer 6/30/2009	Water & Sewer 6/30/2008
Cash flows from operating activities:		
Cash received from customers, service fees	\$ 1,375,683	\$ 689,445
Cash received from customers, other	29,644	45,489
Cash paid to suppliers	(417,545)	(50,532)
Cash paid to employees	(529,759)	(516,822)
Cash flows from operating activities	458,023	167,580
Cash flows from noncapital financing activities:		
Transfers (to) from other funds	-	-
Cash flows from noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(63,000)	(91,000)
Interest paid	(19,904)	(23,464)
Purchase of fixed assets	(107,741)	(969,724)
Grant proceeds	-	225,000
Impact fees	35,477	154,982
Cash flows from capital and related financing activities:	(155,168)	(704,206)
Cash flows from investing activities:		
Interest on investments	39,631	102,301
Net change in cash and cash equivalents	342,486	(434,325)
Cash and cash equivalents, beginning of year	1,743,996	2,178,321
Cash and cash equivalents, end of year	\$ 2,086,482	\$ 1,743,996
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income	\$ 178,612	\$ 67,652
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation/amortization	251,951	216,629
Changes in operating assets and liabilities:		
(Increase) Decrease in receivables	280,842	(268,079)
(Increase) Decrease in inventory	(31,049)	(48,273)
Increase (Decrease) in accounts payable	(218,676)	189,437
Increase (Decrease) in accrued liabilities	(3,657)	10,214
Cash flows from operating activities	\$ 458,023	\$ 167,580
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, 2009

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 assets 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, 2009

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.

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 1. Summary of Significant Accounting Policies, Continued

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 Capital Project Fund is used to account for the construction of recreation facilities for the City.

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

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 1. Summary of Significant Accounting Policies, Continued

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 uncollectibles. 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.

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

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 1. Summary of Significant Accounting Policies, Continued

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 assets 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 assets. 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.

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.

Use of Restricted Assets

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.

Memorandum Totals

The prior year columns in the proprietary fund statements captioned "memorandum only" indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

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 assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets 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	\$ 1,746,762
Capital leases payable	243,858
Compensated absences	118,405
Accrued interest payable	<u>36,533</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ 2,145,558</u></u>

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 assets 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	\$ 1,021,945
Depreciation expense	<u>(463,253)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 558,692</u></u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

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

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 detail of this difference follows:

Change in compensated absences	22,646
Change in accrued interest	<u>1,565</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 24,211</u></u>

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 General Fund budget was amended during the current fiscal year.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 3. Stewardship, Compliance, and Accountability, Continued

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.

NOTE 4. Deposits and Investments

Deposits and investments of the City at June 30, 2009 consist of the following

Deposits	
Cash on hand	\$ 100
Cash in bank	63,295
Investments	
State treasurer's investment pool	<u>4,097,624</u>
Total deposits and investment	<u><u>\$ 4,161,019</u></u>

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

Cash and cash equivalents	\$ 2,616,533
Restricted cash and cash equivalents	<u>1,544,486</u>
Total cash and cash equivalents	<u><u>\$ 4,161,019</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.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 4. Deposits and Investments, Continued

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, 2009, all of the City's deposits were covered by FDIC insurance or otherwise collateralized.

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.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 4. Deposits and Investments, Continued

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.

As of June 30, 2009 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$4,097,624	\$4,097,624	\$ -	\$ -	\$ -
Total Fair Value	\$4,097,624	\$4,097,624	\$ -	\$ -	\$ -

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 4. Deposits and Investments, Continued

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, 2009 the City had the following investments and quality ratings:

<u>Investment Type</u>	Fair Value	<u>Quality Ratings</u>			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$4,097,624	\$ -	\$ -	\$ -	\$4,097,624
Total Fair Value	<u>\$4,097,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,097,624</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 5. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Governmental Activities:	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets, not being depreciated:				
Land	\$ 189,386	\$ -	\$ -	\$ 189,386
Construction in Progress	1,809,103	-	1,809,103	-
Total capital assets, not being depreciated	<u>1,998,489</u>	<u>-</u>	<u>1,809,103</u>	<u>189,386</u>
Capital assets, being depreciated:				
Buildings	1,262,883	2,315,201	-	3,578,084
Improvements	3,637,075	161,099	-	3,798,174
Machinery & equipment	1,132,619	49,135	-	1,181,754
Library books	155,524	9,153	-	164,677
Automobiles and trucks	243,339	25,000	-	268,339
Infrastructure	4,557,192	271,461	-	4,828,653
Total capital assets, being depreciated	<u>10,988,632</u>	<u>2,831,049</u>	<u>-</u>	<u>13,819,681</u>
Less accumulated depreciation for:				
Buildings	(371,701)	(41,849)	-	(413,550)
Improvements	(630,438)	(177,664)	-	(808,102)
Machinery & equipment	(762,376)	(53,629)	-	(816,005)
Library books	(133,425)	(3,950)	-	(137,375)
Automobiles and trucks	(66,125)	(38,372)	-	(104,497)
Infrastructure	(3,244,880)	(147,789)	-	(3,392,669)
Total accumulated depreciation	<u>(5,208,945)</u>	<u>(463,253)</u>	<u>-</u>	<u>(5,672,198)</u>
Total capital assets, being depreciated, net	<u>5,779,687</u>	<u>2,367,796</u>	<u>-</u>	<u>8,147,483</u>
Governmental activities capital assets, net	<u>\$ 7,778,176</u>	<u>\$ 2,367,796</u>	<u>\$ 1,809,103</u>	<u>\$ 8,336,869</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 5. Capital Assets, Continued

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

Governmental Activities:

General government	\$	12,440
Public safety		95,606
Highways		273,314
Parks and recreation		60,643
Community development		21,250
Total depreciation expense - governmental activities	\$	<u><u>463,253</u></u>

Business Type Activities:

	<u>Balance</u> <u>6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2009</u>
Capital assets not being depreciated:				
Land	162,236	\$ -	\$ -	162,236
Construction in Progress	347,578	-	37,519	310,059
Total capital assets, not being depreciated	<u>509,814</u>	<u>-</u>	<u>37,519</u>	<u>472,295</u>
Capital assets being depreciated:				
Buildings	333,501	-	-	333,501
Machinery & equipment	447,494	47,729	-	495,223
Automobiles and trucks	202,746	-	-	202,746
Distribution system	7,372,382	97,531	-	7,469,913
Total capital assets, being depreciated	<u>8,356,123</u>	<u>145,260</u>	<u>-</u>	<u>8,501,383</u>
Less accumulated depreciation for:				
Buildings	(95,024)	(8,939)	-	(103,963)
Machinery & equipment	(292,868)	(37,625)	-	(330,493)
Automobiles and trucks	(149,945)	(17,325)	-	(167,270)
Distribution system	(3,518,114)	(188,063)	-	(3,706,177)
Total accumulated depreciation	<u>(4,055,951)</u>	<u>(251,952)</u>	<u>-</u>	<u>(4,307,903)</u>
Total capital assets, being depreciated, net	<u>4,300,172</u>	<u>(106,692)</u>	<u>-</u>	<u>4,193,480</u>
Business-type activities capital assets, net	<u>\$ 4,809,986</u>	<u>\$ (106,692)</u>	<u>\$ 37,519</u>	<u>\$ 4,665,775</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 6. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2009.

	Balance 6/30/2008	Additions	Retirements	Balance 6/30/2009	Current Portion
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 329,321	\$ -	\$ 53,559	\$ 275,762	\$ 42,317
Revenue bonds	1,500,000	-	29,000	1,471,000	30,000
Total bonds payable	<u>1,829,321</u>	<u>-</u>	<u>82,559</u>	<u>1,746,762</u>	<u>72,317</u>
Capital Leases	268,485	-	24,627	243,858	25,790
Accrued Compensated Absences	<u>141,051</u>	<u>50,678</u>	<u>73,324</u>	<u>118,405</u>	<u>70,000</u>
Governmental activity					
Long-term liabilities	<u>\$ 2,238,857</u>	<u>\$ 50,678</u>	<u>\$ 180,510</u>	<u>\$ 2,109,025</u>	<u>\$ 168,107</u>
Business-type activities:					
Revenue bonds	<u>\$ 816,769</u>	<u>\$ -</u>	<u>\$ 63,000</u>	<u>\$ 753,769</u>	<u>\$ 74,000</u>
Total bonds payable	816,769	-	63,000	753,769	74,000
Accrued Compensated Absences	<u>33,134</u>	<u>33,961</u>	<u>37,476</u>	<u>29,619</u>	<u>35,000</u>
Business type activity					
Long-term liabilities	<u>\$ 849,903</u>	<u>\$ 33,961</u>	<u>\$ 100,476</u>	<u>\$ 783,388</u>	<u>\$ 109,000</u>
Total long-term liabilities	<u>\$ 3,088,760</u>	<u>\$ 84,639</u>	<u>\$ 280,986</u>	<u>\$ 2,892,413</u>	<u>\$ 277,107</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 6. Long-Term Debt, Continued

Bonds Payable at June 30, 2009 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 \$ 107,069

Street Improvement General Obligation Bonds, Series 2005, due in annual principal and interest installments ranging from \$28,125 to \$29,050, bearing interest at 2.5% maturing April 1, 2016. 168,693

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. 1,471,000

Water and Sewer Fund:

Parity Water and Sewer Revenue Bonds, Series 1992, due in annual principal and interest installments ranging from \$7,750 to \$8,650, bearing interest at 5.0%, maturing January 1, 2013. 29,000

Parity Water and Sewer Revenue Bonds, Series 1998, due in annual principal and interest installments ranging from \$21,400 to \$91,180, bearing interest at 2.0%, maturing January 1, 2019. 724,769

Total Bonds Payable \$ 2,500,531

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 6. Long-Term Debt, Continued

Other long-term debt at June 30, 2009 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%.	\$ 243,858
Total Leases Payable	<u>243,858</u>
Accrued Vacation and Comp Time Payable:	<u>148,024</u>
Total Long-Term Debt	2,892,413
Less Current Portion:	
Business-type Activities	(109,000)
Governmental-type Activities	<u>(168,107)</u>
Net Long-Term Debt	<u><u>\$ 2,615,306</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, 2009

NOTE 6. Long-Term Debt, Continued

The annual requirements to amortize bonds payable at June 30, 2009 are as follows:

Fiscal Year Ended June 30	General Obligation Bonds		MBA Lease Revenue Bonds		Water and Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 42,317	\$ 10,985	\$ 30,000	\$ 51,485	\$ 74,000	\$ 15,850
2011	44,398	9,304	31,000	50,435	76,000	14,120
2012	45,544	7,533	32,000	49,350	77,000	12,370
2013	47,756	5,696	33,000	48,230	80,000	10,580
2014	54,010	3,761	34,000	47,075	81,000	8,560
2015-2019	41,737	2,075	192,000	216,440	365,769	26,020
2020-2024	-	-	227,000	180,530	-	-
2025-2029	-	-	270,000	137,900	-	-
2030-2034	-	-	321,000	87,150	-	-
2035-2038	-	-	301,000	26,845	-	-
Total	<u>\$ 275,762</u>	<u>\$ 39,354</u>	<u>\$ 1,471,000</u>	<u>\$ 895,440</u>	<u>\$ 753,769</u>	<u>\$ 87,500</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 7. Capital Leases

The City has entered into a lease purchase agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is included in general long-term debt and in noncurrent liabilities on the Statement of Net Assets. The lease proceeds were used to purchase a fire truck. The truck is capitalized in machinery and equipment on the Statement of Net Assets at \$288,000 with accumulated depreciation of \$31,200 at June 30, 2009. 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	
2010	\$ 36,881
2011	36,881
2012	36,881
2013	36,881
2014	36,881
2015	36,881
2016	36,881
2017	<u>36,881</u>
Total remaining minimum lease payments	295,048
Less amount representing interest	(51,190)
Present value of net remaining minimum lease payments	<u><u>\$ 243,858</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, 2009, there were no interfund receivables and payables.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 8. Interfund Transactions and Balances, Continued

Interfund transfers for the fiscal year ended June 30, 2009 are as follows:

<u>Transfers To:</u>	<u>Transfers From</u>				<u>Total</u>
	<u>General</u>	<u>Recreation Fund</u>	<u>Nonmajor</u>	<u>Cemetery Perpetual Care</u>	
General Fund	\$ -	\$ -	\$ 19,426	\$ 6,000	\$ 25,426
Nonmajor Governmental Funds	<u>269,372</u>	<u>95,167</u>	<u>-</u>	<u>-</u>	<u>364,539</u>
Total transfers	<u>\$ 269,372</u>	<u>\$ 95,167</u>	<u>\$ 19,426</u>	<u>\$ 6,000</u>	<u>\$ 389,965</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.

NOTE 9. Equity Classifications

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

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets 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.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 9. Equity Classifications, Continued

- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2009, the City’s reserved and designated fund balances are as follows:

General Fund:

Reserved:

Historic Homes Book Fund	\$ 210
	<u>\$ 210</u>

Designated:

Fire Department Reserve	\$ 4,620
Equipment Replacement Fund	123,897
Old Library Fund	5,067
Sick Leave Reimbursement Fund	74,440
Appropriations for next years budget	<u>304,127</u>
	<u>\$ 512,151</u>

Capital Projects Funds:

Major capital project funds:	
Recreation Reserves	<u>\$ 148,917</u>

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 9. Equity Classifications, Continued

Capital Projects Funds:

Nonmajor capital project funds:

Impact Fees	\$ 380,910
Bridge Replacement	200,000
	<u>580,910</u>
	<u>\$ 580,910</u>

Debt Service Fund:

Street Improvement Bond	\$ 22,065
2007 CIB Reserve Fund	13,667
	<u>35,732</u>
	<u>\$ 35,732</u>

Water and Sewer Fund:

1992 Water and Sewer Bond Reserves	\$ 12,824
1997 Water and Sewer Bond Reserves	136,770
	<u>149,594</u>
	<u>\$ 149,594</u>

Permanent fund:

Cemetery Perpetual Care	\$ 244,078
	<u>244,078</u>

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 and the Public Safety Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 10. Defined Benefit Pension Plan, Continued

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. 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

In the Local Governmental Noncontributory Retirement System, Kanab City is required to contribute 11.62% of their annual covered salary. In the Public Safety Noncontributory Retirement System, Kanab City is required to contribute 22.61% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The required contributions and amounts received for the 2009 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				
2009	N/A	N/A	\$ 95,213.92	\$ 819,399.77
2008	N/A	N/A	87,525.20	753,229.02
2007	N/A	N/A	80,272.14	692,599.41
Public Safety System:				
Other Division A Noncontributory				
2009	N/A	N/A	\$ 49,522.21	\$ 219,028.01
2008	N/A	N/A	48,987.85	216,664.04
2007	N/A	N/A	55,196.72	246,634.64
Defined Contribution System:				
457 Plan				
2009	\$ 10,000.00	\$ -		
2008	-	-		
2007	-	-		
401 (k) Plan				
2009	\$ 17,000.00	\$ 6,882.18		
2008	24,000.00	6,477.84		
2007	33,697.00	6,123.32		

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

NOTE 10. Defined Benefit Pension Plan, Continued

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 Deferred Compensation Plan.

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.

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 funds, see the Proprietary Funds financial statements in the basic financial statements.

KANAB CITY, UTAH
Notes to the Financial Statements
June 30, 2009

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. 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 affect on the City's financial condition.

KANAB CITY, UTAH

SUPPLEMENTARY INFORMATION

MAJOR GOVERNMENTAL FUNDS

BUDGETARY COMPARISON SCHEDULES

Recreation Capital Project Fund

Recreation Capital Project Fund – This fund is used to account for the construction of recreation facilities for the city.

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

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.

Capital Projects Fund

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.

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 future collection of CIB grant funds and the expenditure of these funds for the replacement of bridges throughout the City.

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
Recreation Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 130,000	\$ 130,000	\$ 130,522	\$ 522
Intergovernmental revenue	-	-	4,954	4,954
Contributions and donations	-	-	1,723	1,723
Investment earnings	8,000	8,000	9,472	1,472
Total revenues	138,000	138,000	146,671	8,671
Expenditures				
Current:				
Parks and recreation	-	-	5,000	(5,000)
Capital outlay	-	-	516,384	(516,384)
Total expenditures	-	-	521,384	(521,384)
Excess (deficiency) of revenues over (under) expenditures	138,000	138,000	(374,713)	(512,713)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(81,500)	(81,500)	(95,167)	(13,667)
Total other financing sources and uses	(81,500)	(81,500)	(95,167)	(13,667)
Net change in fund balances	56,500	56,500	(469,880)	(526,380)
Fund balances, beginning of year	618,797	618,797	618,797	-
Fund balances, end of year	\$ 675,297	\$ 675,297	\$ 148,917	\$ (526,380)

KANAB CITY, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	<u>Debt Service</u>	<u>Capital Projects</u>		<u>Permanent Fund</u>	
	<u>Debt Service Fund</u>	<u>Impact Fees</u>	<u>Bridge Replacement</u>	<u>Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables	-	-	-	-	-
Restricted cash and cash equivalents	<u>35,732</u>	<u>380,910</u>	<u>200,000</u>	<u>244,077</u>	<u>860,719</u>
Total assets	<u>\$ 35,732</u>	<u>\$ 380,910</u>	<u>\$ 200,000</u>	<u>\$ 244,077</u>	<u>\$ 860,719</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved for:					
Debt service	35,732	-	-	-	35,732
Capital outlay	-	380,910	200,000	-	580,910
Perpetual care	-	-	-	244,077	244,077
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>35,732</u>	<u>380,910</u>	<u>\$ 200,000</u>	<u>244,077</u>	<u>860,719</u>
Total liabilities and fund balance	<u>\$ 35,732</u>	<u>\$ 380,910</u>	<u>\$ 200,000</u>	<u>\$ 244,077</u>	<u>\$ 860,719</u>

KANAB CITY, UTAH
Combining Statement of Revenues, Expenses, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	Debt Service	Capital Projects		Permanent Fund	
	Debt Service Fund	Impact Fee Fund	Bridge Replacement	Perpetual Care	Total Nonmajor Governmental Funds
Revenues					
Taxes	\$ 24,752	\$ -	\$ -	\$ -	\$ 24,752
Intergovernmental revenue	-	-	-	-	-
Charges for services	-	-	-	4,600	4,600
Special assessments	412	-	-	-	412
Impact fees	-	12,104	-	-	12,104
Contributions and donations	-	-	-	-	-
Investment earnings	4,266	2,103	-	3,960	10,329
Other revenues	-	-	-	-	-
Total revenues	<u>29,430</u>	<u>14,207</u>	<u>-</u>	<u>8,560</u>	<u>52,197</u>
Expenditures					
Current:					
Parks and recreation	-	-	-	-	-
Debt service:					
Principal	107,187	-	-	-	107,187
Interest	77,379	-	-	-	77,379
Capital outlay	-	-	-	-	-
Total expenditures	<u>184,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,566</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(155,136)</u>	<u>14,207</u>	<u>-</u>	<u>8,560</u>	<u>(132,369)</u>
Other Financing Sources (Uses)					
Transfers in	164,539	-	200,000	-	364,539
Transfers out	-	(19,426)	-	(6,000)	(25,426)
Total other financing sources and uses	<u>164,539</u>	<u>(19,426)</u>	<u>200,000</u>	<u>(6,000)</u>	<u>339,113</u>
Net change in fund balances	9,403	(5,219)	200,000	2,560	206,744
Fund balances, beginning of year	<u>26,329</u>	<u>386,129</u>	<u>-</u>	<u>241,517</u>	<u>653,975</u>
Fund balances, end of year	<u>\$ 35,732</u>	<u>\$ 380,910</u>	<u>\$ 200,000</u>	<u>\$ 244,077</u>	<u>\$ 860,719</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Taxes	\$ 24,750	\$ 24,750	\$ 24,752	\$ 2
Special assessments	-	-	412	412
Investment earnings	-	-	4,266	4,266
	<u>24,750</u>	<u>24,750</u>	<u>29,430</u>	<u>4,680</u>
Expenditures				
Debt service:				
Principal	84,127	84,127	107,187	(23,060)
Interest	87,131	87,131	77,379	9,752
	<u>171,258</u>	<u>171,258</u>	<u>184,566</u>	<u>(13,308)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(146,508)</u>	<u>(146,508)</u>	<u>(155,136)</u>	<u>(8,628)</u>
Other Financing Sources (Uses)				
Transfers in	146,506	146,506	164,539	18,033
Transfers out	-	-	-	-
	<u>146,506</u>	<u>146,506</u>	<u>164,539</u>	<u>18,033</u>
Net change in fund balances	(2)	(2)	9,403	9,405
Fund balances, beginning of year	<u>26,329</u>	<u>26,329</u>	<u>26,329</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 26,327</u></u>	<u><u>\$ 26,327</u></u>	<u><u>\$ 35,732</u></u>	<u><u>\$ 9,405</u></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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Impact fees	\$ 32,051	\$ 32,051	\$ 12,104	\$ (19,947)
Investment earnings	12,000	12,000	2,103	(9,897)
Total revenues	<u>44,051</u>	<u>44,051</u>	<u>14,207</u>	<u>(29,844)</u>
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>44,051</u>	<u>44,051</u>	<u>14,207</u>	<u>(29,844)</u>
Other Financing Sources (Uses)				
Transfers out	<u>(56,000)</u>	<u>(56,000)</u>	<u>(19,426)</u>	<u>36,574</u>
Total other financing sources and uses	<u>(56,000)</u>	<u>(56,000)</u>	<u>(19,426)</u>	<u>36,574</u>
Net change in fund balances	(11,949)	(11,949)	(5,219)	6,730
Fund balances, beginning of year	<u>386,129</u>	<u>386,129</u>	<u>386,129</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 374,180</u></u>	<u><u>\$ 374,180</u></u>	<u><u>\$ 380,910</u></u>	<u><u>\$ 6,730</u></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, 2009

	<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	200,000	200,000	200,000	-
Total other financing sources and uses	200,000	200,000	200,000	-
Net change in fund balances	200,000	200,000	200,000	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ -</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 6,000	\$ 6,000	\$ 4,600	\$ (1,400)
Investment earnings	9,000	9,000	3,960	(5,040)
 Total revenues	 15,000	 15,000	 8,560	 (6,440)
Expenditures				
Current:				
General government	-	-	-	-
Capital outlay	-	-	-	-
 Total expenditures	 -	 -	 -	 -
 Excess (deficiency) of revenues over (under) expenditures	 15,000	 15,000	 8,560	 (6,440)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(6,000)	(6,000)	(6,000)	-
 Total other financing sources and uses	 (6,000)	 (6,000)	 (6,000)	 -
 Net change in fund balances	 9,000	 9,000	 2,560	 (6,440)
Fund balances, beginning of year	241,517	241,517	241,517	-
Fund balances, end of year	<u>\$ 250,517</u>	<u>\$ 250,517</u>	<u>\$ 244,077</u>	<u>\$ (6,440)</u>

SUPPLEMENTARY INFORMATION

KANAB CITY
Supplementary Information
June 30, 2009

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, 2009	1,928	1,057
b. Total water and sewer billings for fiscal year ended June 30, 2009	\$ 902,848	\$ 191,775
c. Average monthly billing per customer	\$ 39.02	\$ 15.12
d. Net water and sewer revenues were 13.29 times the aggregate water and sewer fund debt service for fiscal year ended June 30, 2009.		
e. Water rates for fiscal year ended June 30, 2009 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, 2009

g. Insurance coverage in effect at June 30, 2009:

<u>Type</u>	<u>Policy Number</u>	<u>Expires</u>	<u>Limits</u>
Coverage with Affiliated Ins. through Fred A. Moreton & Company:			
Blanket Property	TS485	07-01-09	\$ 4,592,519
Coverage with Chubb/Federal Ins. through Fred A. Moreton & Company:			
Auto Physical	7469966	07-01-09	\$ 25,000
Off-Duty Vehicle	7469966	07-01-09	\$ 1,000,000
Coverage with Cincinnati Ins. through Fred A. Moreton & Company:			
Treasurers Bonds	8897653	03-01-10	\$ 300,000
Coverage with Hartford through Fred A. Moreton & Company:			
Employee Dishonesty	34BPEBW7430	12-09-11	\$ 100,000
Treasurers Bonds	34BPEBK3534	12-09-09	\$ 325,000
Fidelity Blanket Bonds	FA0248976	03-01-11	\$ 630,000
Bldg. Authority Bonds	34BPEDL0372	04-26-10	\$ 25,650
Coverage with Old Republic through Fred A. Moreton & Company:			
Airport Liability	AP3791357	12/01/09	10,000,000

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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***

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
 BRENT R. HALL
 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

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, each major fund, and the aggregate remaining fund information of Kanab City, Utah, as of and for the year ended June 30, 2009, which collectively comprise Kanab City, Utah's basic financial statements, and have issued our report thereon dated December 17, 2009. 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

In planning and performing our audit, we considered Kanab City, Utah'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting.

- 07-01 Controls over accounting and reconciliations
- 07-02 Controls over inventory
- 07-03 Capital asset accounting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following deficiency described in the accompanying schedule of findings and recommendations to be a material weakness in internal control over financial reporting.

- 07-01 Controls over accounting and reconciliations

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 of Kanab City, Utah in a separate communication.

The City's responses to the findings identified in our audit are described in the accompanying responses to the findings and recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, Mayor, and the Utah State Auditor and is not intended to be 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.

Hinton, Burdick, Hall & Spilker, PLLC
HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 17, 2009



MEMBERS:

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**Independent Auditors' Report on
State Legal Compliance**

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 for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. As part of our audit, we have audited the Kanab City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2009. The City received the following major State assistance programs from the State of Utah:

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

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

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

The management of the Kanab City is responsible for the City's compliance with all compliance requirements identified above. 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 and *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 material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying schedule of findings and recommendations. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Kanab City, Utah complied, in all material aspects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2009.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.
December 17, 2009



**Findings, Recommendations and Responses
For the Year Ended June 30, 2009**

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, 2009, 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 that were not initially identified by the City's internal control. There was approximately the same amount of audit adjustments in fiscal year 2009 as there were in 2008. Professional standard, 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.

MEMBERS:

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Management's Response

It is our policy that all significant adjustments be reviewed by the City Manager before being posted. We will continue to perform monthly reconciliation of all subsidiary ledgers to the general ledger. There may be times that significant adjustments that need to be made are not discovered until the audit is performed. Otherwise, all adjustments will be made prior to the annual audit taking place.

Significant Deficiencies:

07-02. Controls over Inventory

We observed that management made some efforts to establish controls over inventory in fiscal year 2009 and we commend them for their efforts. However, an inventory count to verify the ending inventory in the water and sewer fund at June 30, 2009 was not conducted. In addition, the inventory reports received from management to substantiate the inventory balances at year end indicated that the inventory was much higher than expected. After review of the inventory purchases and inventory uses during fiscal year 2009, it was determined that the inventory reports provided by management were incorrect and could not be relied upon.

Recommendation

We recommend that management evaluate the City's current inventory tracking system and procedures, and make the necessary changes to produce an accurate and complete listing of all inventory items for the water and sewer fund.

Management's Response

The City has now established a policy to control inventory. We have developed a computer program to track the receipt and distribution of all inventory items. The program identifies the date purchased, item description, item cost and date of distribution. The Public Works department will not distribute an inventory item without a written record.

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.

Management's Response

Kanab City is presently using a computer program (*Asset Keeper*) to track the purchase of all Capital Assets. A complete inventory of all Kanab City Capital Asset items will be conducted before year end. We will then reconcile the year-end physical inventory to the general ledger. We will also make it our policy to conduct a year-end physical inventory of all capital assets to assure the accuracy of the *Asset Keeper* records.

COMPLIANCE AND OTHER MATTERS:

Compliance:

09-1. Court Surcharge Remittance

The City is not filing Form C-500 (State of Utah Deposit Report) and the associated surcharge remittance in a timely manner. *Utah Code 51-4-2(4) (a)* requires that the surcharge to be remitted to the State Treasurer's Office by the 10th of the month following the receipt of the surcharges.

Recommendation

We recommend that the City operate within the guidelines of State law by filing Form C-500 and the related surcharges by the 10th of the month following receipt.

Management's Response

I have instructed the Kanab City Justice Court Judge to deliver Form C-500 (state of Utah Deposit Report) to the Kanab City Accounts Payable Clerk (AP Clerk) no later than the 5th day of the month following the month in which the fees are collected. The AP Clerk will then process the necessary check and mail the report to the State the following day.

08-1. Impact Fee Expenditures

The City recorded a transfer from the Impact Fee fund to the General fund which was apparently to pay rent on the police department building. This may not be an authorized use of impact fees according to Utah Code, which states, “a local political subdivision may expend impact fees only for: (a) system improvements for public facilities identified in the capital facilities plan; and (b) system improvements for the specific public facility type for which the fee was collected” (*Utah Code, Section 11-36-3*).

Recommendation

We recommend the City use impact fees only for qualified expenditures as outlined above.

Management’s Response

The City will look into the use of impact fees to pay the police department rent on the office space. If this is not an allowable use of impact fees the proper adjustments will be made.

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.

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.

Management’s Response

Kanab City will continue to make every effort to operate within the restrictions of the approved departmental budgets. If additional funds become available or if expenditures in excess of budgets are made we will continue to open the budget and make adjustments.

04-04. Impact Fee Fund Balances

It appears that the Police and Street 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 and Street impact fees as required by State law.

Management's Response

The City is considering capital projects that will require the use of Police and Street impact fee funds. These projects will be placed in the fiscal year 2009/10 budget.

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,

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL, & SPILKER, PLLC

December 17, 2009