

**FINANCIAL STATEMENTS**

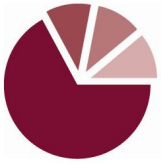
**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**Independent Auditors' Report**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah, as of and for the year ended June 30, 2011, 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. The prior year summarized comparative information has been derived from Kanab City's financial statements for the year ended June 30, 2010 and, in our report dated November 15, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah as of June 30, 2011, 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 15, 2011, on our consideration of Kanab City, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
December 15, 2011

**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, 2011. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased by \$729,290 which resulted in total assets in excess of total liabilities (net assets) of \$14.62 million at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$18,976.
- Total business-type net assets increased by \$72,417.
- Total revenues from all sources were \$5 million.
- The total cost of all City programs was \$4.2 million.
- The General Fund reported a deficiency of revenues under expenditures of \$149,935, before transfers.
- Actual revenues received in the General Fund were more than the final budget by \$39,169 while actual expenditures were \$324,124 less than the final budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$274,152 or 9% 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 (streets/storm water), culture and recreation, community support and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The distribution of culinary water and the disposal of waste water are considered to be proprietary activities, as the City charges a fee to customers to cover all or most of the cost of the services provided.

## **Reporting the City’s Most Significant Funds**

### **Fund Financial Statements**

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

- Governmental funds – Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net 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 \$14.62 million as of June 30, 2011 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	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Current and other assets	\$ 2,097,150	\$ 1,831,835	\$ 2,767,985	\$ 2,572,193	\$ 4,865,135	\$ 4,404,028
Capital assets	8,513,022	7,927,589	4,390,049	4,575,599	12,903,071	12,503,188
Total assets	<u>10,610,172</u>	<u>9,759,424</u>	<u>7,158,034</u>	<u>7,147,792</u>	<u>17,768,206</u>	<u>16,907,216</u>
Long-term liabilities outstanding	2,125,239	2,015,999	642,875	713,700	2,768,114	2,729,699
Other liabilities	311,808	227,172	71,500	62,850	383,308	290,022
Total liabilities	<u>2,437,047</u>	<u>2,243,171</u>	<u>714,375</u>	<u>776,550</u>	<u>3,151,422</u>	<u>3,019,721</u>
Net assets:						
Invested in capital assets, net						
of related debt	6,523,519	5,787,928	3,786,280	3,895,830	10,309,799	9,683,758
Restricted	1,024,425	743,784	149,294	149,469	1,173,719	893,253
Unrestricted	625,181	984,541	2,508,085	2,325,943	3,133,266	3,310,484
Total net assets	<u>\$ 8,173,125</u>	<u>\$ 7,516,253</u>	<u>\$ 6,443,659</u>	<u>\$ 6,371,242</u>	<u>\$ 14,616,784</u>	<u>\$ 13,887,495</u>

### Governmental Activities

The cost of all Governmental activities this year was \$3,149,854. As shown on the statement of Changes in Net Assets on the following page, \$538,974 of this cost was paid for by those who directly benefited from the programs through charges for services, and \$1,427,757 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 \$1,966,731. General taxes and investment earnings totaled \$1,839,996.

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.

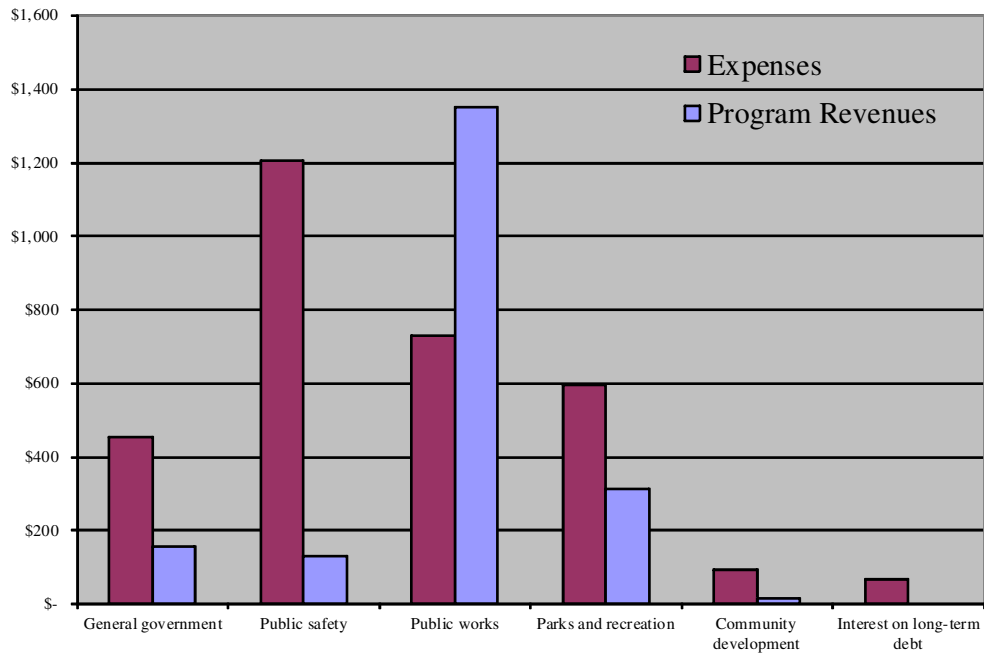
**Kanab City**  
**Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Revenues:						
Program revenues:						
Charges for services	\$ 538,974	\$ 475,285	\$ 1,149,930	\$ 1,110,202	\$ 1,688,904	\$ 1,585,487
Operating grants and contributions	268,167	240,630	-	-	268,167	240,630
Capital grants and contributions	1,159,590	96,225	-	-	1,159,590	96,225
General revenues:						
Taxes	1,830,254	1,596,913	-	-	1,830,254	1,596,913
Other	9,742	10,549	9,492	12,304	19,234	22,853
Total revenues	<u>3,806,727</u>	<u>2,419,602</u>	<u>1,159,422</u>	<u>1,122,506</u>	<u>4,966,149</u>	<u>3,542,108</u>
Expenses:						
General government	454,533	486,962	-	-	454,533	486,962
Public safety	1,205,609	1,119,908	-	-	1,205,609	1,119,908
Public works	730,635	636,720	-	-	730,635	636,720
Parks and recreation	596,342	602,906	-	-	596,342	602,906
Community development	93,791	125,826	-	-	93,791	125,826
Interest on long-term debt	68,944	68,932	-	-	68,944	68,932
Water and sewer	-	-	1,017,005	995,345	1,017,005	995,345
Total expenses	<u>3,149,854</u>	<u>3,041,254</u>	<u>1,017,005</u>	<u>995,345</u>	<u>4,166,859</u>	<u>4,036,599</u>
(Decrease)/Increase in net assets						
before transfers	656,873	(621,652)	142,417	127,161	799,290	(494,491)
Transfers	-	-	-	-	-	-
(Decrease)/Increase in net assets	656,873	(621,652)	142,417	127,161	799,290	(494,491)
Net assets, beginning	<u>7,516,252</u>	<u>8,137,905</u>	<u>6,371,242</u>	<u>6,244,081</u>	<u>13,887,494</u>	<u>14,381,986</u>
Prior period adjustment	-	-	(70,000)	-	(70,000)	-
Net assets, ending	<u>\$ 8,173,125</u>	<u>\$ 7,516,253</u>	<u>\$ 6,443,659</u>	<u>\$ 6,371,242</u>	<u>\$ 14,616,784</u>	<u>\$ 13,887,495</u>

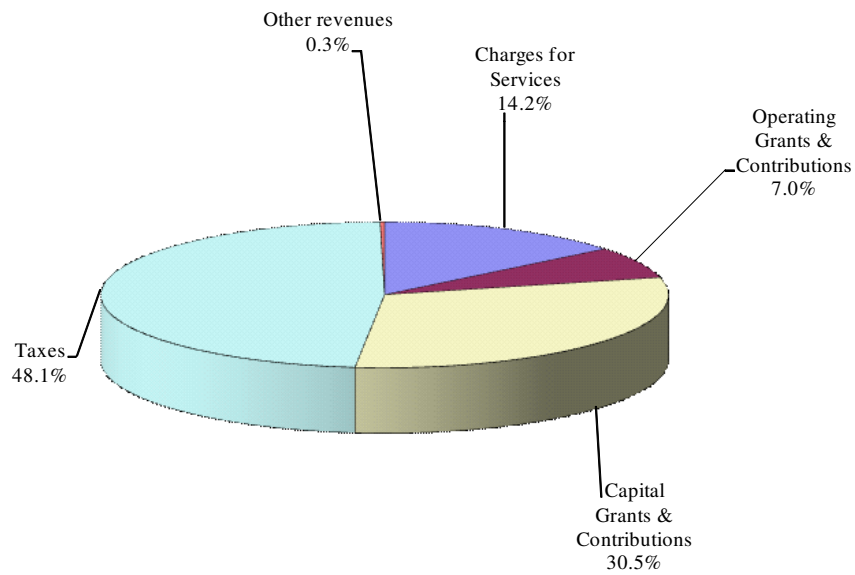


The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

**Expenses and Program Revenues - Governmental Activities**  
(in Thousands)



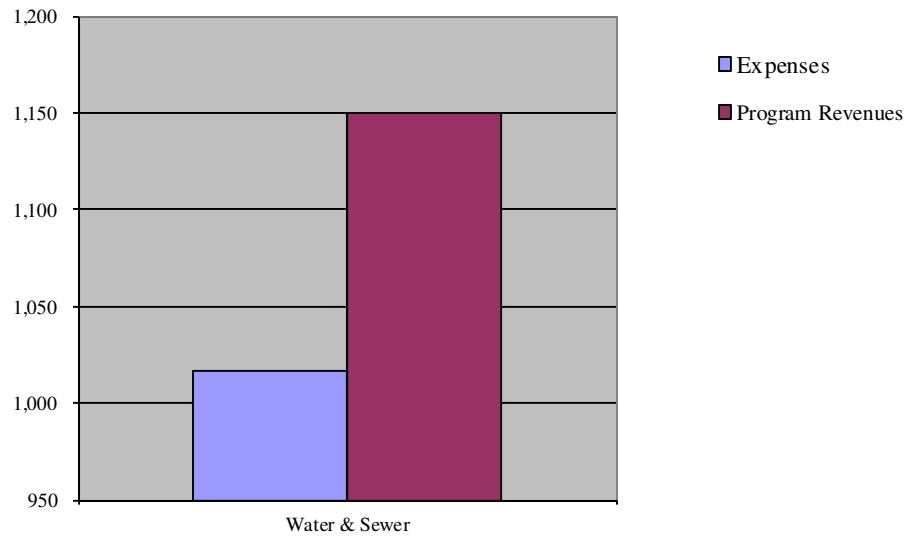
**Revenue By Source - Governmental Activities**



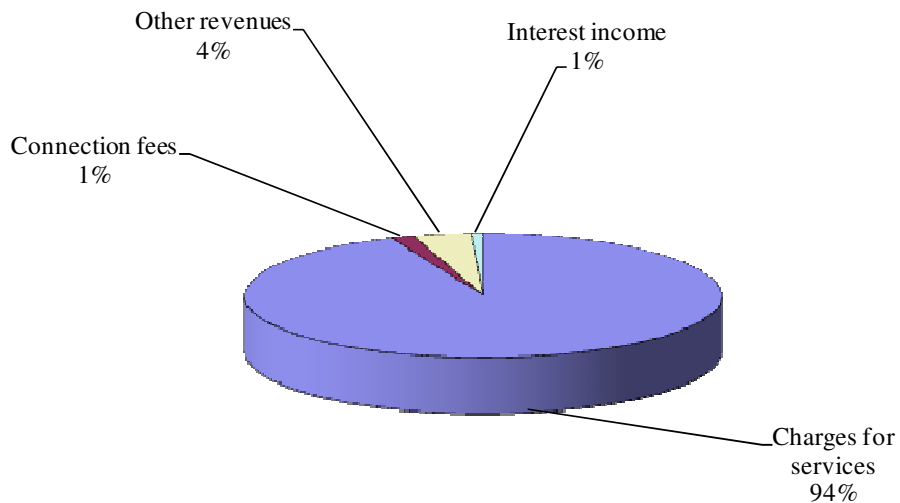
## Business Type Activities

Net assets of the Business Type activities at June 30, 2011, as reflected in the Statement of Net Assets were \$6.44 million. The cost of providing all Proprietary (Business Type) activities this year was \$1,017,005. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1,112,923. Interest earnings were \$9,492. The Net Assets increased by \$ 72,417.

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



**Revenue By Source - Business-type Activities**



## Financial Analysis of the Government's Funds

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

**Governmental funds:** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the fiscal year ending June 30, 2011, the City's governmental funds reported combined ending fund balances of \$1,818,124, an increase of \$ 181,024 in comparison with the prior year.

The general fund is the chief operating fund of the City. As of the end of the fiscal year ending June 30, 2011, total fund balance is \$806,909. The City budgeted to reduce the general fund balance by \$379,059 during the year and the general fund balance actually decreased by \$121,306. Key factors in this change are as follows:

- Actual sales tax revenues were greater than anticipated.
- Actual fines, forfeitures, and investments were less than anticipated.
- Actual expenditures for public works were deferred into the next fiscal year.

Other governmental funds consist of the Debt Service fund, Recreation fund, Impact Fee Capital Projects fund, Bridge Replacement Fund, and the Perpetual Care fund which have a combined total fund balance of \$1,011,215.

**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 \$6,443,659, consisting of \$3,786,280 invested in capital assets, net of related debt, \$149,294 in restricted for debt service and \$2,508,085 in unrestricted net assets.

## **General Fund Budgetary Highlights**

The actual expenditures for the General Fund at year-end were \$324,124 less than the final budget. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures by the Public Works department for road and other projects which carried over to the next fiscal year. Actual revenues were greater than the final budget by \$39,169 mainly due to the fact that revenue from taxes, and intergovernmental sources was higher than expected. Budget amendments and supplemental appropriations were made during the year to prevent departmental budget overruns.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2011, total capital assets of the government activities totaled \$8.5 million and the total capital assets of the business-type activities totaled \$4.4 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 \$2,125,239 in governmental type debt, and \$642,875 in proprietary debt. The debt is a liability of the government and amounts to \$644 per capita. During the current fiscal year, the City's total debt increased by \$38,414 which is net of additions of \$304,079 and retirements of \$265,665. (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 2011/2012, the City Council and management were cautious as to the growth of revenues and expenditures, with revenues projected to grow slowly.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## **BASIC FINANCIAL STATEMENTS**

**KANAB CITY, UTAH**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 725,743	\$ 2,350,127	\$ 3,075,870
Receivables (net of allowance)	150,029	157,870	307,899
Inventory	50,000	110,694	160,694
Temporarily restricted assets:			
Cash and cash equivalents	1,171,378	149,294	1,320,672
Capital assets (net of accumulated depreciation):			
Land	189,386	162,236	351,622
Buildings	2,911,851	211,662	3,123,513
Improvements	3,674,269	-	3,674,269
Machinery and equipment	299,025	100,333	399,358
Library books	19,398	-	19,398
Automobiles and trucks	103,782	15,352	119,134
Distribution system	-	3,900,466	3,900,466
Infrastructure	1,166,608	-	1,166,608
Construction in progress	148,703	-	148,703
Total assets	<u>10,610,172</u>	<u>7,158,034</u>	<u>17,768,206</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	191,200	41,837	233,037
Deferred revenue	88,076	23,393	111,469
Interest payable	32,532	6,270	38,802
Noncurrent liabilities:			
Due within one year	160,828	112,000	272,828
Due in more than one year	1,964,411	530,875	2,495,286
Total liabilities	<u>2,437,047</u>	<u>714,375</u>	<u>3,151,422</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	6,523,519	3,786,280	10,309,799
Restricted for:			
Debt service	41,608	149,294	190,902
Capital projects	719,176	-	719,176
Perpetual care	263,641	-	263,641
Unrestricted	625,181	2,508,085	3,133,266
Total Net Assets	<u>\$ 8,173,125</u>	<u>\$ 6,443,659</u>	<u>\$ 14,616,784</u>

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

**KANAB CITY, UTAH**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

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	\$ 454,533	\$ 158,311	\$ -	\$ -	\$ (296,222)	\$ -	\$ (296,222)
Public safety	1,205,609	102,422	28,094	500	(1,074,593)	-	(1,074,593)
Public works	730,635	186,320	205,900	958,010	619,595	-	619,595
Parks and recreation	596,342	91,501	20,167	201,080	(283,594)	-	(283,594)
Community development	93,791	420	14,006	-	(79,365)	-	(79,365)
Interest on long-term debt	68,944	-	-	-	(68,944)	-	(68,944)
Total governmental activities	<u>3,149,854</u>	<u>538,974</u>	<u>268,167</u>	<u>1,159,590</u>	<u>(1,183,123)</u>	<u>-</u>	<u>(1,183,123)</u>
Business-type activities:							
Water & Sewer	1,017,005	1,149,930	-	-	-	132,925	132,925
Total business-type activities	<u>1,017,005</u>	<u>1,149,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,925</u>	<u>132,925</u>
Total primary government	<u>\$ 4,166,859</u>	<u>\$ 1,688,904</u>	<u>\$ 268,167</u>	<u>\$ 1,159,590</u>			
General Revenues:							
Taxes:							
Property taxes levied for general purposes					472,159	-	472,159
Sales and use taxes					1,262,707	-	1,262,707
Franchise taxes					95,388	-	95,388
Unrestricted investment earnings					9,742	9,492	19,234
Total general revenues & transfers					<u>1,839,996</u>	<u>9,492</u>	<u>1,849,488</u>
Change in net assets					656,873	142,417	799,290
Net assets - beginning					7,516,252	6,371,242	13,887,494
Prior-period adjustment					-	(70,000)	(70,000)
Net assets - ending					<u>\$ 8,173,125</u>	<u>\$ 6,443,659</u>	<u>\$ 14,616,784</u>

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, 2011**

	<u>General Fund</u>	<u>Bridge Replacement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 725,743	\$ -	\$ -	\$ 725,743
Receivables	26,653	-	-	26,653
Due from other governments	123,376	-	-	123,376
Inventory	50,000	-	-	50,000
Restricted cash and cash equivalents	112,218	511,065	548,095	1,171,378
Total assets	<u>\$ 1,037,990</u>	<u>\$ 511,065</u>	<u>\$ 548,095</u>	<u>\$ 2,097,150</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	119,452	32,485	2,250	154,187
Accrued liabilities	27,346	-	-	27,346
Deferred revenue	88,076	-	-	88,076
Due to other governments	9,667	-	-	9,667
Total liabilities	<u>244,541</u>	<u>32,485</u>	<u>2,250</u>	<u>279,276</u>
<b>Fund Balances:</b>				
Restricted for:				
Debt service	-	-	41,608	41,608
Capital outlay	-	478,580	240,596	719,176
Perpetual care	-	-	263,641	263,641
Committed for:				
Historic homes book fund	415	-	-	415
Assigned to:				
Fire department	4,660	-	-	4,660
Equipment replacement	244,297	-	-	244,297
Old library	3,178	-	-	3,178
Sick leave reimbursement	72,454	-	-	72,454
Subsequent year	194,293	-	-	194,293
Unassigned	274,152	-	-	274,152
Total fund balances	<u>793,449</u>	<u>478,580</u>	<u>545,845</u>	<u>1,817,874</u>
Total liabilities and fund balance	<u>\$ 1,037,990</u>	<u>\$ 511,065</u>	<u>\$ 548,095</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.	8,513,022
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.	(2,157,771)

Net assets of governmental activities	<u>\$ 8,173,125</u>
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The accompanying notes are an integral part of the financial statements.



**KANAB CITY, UTAH**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>General</u>	<u>Bridge Replacement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 235,540	\$ -	\$ 205,881	\$ 441,421
Fees in lieu of property taxes	30,738	-	-	30,738
Sales and use taxes	1,262,707	-	-	1,262,707
Franchise taxes	95,388	-	-	95,388
Licenses, permits and fees	121,327	-	-	121,327
Intergovernmental revenue	1,283,952	200,000	-	1,483,952
Sanitation service revenues	7,319	-	-	7,319
Charges for services	70,675	-	8,651	79,326
Fines and forfeitures	72,590	-	-	72,590
Contributions and donations	198,970	-	1,125	200,095
Investment earnings	8,162	1,312	2,390	11,864
Total revenues	<u>3,387,368</u>	<u>201,312</u>	<u>218,047</u>	<u>3,806,727</u>
<b>Expenditures</b>				
Current:				
General government	437,594	-	-	437,594
Public safety	1,127,226	-	-	1,127,226
Public works	1,479,375	-	-	1,479,375
Parks and recreation	418,666	-	-	418,666
Community development	74,442	-	-	74,442
Debt service:				
Principal	-	-	102,835	102,835
Interest	-	-	68,850	68,850
Capital outlay	-	114,715	2,000	116,715
Total expenditures	<u>3,537,303</u>	<u>114,715</u>	<u>173,685</u>	<u>3,825,703</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(149,935)</u>	<u>86,597</u>	<u>44,362</u>	<u>(18,976)</u>
<b>Other Financing Sources (Uses)</b>				
Debt issuance	-	200,000	-	200,000
Transfers in	80,600	-	146,916	227,516
Transfers out	(65,431)	-	(162,085)	(227,516)
Total other financing sources and uses	<u>15,169</u>	<u>200,000</u>	<u>(15,169)</u>	<u>200,000</u>
Net change in fund balances	(134,766)	286,597	29,193	181,024
Fund balances, beginning of year	<u>928,215</u>	<u>191,983</u>	<u>516,902</u>	<u>1,637,100</u>
Fund balances, end of year	<u>\$ 793,449</u>	<u>\$ 478,580</u>	<u>\$ 546,095</u>	<u>\$ 1,818,124</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, 2011**

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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)	\$	181,024
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		585,433
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.		102,584
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.		(200,000)
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		(12,168)
Change in net assets of governmental activities	<u>\$</u>	<u>656,873</u>

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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 196,227	\$ 196,227	\$ 235,540	\$ 39,313
Fees in lieu of property taxes	26,850	26,850	30,738	3,888
Sales and use taxes	1,208,110	1,257,143	1,262,707	5,564
Franchise taxes	102,500	102,500	95,388	(7,112)
Licenses, permits and fees	88,000	117,000	121,327	4,327
Intergovernmental revenue	228,500	1,210,029	1,283,952	73,923
Sanitation service revenue	7,000	7,000	7,319	319
Fines and forfeitures	96,150	96,150	72,590	(23,560)
Contributions and donations	202,750	264,750	198,970	(65,780)
Charges for services	89,750	63,550	70,675	7,125
Investment earnings	7,000	7,000	8,162	1,162
Total revenues	2,252,837	3,348,199	3,387,368	39,169
<b>Expenditures</b>				
Current:				
General government	406,418	439,418	437,594	1,824
Public safety	968,934	1,117,639	1,127,226	(9,587)
Public works	898,184	1,793,545	1,479,375	314,170
Parks and recreation	319,076	431,825	418,666	13,159
Community development	69,050	79,000	74,442	4,558
Total expenditures	2,661,662	3,861,427	3,537,303	324,124
Excess (deficiency) of revenues over (under) expenditures	(408,825)	(513,228)	(149,935)	363,293
<b>Other Financing Sources (Uses)</b>				
Debt issuance	-	114,000	-	(114,000)
Transfers in	13,500	85,600	80,600	(5,000)
Transfers out	(65,431)	(65,431)	(65,431)	-
Total other financing sources and uses	(51,931)	134,169	15,169	(119,000)
Net change in fund balances	(460,756)	(379,059)	(134,766)	244,293
Fund balances, beginning of year	928,215	928,215	928,215	-
Fund balances, end of year	\$ 467,459	\$ 549,156	\$ 793,449	\$ 244,293

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

**KANAB CITY, UTAH**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**  
**(With Comparative Totals for June 30, 2010)**

	<u>Water &amp; Sewer</u> <u>6/30/2011</u>	<u>Water &amp; Sewer</u> <u>6/30/2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,350,127	\$ 2,101,507
Receivables, net of allowance	120,863	126,577
Inventory	110,694	194,640
Due from other governments	37,007	-
Total current assets	<u>2,618,691</u>	<u>2,422,724</u>
Noncurrent assets:		
Restricted cash and cash equivalents	149,294	149,469
Capital assets:		
Land	162,236	162,236
Buildings	333,501	333,501
Machinery and equipment	509,523	509,523
Automobiles and trucks	202,746	202,746
Distribution system	7,995,566	7,522,213
Construction in progress	-	404,988
Less: Accumulated depreciation	<u>(4,813,523)</u>	<u>(4,559,608)</u>
Total noncurrent assets	<u>4,539,343</u>	<u>4,725,068</u>
Total assets	<u>7,158,034</u>	<u>7,147,792</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	15,840	31,847
Accrued liabilities	7,797	7,790
Customer deposits	18,200	14,500
Deferred revenue	23,393	-
Interest payable	6,270	8,713
Current portion of noncurrent liabilities	112,000	111,000
Total current liabilities	<u>183,500</u>	<u>173,850</u>
Noncurrent liabilities:		
Compensated absences	39,106	33,931
Bonds payable	603,769	679,769
Less current portion of noncurrent liabilities	<u>(112,000)</u>	<u>(111,000)</u>
Total noncurrent liabilities	<u>530,875</u>	<u>602,700</u>
Total liabilities	<u>714,375</u>	<u>776,550</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,786,280	3,895,830
Restricted for debt service	149,294	149,469
Unrestricted	2,508,085	2,325,943
Total net assets	<u>\$ 6,443,659</u>	<u>\$ 6,371,242</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, 2011**  
**(With Comparative Totals for the Year Ended June 30, 2010)**

	<b>Water &amp; Sewer 6/30/2011</b>	<b>Water &amp; Sewer 6/30/2010</b>
<b>Operating revenues:</b>		
Charges for services	\$ 1,086,540	\$ 1,087,494
Connection fees	18,194	17,429
Other revenues	45,196	5,279
Total operating revenues	<u>1,149,930</u>	<u>1,110,202</u>
<b>Operating expenses:</b>		
Rent	1,165	600
Salaries and wages	360,015	337,790
Employee benefits	164,209	160,148
Distribution system repairs and maintenance	86,010	95,582
Office expense	39,751	34,511
Insurance	13,014	12,296
Depreciation	253,915	251,705
Utilities	60,291	62,503
Professional services	5,570	4,090
Travel and training	135	1,639
Miscellaneous	11,118	8,536
Contract services	10,000	10,000
Total operating expenses	<u>1,005,193</u>	<u>979,400</u>
Operating income	<u>144,737</u>	<u>130,802</u>
<b>Nonoperating revenues (expenses):</b>		
Interest income	9,492	12,304
Interest expense and fiscal charges	(11,812)	(15,945)
Total nonoperating revenues (expenses)	<u>(2,320)</u>	<u>(3,641)</u>
<b>Change in net assets</b>	142,417	127,161
Total net assets, beginning of year	6,371,242	6,244,081
Prior period adjustment	(70,000)	-
Total net assets, beginning of year, as adjusted	<u>6,301,242</u>	<u>6,244,081</u>
<b>Total net assets, end of year</b>	<u>\$ 6,443,659</u>	<u>\$ 6,371,242</u>

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

**KANAB CITY, UTAH**  
**Statement of Cash**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**  
**(With Comparative Totals for the Year Ended June 30, 2010)**

	<u>Water &amp; Sewer</u> <u>6/30/2011</u>	<u>Water &amp; Sewer</u> <u>6/30/2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers, service fees	\$ 1,078,640	\$ 1,069,079
Cash received from customers, other	63,390	22,708
Cash paid to suppliers	(229,115)	(199,419)
Cash paid to employees	(515,342)	(488,703)
Cash flows from operating activities	<u>397,573</u>	<u>403,665</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers (to) from other funds	-	-
Cash flows from noncapital financing activities	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(76,000)	(74,000)
Interest paid	(14,255)	(15,945)
Purchase of fixed assets	(68,365)	(161,529)
Cash flows from capital and related financing activities:	<u>(158,620)</u>	<u>(251,474)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	<u>9,492</u>	<u>12,304</u>
Net change in cash and cash equivalents	<u>248,445</u>	<u>164,495</u>
Cash and cash equivalents, including restricted cash, beginning of year	<u>2,250,976</u>	<u>2,086,481</u>
<b>Cash and cash equivalents, including restricted cash, end of year</b>	<u>\$ 2,499,421</u>	<u>\$ 2,250,976</u>
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income	\$ 144,737	\$ 130,802
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation/amortization	253,915	251,705
Changes in operating assets and liabilities:		
(Increase) Decrease in receivables	(31,293)	(18,415)
(Increase) Decrease in inventory	13,945	15,700
Increase (Decrease) in deferred revenue	23,393	-
Increase (Decrease) in accounts payable	(16,006)	14,638
Increase (Decrease) in accrued liabilities	<u>8,882</u>	<u>9,235</u>
Cash flows from operating activities	<u>\$ 397,573</u>	<u>\$ 403,665</u>
<b>Supplemental Schedule of Non-cash Financing and Investing Activities:</b>	None	None

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies**

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**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, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary fund:

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

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

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

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

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Deposits and Investments**

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

**Receivables and Payables**

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

**Inventories and prepaid items**

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

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

**Capital Assets**

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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

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

**Compensated Absences**

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net 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.

**Net Assets and Fund Equity**

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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

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

*Restricted net assets* are 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.

*Unrestricted net assets* are all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

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

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

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

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

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

**Utah Minimum Fund Balance**

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Estimates**

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

**Prior-Year Summarized Comparative Information**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

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

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**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	\$ 1,798,443
Capital leases payable	191,060
Compensated absences	135,736
Accrued interest payable	<u>32,532</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ 2,157,771</u></u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net 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	\$ 1,123,745
Depreciation expense	<u>(538,312)</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>\$ 585,433</u></u>

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

Change in compensated absences	(12,074)
Change in accrued interest	<u>(94)</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (12,168)</u></u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 3. Stewardship, Compliance, and Accountability**

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**Budgets and Budgetary Accounting**

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

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

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

**Taxes**

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

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 4. Deposits and Investments**

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Deposits and investments of the City at June 30, 2011 consist of the following

Deposits	
Cash on hand	\$ 100
Cash in bank	35,025
Investments	
State treasurer's investment pool	<u>4,361,417</u>
Total deposits and investment	<u><u>\$ 4,396,542</u></u>

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

Cash and cash equivalents	\$ 3,075,870
Restricted cash and cash equivalents	<u>1,320,672</u>
Total cash and cash equivalents	<u><u>\$ 4,396,542</u></u>

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

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

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2011, all of the City's deposits were covered by FDIC insurance or otherwise collateralized.



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 4. Deposits and Investments, Continued**

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**Investments**

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

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

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

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

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

**NOTE 4. Deposits and Investments, Continued**

As of June 30, 2011 the government had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investments Maturities (in Years)</u>			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$4,361,416	\$4,361,416	\$ -	\$ -	\$ -
<b>Total Fair Value</b>	<b>\$4,361,416</b>	<b>\$4,361,416</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**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, 2011 the City had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$4,361,416	\$ -	\$ -	\$ -	\$4,361,416
<b>Total Fair Value</b>	<b>\$4,361,416</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,361,416</b>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 5. Capital Assets**

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Capital asset activity for the year ended June 30, 2011 was as follows:

<b>Governmental Activities:</b>	<b>Balance 6/30/2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2011</b>
Capital assets, not being depreciated:				
Land	\$ 189,386	\$ -	\$ -	\$ 189,386
Construction in Progress	58,300	140,703	50,300	148,703
Total capital assets, not being depreciated	<u>247,686</u>	<u>140,703</u>	<u>50,300</u>	<u>338,089</u>
Capital assets, being depreciated:				
Buildings	3,623,802	-	-	3,623,802
Improvements	3,837,482	1,024,342	-	4,861,824
Machinery & equipment	1,199,454	9,000	-	1,208,454
Library books	164,677	-	-	164,677
Automobiles and trucks	268,339	-	-	268,339
Infrastructure	4,828,652	-	-	4,828,652
Total capital assets, being depreciated	<u>13,922,406</u>	<u>1,033,342</u>	<u>-</u>	<u>14,955,748</u>
Less accumulated depreciation for:				
Buildings	(561,703)	(150,248)	-	(711,951)
Improvements	(992,660)	(194,895)	-	(1,187,555)
Machinery & equipment	(863,562)	(45,867)	-	(909,429)
Library books	(141,696)	(3,583)	-	(145,279)
Automobiles and trucks	(135,690)	(28,867)	-	(164,557)
Infrastructure	(3,547,192)	(114,852)	-	(3,662,044)
Total accumulated depreciation	<u>(6,242,503)</u>	<u>(538,312)</u>	<u>-</u>	<u>(6,780,815)</u>
Total capital assets, being depreciated, net	<u>7,679,903</u>	<u>495,030</u>	<u>-</u>	<u>8,174,933</u>
Governmental activities capital assets, net	<u>\$ 7,927,589</u>	<u>\$ 635,733</u>	<u>\$ 50,300</u>	<u>\$ 8,513,022</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 5. Capital Assets, Continued**

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

**Governmental Activities:**

General government	\$	13,525
Public safety		81,470
Public works		248,502
Parks and recreation		175,570
Community development		19,245
Total depreciation expense - governmental activities	<u>\$</u>	<u>538,312</u>

**Business Type Activities:**

	<u>Balance 6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2011</u>
Capital assets not being depreciated:				
Land	\$ 162,236	\$ -	\$ -	\$ 162,236
Construction in Progress	404,988	-	404,988	-
Total capital assets, not being depreciated	<u>567,224</u>	<u>-</u>	<u>404,988</u>	<u>162,236</u>
Capital assets being depreciated:				
Buildings	333,501	-	-	333,501
Machinery & equipment	509,523	-	-	509,523
Automobiles and trucks	202,746	-	-	202,746
Distribution system	7,522,213	473,353	-	7,995,566
Total capital assets, being depreciated	<u>8,567,983</u>	<u>473,353</u>	<u>-</u>	<u>9,041,336</u>
Less accumulated depreciation for:				
Buildings	(112,901)	(8,938)	-	(121,839)
Machinery & equipment	(369,248)	(39,942)	-	(409,190)
Automobiles and trucks	(178,650)	(8,744)	-	(187,394)
Distribution system	(3,898,809)	(196,291)	-	(4,095,100)
Total accumulated depreciation	<u>(4,559,608)</u>	<u>(253,915)</u>	<u>-</u>	<u>(4,813,523)</u>
Total capital assets, being depreciated, net	<u>4,008,375</u>	<u>219,438</u>	<u>-</u>	<u>4,227,813</u>
Business-type activities capital assets, net	<u>\$ 4,575,599</u>	<u>\$ 219,438</u>	<u>\$ 404,988</u>	<u>\$ 4,390,049</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

**NOTE 6. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2011.

	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011	Current Portion
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 233,270	\$ -	\$ (44,827)	\$ 188,443	\$ 45,544
Revenue bonds	1,441,000	200,000	(31,000)	1,610,000	52,000
Total bonds payable	<u>1,674,270</u>	<u>200,000</u>	<u>(75,827)</u>	<u>1,798,443</u>	<u>97,544</u>
Capital Leases	218,068	-	(27,008)	191,060	28,284
Accrued Compensated Absences	123,662	45,654	(33,580)	135,736	35,000
Governmental activity					
Long-term liabilities	<u>\$ 2,016,000</u>	<u>\$ 245,654</u>	<u>\$ (136,415)</u>	<u>\$ 2,125,239</u>	<u>\$ 160,828</u>
<b>Business-type activities:</b>					
Revenue bonds	<u>\$ 679,769</u>	<u>\$ -</u>	<u>\$ (76,000)</u>	<u>\$ 603,769</u>	<u>\$ 77,000</u>
Total bonds payable	679,769	-	(76,000)	603,769	77,000
Accrued Compensated Absences	<u>33,931</u>	<u>58,425</u>	<u>(53,250)</u>	<u>39,106</u>	<u>35,000</u>
Business type activity					
Long-term liabilities	<u>\$ 713,700</u>	<u>\$ 58,425</u>	<u>\$ (129,250)</u>	<u>\$ 642,875</u>	<u>\$ 112,000</u>
Total long-term liabilities	<u>\$ 2,729,700</u>	<u>\$ 304,079</u>	<u>\$ (265,665)</u>	<u>\$ 2,768,114</u>	<u>\$ 272,828</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 6. Long-Term Debt, Continued**

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Bonds Payable at June 30, 2011 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 \$ 68,750

Street Improvement General Obligation Bonds, Series 2005, due in annual principal and interest installments ranging from \$28,325 to \$29,050, bearing interest at 2.5% maturing April 1, 2016. 119,693

**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. 1,410,000

Parity Street Improvement Bonds, Series 2011, due in annual principal installments of \$20,000, bearing interest at 0%, maturing January 1, 2021. 200,000

**Water and Sewer Fund:**

Parity Water and Sewer Revenue Bonds, Series 1992, due in annual principal and interest installments ranging from \$7,750 to \$8,400, bearing interest at 5.0%, maturing January 1, 2013. 15,000

Parity Water and Sewer Revenue Bonds, Series 1998, due in annual principal and interest installments ranging from \$26,769 to \$89,560, bearing interest at 2.0%, maturing January 1, 2019. 588,769

Total Bonds Payable \$ 2,402,212

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 6. Long-Term Debt, Continued**

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Other long-term debt at June 30, 2011 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%.	\$ 191,060
Total Leases Payable	<u>191,060</u>
Accrued Vacation and Comp Time Payable:	<u>174,842</u>
Total Long-Term Debt	2,768,114
Less Current Portion:	
Business-type Activities	(112,000)
Governmental-type Activities	<u>(160,828)</u>
Net Long-Term Debt	<u><u>\$ 2,495,286</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, 2011**

**NOTE 6. Long-Term Debt, Continued**

The annual requirements to amortize bonds payable at June 30, 2011 are as follows:

Fiscal Year Ended June 30	General Obligation Bonds		Revenue Bonds		Water and Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 45,544	\$ 7,533	\$ 52,000	\$ 49,350	\$ 77,000	\$ 12,370
2013	47,756	5,696	53,000	48,230	80,000	10,580
2014	53,450	3,761	54,000	47,075	81,000	8,560
2015	27,000	1,375	56,000	45,885	82,000	6,920
2016	14,693	700	57,000	44,625	84,000	5,240
2017-2021			305,000	202,790	199,769	5,300
2022-2026	-	-	243,000	164,360	-	-
2027-2031	-	-	290,000	118,650	-	-
2032-2036	-	-	344,000	64,295	-	-
2037-2038	-	-	156,000	8,260	-	-
Total	<u>\$ 188,443</u>	<u>\$ 19,065</u>	<u>\$ 1,610,000</u>	<u>\$ 793,520</u>	<u>\$ 603,769</u>	<u>\$ 48,970</u>



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 7. Capital Leases**

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The City has entered into a lease purchase agreement, which is considered a capital lease in accordance with Generally Accepted Accounting Principles. The lease is included in governmental noncurrent liabilities on the Statement of Net 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 \$60,000 at June 30, 2011. 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	
2012	36,881
2013	36,881
2014	36,881
2015	36,881
2016	36,881
2017	36,881
Total remaining minimum lease payments	221,286
Less amount representing interest	(30,226)
Present value of net remaining minimum lease payments	<u>\$ 191,060</u>

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**NOTE 8. Interfund Transactions and Balances**

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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, 2011, there were no interfund receivables and payables.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

**NOTE 8. Interfund Transactions and Balances, Continued**

Interfund transfers for the fiscal year ended June 30, 2011 are as follows:

	<b>Transfers From</b>		
<b>Transfers To:</b>	General	Nonmajor	Total
General Fund	\$ -	\$ 80,600	\$ 80,600
Nonmajor Governmental Funds	65,431	81,485	146,916
Total transfers	\$ 65,431	\$ 162,085	\$ 227,516

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

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 9. Equity Classification**

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In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned, as described in Note 1.

At June 30, 2011 the City's fund balances are as follows:

**General Fund:**

**Committed for:**

Historic homes book fund 415

**Assigned to:**

Fire department 4,660

Equipement replacement 244,297

Old Library 3,178

Sick leave reimbursement 72,454

Subsequent year 194,293

**Unassigned:** 274,152

Total 793,449

**Capital Project Funds:**

**Restricted for:**

Capital outlay 548,129

Total 548,129

**Debt Service Fund:**

**Restricted for:**

Debt service 41,608

Total 41,608

**Perpetual Care Fund:**

**Restricted for:**

Perpetual care 263,641

Total 263,641

**Special Revenue Funds:**

**Restricted for:**

Capital outlay 171,047

Total 171,047

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 10. Defined Benefit Pension Plan**

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

**Plan Description**

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

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

**Funding Policy**

Kanab City is required to contribute a percent of covered salary to the respective systems, 13.37% to the Noncontributory, 26.13% to the Public Safety Noncontributory and 16.77% to the Firefighters systems. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by Statute and specified by the board.

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

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

Kanab City participates in a 457 Deferred Compensation Plan.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

**NOTE 10. Defined Benefit Pension Plan, Continued**

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

The required contributions and amounts received for the 2011 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>
<b>Noncontributory System:</b>				
Local Governmental Division				
2011	N/A	N/A	\$ 102,215	\$ 764,263
2010	N/A	N/A	\$ 88,071	\$ 755,330
2009	N/A	N/A	\$ 95,214	\$ 819,400
<b>Public Safety System:</b>				
Other Division A Noncontributory				
2011	N/A	N/A	\$ 58,625	\$ 224,360
2010	N/A	N/A	\$ 49,919	\$ 213,876
2009	N/A	N/A	\$ 49,522	\$ 219,028
<b>Firefighters System:</b>				
Division A				
2011	\$ -	\$ 1,408	\$ 161	\$ 9,353
2010	\$ -	\$ -	\$ -	\$ -
2009	\$ -	\$ -	\$ -	\$ -
<b>Defined Contribution System:</b>				
457 Plan				
2011	\$ 10,000	\$ -		
2010	\$ 24,000	\$ -		
2009	\$ 10,000	\$ -		
401 (k) Plan				
2011	\$ 23,520	\$ 11,571		
2010	\$ 10,220	\$ 6,700		
2009	\$ 17,000	\$ 6,882		

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 11. Risk Management**

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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.

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**NOTE 12. Segment Information**

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

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**NOTE 13. Garbage Contract**

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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.

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**NOTE 14. Contingencies and Commitments**

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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**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**NOTE 15. Prior Period Adjustment**

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Prior to fiscal year 2011, the City had not performed a complete count of the inventory held by the Water and Sewer Fund. At the end of fiscal year 2011 a count was performed and an accurate value for the amount of inventory on hand was determined. In order to properly recognize the inventory value in the financial statements a prior period adjustment was required. The effect of this adjustment was a \$70,000 decrease of inventory and net assets in the Water and Sewer Fund.

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

**Capital Projects Fund**

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



**KANAB CITY, UTAH**  
**Bridge Replacement Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue	\$ -	\$ -	\$ 200,000	\$ 200,000
Investment earnings	-	-	1,312	1,312
Total revenues	<u>-</u>	<u>-</u>	<u>201,312</u>	<u>201,312</u>
<b>Expenditures</b>				
Capital outlay	<u>200,000</u>	<u>200,000</u>	<u>114,715</u>	<u>85,285</u>
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>114,715</u>	<u>85,285</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>86,597</u>	<u>286,597</u>
<b>Other Financing Sources (Uses)</b>				
Debt issuance	-	-	200,000	200,000
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Net change in fund balances	(200,000)	(200,000)	286,597	486,597
Fund balances, beginning of year	<u>191,983</u>	<u>191,983</u>	<u>191,983</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ (8,017)</u></u>	<u><u>\$ (8,017)</u></u>	<u><u>\$ 478,580</u></u>	<u><u>\$ 486,597</u></u>

**KANAB CITY, UTAH**

**SUPPLEMENTARY INFORMATION**

**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.

**Special Revenue Fund**

**Recreation Capital Project Fund** – This fund is used to account for the receipt and use of Recreation Tax revenues.

**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.

**Permanent Fund**

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

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

**KANAB CITY, UTAH**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Debt Service Fund</u>	<u>Recreation Fund</u>	<u>Impact Fees</u>	<u>Perpetual Care</u>	
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	41,608	171,047	71,550	263,890	548,095
Total assets	<u>\$ 41,608</u>	<u>\$ 171,047</u>	<u>\$ 71,550</u>	<u>\$ 263,890</u>	<u>\$ 548,095</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	-	-	2,001	249	2,250
Total liabilities	-	-	2,001	249	2,250
Fund Balances:					
Restricted for:					
Debt service	41,608	-	-	-	41,608
Capital outlay	-	171,047	69,549	-	240,596
Perpetual care	-	-	-	263,641	263,641
Total fund balances	41,608	171,047	69,549	263,641	545,845
Total liabilities and fund balance	<u>\$ 41,608</u>	<u>\$ 171,047</u>	<u>\$ 71,550</u>	<u>\$ 263,890</u>	<u>\$ 548,095</u>

**KANAB CITY, UTAH**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Fund</u>	
	<u>Debt Service Fund</u>	<u>Recreation Fund</u>	<u>Impact Fee Fund</u>	<u>Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 29,224	\$ 176,657	\$ -	\$ -	\$ 205,881
Charges for services	-	-	-	8,651	8,651
Contributions and donations	-	1,125	-	-	1,125
Investment earnings	-	1,102	246	1,042	2,390
Total revenues	<u>29,224</u>	<u>178,884</u>	<u>246</u>	<u>9,693</u>	<u>218,047</u>
<b>Expenditures</b>					
Current:					
Principal	102,835	-	-	-	102,835
Interest	68,850	-	-	-	68,850
Capital outlay	-	-	2,000	-	2,000
Total expenditures	<u>171,685</u>	<u>-</u>	<u>2,000</u>	<u>250</u>	<u>173,935</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(142,461)</u>	<u>178,884</u>	<u>(1,754)</u>	<u>9,443</u>	<u>44,112</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	146,916	-	-	-	146,916
Transfers out	-	(162,085)	-	-	(162,085)
Total other financing sources and uses	<u>146,916</u>	<u>(162,085)</u>	<u>-</u>	<u>-</u>	<u>(15,169)</u>
Net change in fund balances	4,455	16,799	(1,754)	9,443	28,943
Fund balances, beginning of year	<u>37,153</u>	<u>154,248</u>	<u>71,303</u>	<u>254,198</u>	<u>516,902</u>
Fund balances, end of year	<u>\$ 41,608</u>	<u>\$ 171,047</u>	<u>\$ 69,549</u>	<u>\$ 263,641</u>	<u>\$ 545,845</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 24,752	\$ 24,752	\$ 29,224	\$ 4,472
Investment earnings	-	-	-	-
Total revenues	<u>24,752</u>	<u>24,752</u>	<u>29,224</u>	<u>4,472</u>
<b>Expenditures</b>				
Debt service:				
Principal	87,290	87,290	102,835	(15,545)
Interest	<u>84,378</u>	<u>84,378</u>	<u>68,850</u>	<u>15,528</u>
Total expenditures	<u>171,668</u>	<u>171,668</u>	<u>171,685</u>	<u>(17)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(146,916)</u>	<u>(146,916)</u>	<u>(142,461)</u>	<u>4,455</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>146,916</u>	<u>146,916</u>	<u>146,916</u>	<u>-</u>
Total other financing sources and uses:	<u>146,916</u>	<u>146,916</u>	<u>146,916</u>	<u>-</u>
Net change in fund balances	-	-	4,455	4,455
Fund balances, beginning of year	<u>37,153</u>	<u>37,153</u>	<u>37,153</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 37,153</u></u>	<u><u>\$ 37,153</u></u>	<u><u>\$ 41,608</u></u>	<u><u>\$ 4,455</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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Impact fees	\$ -	\$ 39,474	\$ -	\$ (39,474)
Investment earnings	2,000	2,000	246	(1,754)
Other revenues	-	-	-	-
Total revenues	2,000	41,474	246	(41,228)
<b>Expenditures</b>				
Capital outlay	-	14,000	2,000	12,000
Total expenditures	-	14,000	2,000	12,000
Excess (deficiency) of revenues over (under) expenditures	2,000	27,474	(1,754)	(29,228)
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balances	2,000	27,474	(1,754)	(29,228)
Fund balances, beginning of year	71,303	71,303	71,303	-
Fund balances, end of year	\$ 73,303	\$ 98,777	\$ 69,549	\$ (29,228)

**KANAB CITY, UTAH**  
**Recreation Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 130,522	\$ 130,522	\$ 176,657	\$ 46,135
Contributions and donations	-	-	1,125	1,125
Investment earnings	500	500	1,102	602
<b>Total revenues</b>	<b>131,022</b>	<b>131,022</b>	<b>178,884</b>	<b>47,862</b>
<b>Expenditures</b>				
Current:				
Parks and recreation	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	131,022	131,022	178,884	47,862
<b>Other Financing Sources (Uses)</b>				
Transfers out	(162,085)	(162,085)	(162,085)	-
<b>Total other financing sources and uses</b>	<b>(162,085)</b>	<b>(162,085)</b>	<b>(162,085)</b>	<b>-</b>
Net change in fund balances	(31,063)	(31,063)	16,799	47,862
Fund balances, beginning of year	154,248	154,248	154,248	-
Fund balances, end of year	<u>\$ 123,185</u>	<u>\$ 123,185</u>	<u>\$ 171,047</u>	<u>\$ 47,862</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ 6,000	\$ 6,000	\$ 8,651	\$ 2,651
Investment earnings	1,500	1,500	1,042	(458)
	<u>7,500</u>	<u>7,500</u>	<u>9,693</u>	<u>2,193</u>
<b>Expenditures</b>				
Current:				
General government	-	-	250	(250)
Public works	5,000	5,000	-	5,000
	<u>5,000</u>	<u>5,000</u>	<u>250</u>	<u>4,750</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,500</u>	<u>2,500</u>	<u>9,443</u>	<u>6,943</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,500	2,500	9,443	6,943
Fund balances, beginning of year	<u>254,198</u>	<u>254,198</u>	<u>254,198</u>	<u>-</u>
Fund balances, end of year	<u>\$ 256,698</u>	<u>\$ 256,698</u>	<u>\$ 263,641</u>	<u>\$ 6,943</u>



**SUPPLEMENTARY INFORMATION**

**KANAB CITY**  
**Supplementary Information**  
**June 30, 2011**

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, 2011	2,029	1,101
b. Total water and sewer billings for fiscal year ended June 30, 2011	\$ 894,203	\$ 191,936
c. Average monthly billing per customer	\$ 36.72	\$ 14.52
d. Net water and sewer revenues were 12.36 times the aggregate water and sewer fund debt service for fiscal year ended June 30, 2011.		
e. Water rates for fiscal year ended June 30, 2011 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, 2011**

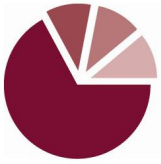
g. Insurance coverage in effect at June 30, 2011:

<u>Type</u>	<u>Policy Number</u>	<u>Expires</u>	<u>Limits</u>
<b>Coverage with Affiliated Ins. through Fred A. Moreton &amp; Company:</b>			
Blanket Property	TS765	07/01/11	\$ 6,360,119
<b>Coverage with Chubb / Federal Insurance through Fred A. Moreton &amp; Company:</b>			
Auto Physical	74969966	07/01/11	\$ 50,000
Off-Duty Vehicle	74969965	07/01/11	\$ 1,000,000
<b>Coverage with Commerce and Industry through Fred A. Moreton &amp; Company:</b>			
Airport Liability	AP379135703	12/01/11	\$ 10,000,000
<b>Coverage with Hartford Fire through Fred A. Moreton &amp; Company:</b>			
Employee Dishonesty	34BPEBW7430	12/09/11	\$ 100,000
<b>Coverage with Cincinnati Insurance through Fred A. Moreton &amp; Company:</b>			
Treasurer's Bond	0335683	12/09/11	\$ 325,000
Treasurer's Bond	8897653	03/01/12	\$ 300,000
<b>Coverage with Reavelers Insurance through Fred A. Moreton &amp; Company:</b>			
Mayor and Treasurer	105574596	03/01/14	\$ 630,000
Municipal Building Authority	105609824	04/26/12	\$ 25,650

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**FEDERAL AND STATE REPORTS**

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**Independent Auditor’s Report on Internal Control over  
 Financial Reporting and on Compliance and Other Matters  
 Based on an Audit of Financial Statements  
 Performed in Accordance with *Government Auditing Standards***

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

We have audited the basic financial statements of Kanab City as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

07-01. Controls Over Accounting and Reconciliations

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying letter of Findings and Recommendations to be a significant deficiency.

07-02. Capital Asset Accounting

**Compliance and Other Matters**

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

We noted certain matters that we reported to management in a separate letter dated December 15, 2011.

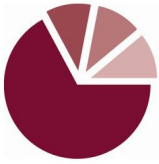
Kanab City's responses to the findings identified in our audit are described in the Management's Response to the Findings listed in the table of contents. We did not audit the City's responses and, accordingly, we express no opinion on them.

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



HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
December 15, 2011





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

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

We have audited Kanab City's compliance with the general and major state program compliance requirements described in the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2011. The general compliance requirements applicable to the City are identified as follows:

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

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

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

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

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

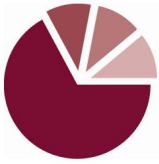
In our opinion, Kanab City, Utah, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in our letter to management dated December 15, 2011, as items 11-3, 07-01 and 04-04.

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

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



HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
December 15, 2011



**Findings, Recommendations and Responses  
 For the Year Ended June 30, 2011**

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, 2011, 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 were slightly more audit adjustments in fiscal year 2011 as there were in 2010. 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.

## **Significant Deficiencies:**

### 07-03. Capital Asset Accounting

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

#### Recommendation

We recommend that the City do the following:

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

## **COMPLIANCE AND OTHER MATTERS:**

### 11-3. Justice Court – Voided Receipts

The State of Utah Legal Compliance Guide states that each voided receipt should be initialed by the cashier and approved by a second clerk/employee to compensate for separation of duties weaknesses. We noted that voided receipts are not being initialed by a second individual.

#### Recommendation

We recommend that all voided receipts at the Justice Court be reviewed and initialed by a second individual.

### 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.

04-04. Impact Fee Fund Balances

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

Recommendation

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

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

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

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

Sincerely,



HINTON, BURDICK, HALL, & SPILKER, PLLC  
December 15, 2011

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**Mayor**

**Nina Laycook**

**City Manager**

**Duane Huffman**

**Treasurer**

**RaeLene Johnson**



**KANAB**  
— UTAH —

**City Council**

**James G. Sorenson**

**Cheryl Brown**

**Ed Meyer**

**Joe B. Wright**

**Kirt Carpenter**

**Management's Response to the Auditor's Findings  
For the Fiscal Year Ended June 30, 2011**

Office of the Utah State Auditor

P.O. Box 142310

Salt Lake City, UT 84114

To Whom It May Concern:

This letter is in response to the findings and recommendations made by our independent auditors, HintonBurdick CPAs & Advisors, for the audit of Kanab City, UT for the year ended June 30, 2011.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

Material Weaknesses:

07-01. Controls over Accounting and Reconciliations

Management Response:

We concur with the auditor's findings and recommendations. It is our policy that all adjustments be reviewed by the City Manager monthly, and we will continue to perform monthly reconciliation of all subsidiary ledgers to the general ledger. We intend to post all significant adjustments to the general ledger before the annual audit. Furthermore, we have schedule to meet with the independent auditors to better understand where our practices may be deficient, and we will formulate an action plan to ensure the problems are solved.

Significant Deficiencies:

07-03. Capital Asset Accounting

Management Response:

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

**— A Western Classic —**

**COMPLIANCE AND OTHER MATTERS:**

11-3. Justice Court – Voided Receipts

Management Response:

We concur with the auditor's findings and recommendations. All voided receipts at the Justice Court are now reviewed and initialed by a second individual.

07-01. Budgetary Compliance

Management Response:

We concur with the auditor's findings and recommendations, and we will complete the listed tasks regarding compliance with state budgetary laws. However, management would like to point out that the expenditures or encumbrances in excess of the total appropriation for the department in question equate to approximately \$9,600, which is less than 0.9% of total expenditures for the department.

04-04. Impact Fee Fund Balances

Management Response:

We concur with the auditor's findings and recommendations, and will complete the listed tasks regarding encumbering or refunding Police impact fees as part of amendments to the FY 12 budget.

Sincerely,



Duane Huffman, City Manager