

CITY OF SARATOGA SPRINGS, UTAH

FINANCIAL STATEMENTS

Year Ended June 30, 2009

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1329 South 800 East • Orem, Utah 84097-7700 • (801) 225-6900 • Fax (801) 226-7739 • www.squire.com

Independent Auditor's Report

Honorable Mayor and City Council
City of Saratoga Springs, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Saratoga Springs, Utah as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Saratoga Springs, Utah as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the *general fund* for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis which follows this report is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Squire & Company, PC".

December 9, 2009

Management's Discussion and Analysis

This section of the annual financial report of the City of Saratoga Springs, Utah (the City) presents management's discussion and analysis of the City's financial performance for the year ended June 30, 2009.

Financial Highlights

- The City's assets exceeded liabilities by \$158.8 million at the close of the most recent fiscal year. Net assets consist of \$143.5 million in capital assets net of related debt, \$10.7 million in restricted net assets, and \$4.6 million in unrestricted net assets. Unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2.2 million. Most of this increase is attributable to donated capital assets from developers and collected impact fees restricted for capital improvements (storm drains, parks, roads, public safety, culinary water system, secondary water irrigation system, and sewer system).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10.3 million, a decrease of \$0.5 million in comparison with the prior year. Most of this fund balance amount is reserved for capital improvements.
- The City's outstanding debt decreased by \$1.0 million during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the City, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the City changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways

and public improvements, parks and recreation, and economic development. The business-type activities of the City include the water, sewer, and garbage utilities.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *general fund* and the *capital projects fund*, both of which are considered to be major funds. Data from the other governmental fund is also provided.

The City adopts an annual appropriated budget for its *general fund*. A budgetary comparison statement has been provided for the *general fund* to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 12 through 16 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses enterprise funds to account for its three utilities. Separate information is provided for the *water utility fund*, the *sewer utility fund*, and the *garbage utility fund*, all of which are considered to be major funds of the City. Data from the other utility is also provided.

The basic proprietary fund financial statements can be found on pages 17 through 19 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 35 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$158.8 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (90.4%) reflects its investment in capital assets (e.g., land, water rights, buildings, equipment, infrastructure, water capacities, culinary water system, and secondary water irrigation system) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets at June 30, 2009 and 2008 (amounts expressed in millions):

CITY OF SARATOGA SPRINGS' Net Assets June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total		Change 2009-2008
	2009	2008	2009	2008	2009	2008	
Current and other assets	\$ 13.8	\$ 13.6	\$ 5.2	\$ 4.6	\$ 19.0	\$ 18.2	\$ 0.8
Capital assets	83.3	81.6	93.9	94.7	177.2	176.3	0.9
Total assets	97.1	95.2	99.1	99.3	196.2	194.5	1.7
Other liabilities	2.9	2.6	4.1	4.1	7.0	6.7	0.3
Long-term liabilities outstanding	2.4	2.6	28.0	28.6	30.4	31.2	(0.8)
Total liabilities	5.3	5.2	32.1	32.7	37.4	37.9	(0.5)
Net assets:							
Invested in capital assets, net of related debt	81.0	79.0	62.5	62.1	143.5	141.1	2.4
Restricted	9.4	10.6	1.3	3.0	10.7	13.6	(2.9)
Unrestricted	1.4	0.4	3.2	1.5	4.6	1.9	2.7
Total net assets	\$ 91.8	\$ 90.0	\$ 67.0	\$ 66.6	\$ 158.8	\$ 156.6	\$ 2.2

An additional portion of the City's net assets (6.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (2.9% or \$4.6 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

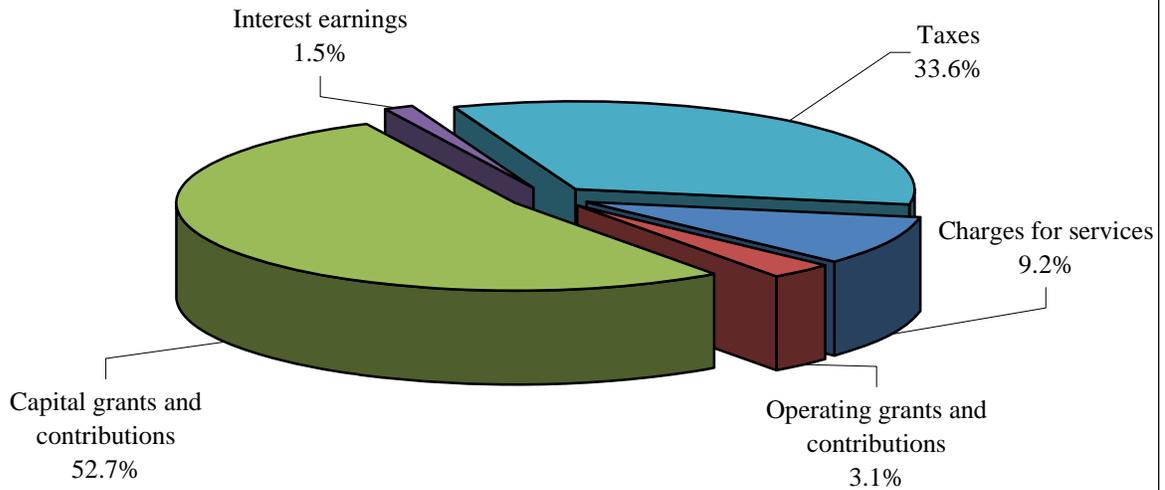
The following table summarizes the City's changes in net assets for the years ended June 30, 2009 and 2008 (amounts expressed in millions):

CITY OF SARATOGA SPRINGS' Changes in Net Assets
Years Ended June 30, 2009 and 2008

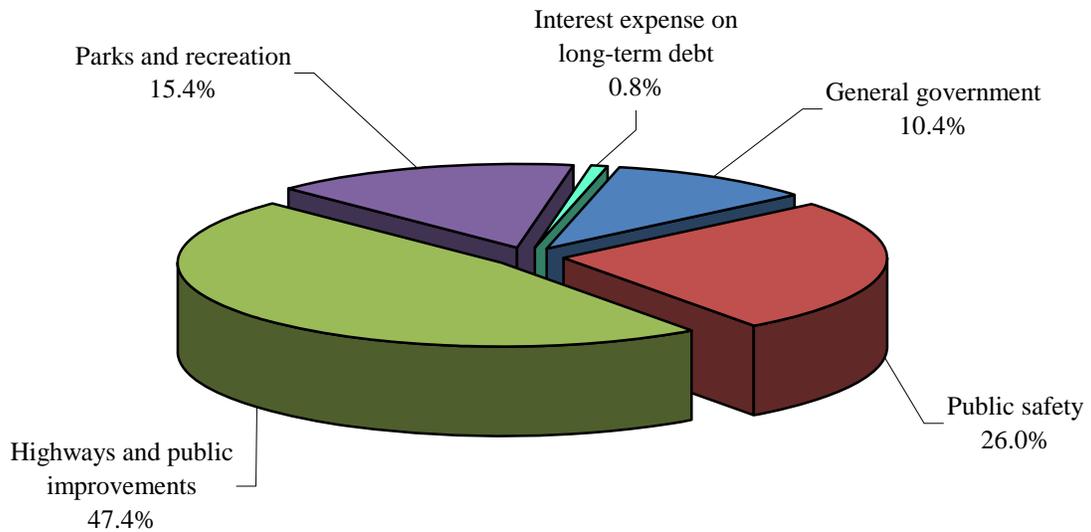
	Governmental Activities		Business-type Activities		Total		Change 2009-2008
	2009	2008	2009	2008	2009	2008	
Revenues:							
Program revenues:							
Charges for services	\$ 1.2	\$ 2.5	\$ 3.4	\$ 2.8	\$ 4.6	\$ 5.3	\$ (0.7)
Operating grants and contributions	0.4	0.4	-	-	0.4	0.4	-
Capital grants and contributions	6.9	13.6	2.9	8.3	9.8	21.9	(12.1)
General revenues:							
Property taxes	2.2	0.8	-	-	2.2	0.8	1.4
Sales and use taxes	1.5	1.2	-	-	1.5	1.2	0.3
Franchise fees	0.2	0.1	-	-	0.2	0.1	0.1
Energy taxes	0.5	0.5	-	-	0.5	0.5	-
Interest earnings	0.2	0.5	0.1	0.3	0.3	0.8	(0.5)
Total revenues	13.1	19.6	6.4	11.4	19.5	31.0	(11.5)
Expenses:							
Governmental activities:							
General government	1.2	1.6	-	-	1.2	1.6	(0.4)
Public safety	3.0	3.3	-	-	3.0	3.3	(0.3)
Highways and public improvements	5.5	4.4	-	-	5.5	4.4	1.1
Parks and recreation	1.8	1.4	-	-	1.8	1.4	0.4
Economic development	-	-	-	-	-	-	-
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1	-
Business-type activities:							
Water utility	-	-	3.5	3.7	3.5	3.7	(0.2)
Sewer utility	-	-	1.6	1.6	1.6	1.6	-
Garbage utility	-	-	0.6	0.6	0.6	0.6	-
Total expenses	11.6	10.8	5.7	5.9	17.3	16.7	0.6
Changes in net assets before transfers	1.5	8.8	0.7	5.5	2.2	14.3	(12.1)
Transfers	0.3	0.6	(0.3)	(0.6)	-	-	-
Changes in net assets	1.8	9.4	0.4	4.9	2.2	14.3	(12.1)
Net assets, beginning	90.0	80.6	66.6	61.7	156.6	142.3	14.3
Net assets, ending	\$ 91.8	\$ 90.0	\$ 67.0	\$ 66.6	\$ 158.8	\$ 156.6	\$ 2.2

The City's net assets increased by \$2.2 million during the current fiscal year. Most of this increase is attributable to donated capital assets from developers and collected impact fees restricted for capital improvements (storm drains, parks, roads, public safety, culinary water system, secondary water irrigation system, and sewer system).

**CITY OF SARATOGA SPRINGS
Revenues by Source - Governmental Activities
Year Ended June 30, 2009**



**CITY OF SARATOGA SPRINGS
Expenses by Function - Governmental Activities
Year Ended June 30, 2009**



Governmental activities. Net assets for governmental activities increased by \$1.8 million. Most of this increase is attributable to donated capital assets from developers and collected impact fees restricted for capital improvements. Property tax revenue increased by \$1.4 million compared to the prior year as a result of growth and increases in tax rates. Capital grants and contributions decreased by \$6.7 million compared to the prior year as a result of a significant decline in new development. Other changes are reflective of the growth in the City's population.

Business-type activities. Net assets for business-type activities increased by \$0.4 million. Most of this increase is attributable to increases in utility rates and the growth in the City's population. Capital grants and contributions decreased by \$5.4 million compared to the prior year as a result of a significant decline in new development.

Financial Analysis of the City'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.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10.3 million, a decrease of \$0.5 million in comparison with the prior year. Most of this fund balance amount is restricted for capital improvements. The fund balance in the *general fund* was \$0.9 million at the end of the current fiscal year, or \$0.7 million more than the amount reported at the end of the prior fiscal year. The fund balance in the capital projects fund was \$9.3 million at the end of the current fiscal year, or \$1.2 million less than the amount reported at the end of the prior fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. The factors concerning the finances of the two major utility funds have already been addressed in the discussion in the City's business-type activities.

General Fund Budgetary Highlights

Actual revenues exceeded budgeted amounts by \$241,697; tax revenues collected were more than anticipated. Actual expenditures were less than budgeted amounts by \$910,800; expansion activities in public safety were not fully implemented by year end.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$177.2 million (net of accumulated depreciation). This investment in capital assets includes land, water rights, construction in progress, buildings, equipment, infrastructure, water capacities, water systems, and the sewer system. The total increase in the City's investment in capital assets for the current year was 0.9% (\$1.7 million increase for governmental activities and \$0.8 million decrease for business-type activities).

CITY OF SARATOGA SPRINGS' Capital Assets
June 30, 2009 and 2008
(net of accumulated depreciation, in millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 15.6	\$ 15.6	\$ -	\$ -	\$ 15.6	\$ 15.6
Water rights	-	-	12.6	12.6	12.6	12.6
Buildings	2.4	2.5	-	-	2.4	2.5
Equipment	1.6	1.8	0.2	0.2	1.8	2.0
Infrastructure	63.7	61.7	-	-	63.7	61.7
Water capacities	-	-	8.6	9.1	8.6	9.1
Culinary water system	-	-	50.3	51.2	50.3	51.2
Secondary water irrigation system	-	-	5.3	4.9	5.3	4.9
Sewer system	-	-	16.9	16.7	16.9	16.7
Total	<u>\$ 83.3</u>	<u>\$ 81.6</u>	<u>\$ 93.9</u>	<u>\$ 94.7</u>	<u>\$ 177.2</u>	<u>\$ 176.3</u>

Donated capital assets from developers totaled \$4.7 million during the year ended June 30, 2009; these donated capital assets are summarized as follows (in millions of dollars):

Governmental activities:	
Curb and gutters and sidewalks	\$ 0.5
Storm drains	0.7
Street lighting	0.1
Street improvements	0.5
Park improvements	0.6
Park land	0.6
	<u>3.0</u>
Business-type activities:	
Culinary water system	0.7
Secondary irrigation water system	0.5
Sewer system	0.5
	<u>1.7</u>
Total	<u>\$ 4.7</u>

Additional information on the City's capital assets can be found in Note 4 in the notes to basic financial statements.

Long-term debt. At the end of the current year, the City had total debt outstanding of \$30.2 million, consisting of an interim warrant certificate, water revenue bonds, culinary water system settlement, and obligations under capital leases.

CITY OF SARATOGA SPRINGS' Outstanding Debt

June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Interim warrant certificate	\$ -	\$ -	\$ 6.1	\$ 6.1	\$ 6.1	\$ 6.1
Water revenue bonds	-	-	4.9	5.1	4.9	5.1
Culinary water system settlement	-	-	16.9	17.3	16.9	17.3
Obligations under capital leases	2.2	2.6	0.1	0.1	2.3	2.7
Total	\$ 2.2	\$ 2.6	\$ 28.0	\$ 28.6	\$ 30.2	\$ 31.2

Additional information on the City's long-term obligations can be found in Note 6 to the basic financial statements.

Changes for Next Year

Property tax collections in 2009 were \$2.2 million; the City anticipates collecting \$1.8 million in property taxes in 2010. Property taxes (as well as other taxes and fees) furnish revenues to finance the general services provided by the City.

Subsequent to June 30, 2009, the City refunded its interim warrant certificate through the issuance of \$4.7 million of special assessment bonds and the issuance of \$0.9 million of water revenue bonds.

Request for Information

This financial report is designed to provide a general overview of the City of Saratoga Springs' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Saratoga Springs, 1307 North Commerce Drive, Suite 200, Saratoga Springs, Utah 84043.

CITY OF SARATOGA SPRINGS

Statement of Net Assets

June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 10,797,010	\$ 4,186,840	\$ 14,983,850
Restricted investments	-	279,122	279,122
Receivables	2,760,455	461,987	3,222,442
Prepaid expenses and inventories	188,598	120,641	309,239
Bond issuance costs, net of accumulated amortization of \$19,963	-	97,442	97,442
Capital assets:			
Land and construction in progress	15,558,581	12,558,130	28,116,711
Other capital assets, net of accumulated depreciation	<u>67,766,536</u>	<u>81,364,756</u>	<u>149,131,292</u>
Total assets	97,071,180	99,068,918	196,140,098
Liabilities:			
Accounts payable and accrued expenses	1,042,508	125,932	1,168,440
Accrued interest	4,629	113,185	117,814
Deposits	133,557	178,498	312,055
Deferred revenue	1,717,346	3,695,748	5,413,094
Noncurrent liabilities:			
Due or payable within one year	438,910	6,389,134	6,828,044
Due or payable after one year	<u>1,921,544</u>	<u>21,622,321</u>	<u>23,543,865</u>
Total liabilities	5,258,494	32,124,818	37,383,312
Net assets:			
Invested in capital assets, net of related debt	80,964,663	62,465,261	143,429,924
Restricted for capital improvements	9,436,161	1,299,971	10,736,132
Unrestricted	<u>1,411,862</u>	<u>3,178,868</u>	<u>4,590,730</u>
Total net assets	<u>\$ 91,812,686</u>	<u>\$ 66,944,100</u>	<u>\$ 158,756,786</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Activities
Year Ended June 30, 2009

Activities / Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,199,630	\$ 643,604	\$ -	\$ -	\$ (556,026)		\$ (556,026)
Public safety	3,010,953	414,455	10,300	216,534	(2,369,664)		(2,369,664)
Highways and public improvements	5,479,252	-	376,731	4,796,432	(306,089)		(306,089)
Parks and recreation	1,784,119	103,641	-	1,870,203	189,725		189,725
Economic development	3,168	-	-	-	(3,168)		(3,168)
Interest expense on long-term debt	95,006	-	-	-	(95,006)		(95,006)
Total governmental activities	11,572,128	1,161,700	387,031	6,883,169	(3,140,228)		(3,140,228)
Business-type activities:							
Water utility	3,485,076	1,430,353	-	2,211,043	-	\$ 156,320	156,320
Sewer utility	1,588,786	1,290,128	-	666,616	-	367,958	367,958
Garbage utility	625,307	668,184	-	-	-	42,877	42,877
Total business-type activities	5,699,169	3,388,665	-	2,877,659	-	567,155	567,155
Total City	\$ 17,271,297	\$ 4,550,365	\$ 387,031	\$ 9,760,828	(3,140,228)	567,155	(2,573,073)
General revenue:							
Property taxes					2,304,884	-	2,304,884
Sales and use taxes					1,495,027	-	1,495,027
Franchise fees					193,385	-	193,385
Energy taxes					480,352	-	480,352
Interest earnings					223,094	67,430	290,524
Total general revenue					4,696,742	67,430	4,764,172
Transfers					300,000	(300,000)	-
Changes in net assets					1,856,514	334,585	2,191,099
Net assets, beginning					89,956,172	66,609,515	156,565,687
Net assets, ending					\$ 91,812,686	\$ 66,944,100	\$ 158,756,786

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Balance Sheet
Governmental Funds
June 30, 2009

	<u>Major Funds</u>			Total Governmental Funds
	<u>General</u>	<u>Capital Projects</u>	<u>Street Lighting</u>	
Assets:				
Cash and investments	\$ 1,528,892	\$ 9,185,378	\$ 82,740	\$ 10,797,010
Receivables	2,741,652	-	18,803	2,760,455
Prepaid expenditures and deposits	38,598	150,000	-	188,598
Total assets	<u>\$ 4,309,142</u>	<u>\$ 9,335,378</u>	<u>\$ 101,543</u>	<u>\$ 13,746,063</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued expenditures	\$ 1,041,748	\$ -	\$ 760	\$ 1,042,508
Deferred revenue	2,228,807	-	-	2,228,807
Deposits	133,557	-	-	133,557
Total liabilities	3,404,112	-	760	3,404,872
Fund balances:				
Reserved for:				
Class C roads and liquor tax	137,274	-	-	137,274
Capital improvements	-	32,888	-	32,888
Unreserved:				
Designated for:				
Compensated absences	161,211	-	-	161,211
Undesignated, reported in:				
General fund	606,545	-	-	606,545
Capital projects fund	-	9,302,490	-	9,302,490
Special revenue fund	-	-	100,783	100,783
Total fund balances	<u>905,030</u>	<u>9,335,378</u>	<u>100,783</u>	<u>10,341,191</u>
Total liabilities and fund balances	<u>\$ 4,309,142</u>	<u>\$ 9,335,378</u>	<u>\$ 101,543</u>	<u>\$ 13,746,063</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2009

Total fund balances for governmental funds \$ 10,341,191

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 15,558,581	
Buildings, net of \$294,753 accumulated depreciation	2,426,563	
Equipment, net of \$1,232,088 accumulated depreciation	1,607,747	
Infrastructure, net of \$13,496,084 accumulated depreciation	<u>63,732,226</u>	83,325,117

Some of the City's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. 511,461

Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. Accrued interest for obligations under capital leases is: (4,629)

Long-term liabilities that pertain to governmental funds, including obligations under capital leases, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.

Obligations under capital leases	\$ (2,199,243)	
Compensated absences	<u>(161,211)</u>	<u>(2,360,454)</u>

Total net assets - governmental activities \$ 91,812,686

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Street Lighting</u>	
Revenues:				
Taxes	\$ 4,073,541	\$ -	\$ -	\$ 4,073,541
Licenses and permits	228,197	-	-	228,197
Intergovernmental	363,569	-	-	363,569
Fees	969,673	1,171,606	126,304	2,267,583
Interest earnings	19,864	203,230	-	223,094
Other	27,390	-	2,576	29,966
Total revenues	<u>5,682,234</u>	<u>1,374,836</u>	<u>128,880</u>	<u>7,185,950</u>
Expenditures:				
Current:				
General government	1,137,079	-	-	1,137,079
Public safety	2,913,601	1,446	-	2,915,047
Highways and public improvements	592,413	2,065,175	86,238	2,743,826
Parks and recreation	318,231	512,634	-	830,865
Debt service:				
Capital lease payments	351,807	-	-	351,807
Total expenditures	<u>5,313,131</u>	<u>2,579,255</u>	<u>86,238</u>	<u>7,978,624</u>
Excess (deficiency) of revenues over (under) expenditures	369,103	(1,204,419)	42,642	(792,674)
Other financing sources (uses):				
Transfers	300,000	-	-	300,000
Total other financing sources (uses)	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Net change in fund balances	669,103	(1,204,419)	42,642	(492,674)
Fund balances - beginning	<u>235,927</u>	<u>10,539,797</u>	<u>58,141</u>	<u>10,833,865</u>
Fund balances - ending	<u>\$ 905,030</u>	<u>\$ 9,335,378</u>	<u>\$ 100,783</u>	<u>\$ 10,341,191</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2009

Net change in fund balances-total governmental funds \$ (492,674)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, capital assets with an initial, individual cost of more than \$5,000 are capitalized and depreciated over their useful lives. Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

Capital outlays	\$ 257,246	
Donations of capital assets (infrastructure) from developers	5,542,585	
Depreciation expense	<u>(4,084,919)</u>	1,714,912

Some capital asset additions are financed through capital leases. In the governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of obligations under capital leases are expenditures in the governmental funds.

Interest expense - obligations under capital leases	342	
Principal payments of obligations under capital leases	<u>256,459</u>	256,801

Delinquent property taxes are not available and, therefore, are reported as deferred revenue in the governmental funds. Property taxes are recorded as revenues in the statement of activities in the year for which they are levied. Delinquent (uncollected) property taxes increased during the year. 400,107

In the statement of activities, certain operating expenses - compensated absences for unpaid vacation and compensatory time - are recorded as the amounts are earned during the year. In the governmental funds, these obligations are recorded when they mature (basically when they are paid). The compensated absence obligation increased during the year. (22,632)

Change in net assets of governmental activities \$ 1,856,514

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 3,663,370	\$ 3,663,370	\$ 4,073,541	\$ 410,171
Licenses and permits	494,880	494,880	228,197	(266,683)
Intergovernmental	574,500	526,500	363,569	(162,931)
Fees	1,194,181	1,194,181	969,673	(224,508)
Interest	43,000	43,000	19,864	(23,136)
Other	(46,000)	2,000	27,390	25,390
Total revenues	<u>5,923,931</u>	<u>5,923,931</u>	<u>5,682,234</u>	<u>(241,697)</u>
Expenditures:				
Current:				
General government	1,362,240	1,362,240	1,137,079	225,161
Public safety	3,409,154	3,409,154	2,913,601	495,553
Highways and public improvements	625,731	625,731	592,413	33,318
Parks and recreation	429,321	429,321	318,231	111,090
Debt service:				
Capital lease payments	397,485	397,485	351,807	45,678
Total expenditures	<u>6,223,931</u>	<u>6,223,931</u>	<u>5,313,131</u>	<u>910,800</u>
Excess of expenditures over revenues	(300,000)	(300,000)	369,103	669,103
Other financing sources (uses):				
Transfers	300,000	300,000	300,000	-
Total other financing sources (uses)	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Net change in fund balances	-	-	669,103	669,103
Fund balances - beginning	<u>235,927</u>	<u>235,927</u>	<u>235,927</u>	<u>-</u>
Fund balances - ending	<u>\$ 235,927</u>	<u>\$ 235,927</u>	<u>\$ 905,030</u>	<u>\$ 669,103</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Fund Net Assets
Proprietary Funds (Enterprise Funds)
June 30, 2009

	Major Funds			Totals
	Water Utility	Sewer Utility	Garbage Utility	
Assets:				
Current assets:				
Cash and investments	\$ 3,728,619	\$ 458,221	\$ -	\$ 4,186,840
Receivables	186,308	179,778	95,901	461,987
Inventories	120,641	-	-	120,641
Due from other funds	25,317	-	-	25,317
Total current assets	4,060,885	637,999	95,901	4,794,785
Noncurrent assets:				
Restricted cash and investments	279,122	-	-	279,122
Bond issuance costs, net	97,442	-	-	97,442
Capital assets:				
Water rights	12,558,130	-	-	12,558,130
Water capacities	10,950,988	-	-	10,950,988
Culinary water system	56,028,718	-	-	56,028,718
Secondary irrigation water system	5,611,545	-	-	5,611,545
Sewer system	-	19,680,420	-	19,680,420
Equipment	347,032	207,582	-	554,614
Accumulated depreciation	(8,545,061)	(2,916,468)	-	(11,461,529)
Net capital assets	76,951,352	16,971,534	-	93,922,886
Total noncurrent assets	77,327,916	16,971,534	-	94,299,450
Total assets	81,388,801	17,609,533	95,901	99,094,235
Liabilities:				
Current liabilities:				
Interim warrant certificate	6,122,986	-	-	6,122,986
Current portion of:				
Water revenue bonds	203,000	-	-	203,000
Culinary water system settlement	-	-	-	-
Obligations under capital leases	32,536	8,660	-	41,196
Accounts payable and accrued expenses	118,825	6,541	566	125,932
Compensated absences	10,431	11,521	-	21,952
Interest payable	113,185	-	-	113,185
Deposits	162,898	15,600	-	178,498
Deferred revenue	3,695,748	-	-	3,695,748
Due to other funds	-	-	25,317	25,317
Total current liabilities	10,459,609	42,322	25,883	10,527,814
Noncurrent liabilities:				
Water revenue bonds	4,639,595	-	-	4,639,595
Culinary water system settlement	16,942,750	-	-	16,942,750
Obligations under capital leases	31,875	8,101	-	39,976
Total long-term obligations	21,614,220	8,101	-	21,622,321
Total liabilities	32,073,829	50,423	25,883	32,150,135
Net assets:				
Invested in capital assets, net of related debt	45,510,488	16,954,773	-	62,465,261
Restricted for improvements	1,132,190	167,781	-	1,299,971
Unrestricted	2,672,294	436,556	70,018	3,178,868
Total net assets	\$ 49,314,972	\$ 17,559,110	\$ 70,018	\$ 66,944,100

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds (Enterprise Funds)
Year Ended June 30, 2009

	Major Funds			Totals
	Water Utility	Sewer Utility	Garbage Utility	
Operating revenues:				
Charges for services	\$ 1,343,007	\$ 1,237,278	\$ 668,184	\$ 3,248,469
Installation service fees	34,556	52,850	-	87,406
Other	52,790	-	-	52,790
Total operating revenues	1,430,353	1,290,128	668,184	3,388,665
Operating expenses:				
Personnel	579,127	223,041	16,981	819,149
Supplies and maintenance	98,381	46,138	12,423	156,942
Professional services	60,279	10	-	60,289
Administrative	20,771	17,631	22,898	61,300
Power and pumping	267,696	37,825	-	305,521
Treatment and sanitation	-	594,348	573,005	1,167,353
Depreciation	2,120,859	669,793	-	2,790,652
Other	3,163	-	-	3,163
Total operating expenses	3,150,276	1,588,786	625,307	5,364,369
Operating income (loss)	(1,719,923)	(298,658)	42,877	(1,975,704)
Nonoperating revenues (expenses):				
Interest revenue	61,024	6,406	-	67,430
Impact fees	1,052,466	192,000	-	1,244,466
Developer reimbursements	-	(83,440)	-	(83,440)
Interest expense and fiscal charges	(320,708)	-	-	(320,708)
Amortization of bond issuance costs	(14,092)	-	-	(14,092)
Total nonoperating revenues (expenses)	778,690	114,966	-	893,656
Net income (loss) before transfers	(941,233)	(183,692)	42,877	(1,082,048)
Transfers	(300,000)	-	-	(300,000)
Net income (loss) before contributions	(1,241,233)	(183,692)	42,877	(1,382,048)
Developer contributions	1,158,577	558,056	-	1,716,633
Changes in net assets	(82,656)	374,364	42,877	334,585
Total net assets - beginning	49,397,628	17,184,746	27,141	66,609,515
Total net assets - ending	\$ 49,314,972	\$ 17,559,110	\$ 70,018	\$ 66,944,100

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS
Statement of Fund Cash Flows
Proprietary Funds (Enterprise Funds)
Year Ended June 30, 2009

	Major Funds			Totals
	Water Utility	Sewer Utility	Garbage Utility	
Cash flows from operating activities:				
Receipts from customers	\$ 1,451,261	\$ 1,225,331	\$ 656,800	\$ 3,333,392
Payments to suppliers	(567,133)	(694,902)	(608,365)	(1,870,400)
Payments to / from other funds	31,454	-	(31,454)	-
Payments to employees	(580,927)	(219,310)	(16,981)	(817,218)
Net cash provided by operating activities	334,655	311,119	-	645,774
Cash flows from noncapital financing activities:				
Transfers	(300,000)	-	-	(300,000)
Cash flows from capital and related financing activities:				
Purchase of capital assets	(36,722)	(307,438)	-	(344,160)
Receipt of impact fees	1,052,466	192,000	-	1,244,466
Payments to developers	-	(83,440)	-	(83,440)
Principal paid on capital debt	(615,971)	(8,112)	-	(624,083)
Interest paid on capital debt	(309,647)	-	-	(309,647)
Net cash provided (used) by capital and related financing activities	90,126	(206,990)	-	(116,864)
Cash flows from investing activities:				
Interest received	61,024	6,406	-	67,430
Net change in cash and cash equivalents	185,805	110,535	-	296,340
Cash and cash equivalents - beginning	3,821,936	347,686	-	4,169,622
Cash and cash equivalents - ending	\$ 4,007,741	\$ 458,221	\$ -	\$ 4,465,962
Displayed on the statement of fund net assets as:				
Cash and investments	\$ 3,728,619	\$ 458,221	\$ -	\$ 4,186,840
Restricted cash and investments	279,122	-	-	279,122
Total cash and investments	\$ 4,007,741	\$ 458,221	\$ -	\$ 4,465,962
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (1,719,923)	\$ (298,658)	\$ 42,877	\$ (1,975,704)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	2,120,859	669,793	-	2,790,652
Changes in operating assets and liabilities:				
Receivables	(22,276)	(64,797)	(11,384)	(98,457)
Due to / from other funds	31,454	-	(31,454)	-
Inventories	(120,641)	-	-	(120,641)
Accounts payable and accrued expenses	3,798	1,050	(39)	4,809
Compensated absences	(1,800)	3,731	-	1,931
Deferred revenue	28,499	-	-	28,499
Deposits	14,685	-	-	14,685
Total adjustments	2,054,578	609,777	(42,877)	2,621,478
Net cash provided by operating activities	\$ 334,655	\$ 311,119	\$ -	\$ 645,774
Noncash investing, capital, and financing activities:				
Donated capital assets from developers	\$ 1,158,577	\$ 558,056	\$ -	\$ 1,716,633

The notes to the financial statements are an integral part of this statement.

CITY OF SARATOGA SPRINGS

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Saratoga Springs, Utah (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments generally follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict the GASB pronouncements. The City has elected to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, subject to the same limitations. The more significant accounting policies established by GAAP and used by the City are discussed below.

Reporting Entity

The City of Saratoga Springs, Utah is located on the northwest shores of Utah Lake in Utah County in the State of Utah. The City was incorporated in December of 1997. Under the present form of government, administrative and legislative powers are vested in a governing body consisting of the Mayor and City Council. The City provides the following services: general administrative services, public safety, highways and public improvements, parks and recreation, and water, sewer, garbage utility services.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity, or 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the major governmental and proprietary (enterprise) funds of the City.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurements focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met, i.e., when expenditures have been incurred.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for expenditures related to long-term debt and compensated absences, which are recorded only when payment is due.

Sales and use taxes, franchise taxes, energy taxes, interest earnings, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. All other revenues are considered to be measurable and available only when the City receives the cash.

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 those required to be accounted for in another fund.

The *capital projects fund* is maintained to account for resources accumulated for the acquisition and construction of capital assets (land, buildings, equipment, and infrastructure).

The City reports the following major proprietary (enterprise) funds:

The *water utility fund* accounts for the water distribution systems of the City (culinary water and secondary irrigation water).

The *sewer utility fund* accounts for the sewage collection system of the City.

The *garbage utility fund* accounts for contracted garbage collections services within the City.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for 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 nonoperating revenues and expenses.

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.

Assets, Liabilities, and Net Assets or Equity

Cash, Investments, and Cash Equivalents – Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. Investments are reported at fair value. The Utah Public Treasurers' Investment Fund (PTIF) operates in accordance with state laws and regulations. The reported value of the City's cash in the PTIF is the same as the fair value of its shares in the PTIF.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet these criteria.

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to / from other funds." All accounts and taxes receivable are shown net of an allowance for uncollectibles.

In Utah, county governments assess, levy, collect and disburse two principal types of tax: 1) personal property tax which is assessed on business assets other than real estate, and 2) tax on real estate and improvements. Business personal property and real estate taxes are levied and attach as an enforceable lien on property as of January 1 and are payable by November 30. The real property taxes levied for the following year, which are due in November, are reported as a receivable of property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real property located within its boundaries. The Council must set a tax rate by June 22 each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

An annual uniform fee based on the age of motor vehicles is levied in lieu of an ad valorem tax on motor vehicles and is due each time a vehicle is registered. Revenues collected in each

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

county from motor vehicle fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The City recognizes motor vehicle fees as property tax revenue when collected.

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

Inventories – Inventories are valued at cost or, if donated, at fair value when received, using the weighted average method. Inventories are recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets – Capital assets, which include land, water rights, buildings, equipment, infrastructure assets (e.g. roads, street lighting, parks, sidewalks, storm drains, and similar items), water capacities, water distribution systems, and the sewer collection system, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair 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 the assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. Interest is not capitalized on construction of governmental activity capital assets.

Capital assets acquired through capital lease arrangements are amortized over the lives of the assets using the straight-line method. Water capacities (acquired rights to connect future customers to the water system) are classified as intangible assets and are amortized over the life of the related settlement agreement using the straight-line method. Amortization expense is included with depreciation expense on the government-wide and proprietary fund financial statements.

Capital assets, except land, water rights, and construction in progress, are depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure:	
Curbing, gutters, and sidewalks	25
Park improvements	15
Street lighting and signs	10
Roads and public improvements	20
Storm drain system	40
Water capacities	20

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

Culinary water distribution system	40
Secondary water irrigation system	40
Sewer collection system	30
Equipment	5-20

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, and proprietary fund type statement of net assets. Compensated absences include unpaid amounts earned by employees for vacation and compensatory time. There is no obligation for unpaid accumulated sick leave since the City does not pay these amounts when employees separate from service with the City.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Budgetary Basis of Accounting – Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City budget officer submits a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is posted in various locations in the City at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1.

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City budget officer has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

The City somewhat amended its original budget for the year ended June 30, 2009 to reflect a decline in overall growth.

NOTE 2. CASH AND INVESTMENTS

Deposits and investments are carried at fair value. A reconciliation of cash and investments at June 30, 2009, as shown on the financial statements is as follows:

Carrying amount of deposits	\$ 2,119,917
Carrying amount of investments	<u>13,143,055</u>
Total cash and investments	<u><u>\$ 15,262,972</u></u>
Governmental fund cash and investments	\$ 10,797,010
Proprietary fund cash and investments	4,186,840
Proprietary fund restricted investments	<u>279,122</u>
Total cash and investments	<u><u>\$ 15,262,972</u></u>

The City complies with the State Money Management Act (Utah Code Section 51, Chapter 7) (Act) and related Rules of the Money Management Council (Council) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, US Treasury obligations, US agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, money market mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is authorized and makes investments in accordance with the Act. The Council provides regulatory oversight for the PTIF. Participant accounts with the PTIF are not insured or otherwise guaranteed by the State of Utah. Participants in the PTIF share proportionally in the income, costs, gains and losses from investment activities. The degree

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

of risk of the PTIF depends upon the underlying portfolio. The PTIF is not rated and has an average maturity of less than 90 days.

The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect.

At June 30, 2009, the carrying balance of deposits with financial institutions was \$2,119,917 and the bank balance at that date was \$2,169,655, of which \$250,000 was covered by federal depository insurance. The uninsured amount is not collateralized.

At June 30, 2009, the City's investment balance totaled \$13,143,055. The City's investments are with two funds: \$12,863,933 with the PTIF and \$279,122 in a mutual fund.

The mutual fund is primarily comprised of high-quality U.S. government securities and repurchase agreements. The mutual fund is rated Aaa by Moody's Investor Service, Inc. and AAAM by Standard and Poor's Corporation. The investments are held in the name of the City by a financial institution as required by the revenue bond agreements (see Note 6). The money market portfolio is collateralized by the underlying securities and is not otherwise insured.

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 manages its exposure to interest rate risk by complying with the Act, which requires that the remaining term to maturity of investments to not exceed the period of availability of the funds invested. The Act further limits the remaining term to maturity on all investments in commercial paper and bankers' acceptances to 270 days or less and fixed-income securities to 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years. The City has no investment policy that would further limit its interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the Act and related rules. The Act and related rules limit investments in commercial paper to a first tier rating and investments in fixed-income and variable-rate securities to a rating of A or higher as rated by Moody's Investors Service, Inc. or by Standard and Poor's Corporation. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for managing this risk is to comply with the Act and related rules. The Act limits investments in commercial paper and or corporate obligations to 5% of the City's total portfolio with a single issuer. The City places no other limits on the amount it may invest in any one issuer.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's policy for managing this risk is to comply with the Act and related rules. The City places no other limits on the amount of investments to be held by counterparties.

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. RECEIVABLES AND DEFERRED REVENUE

Receivables as of June 30, 2009 for the City's funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Enterprise Funds		
	General Fund	Street Lighting	Water Utility	Sewer Utility	Garbage Utility
Taxes receivable:					
Property taxes levied for current and prior years	\$ 576,412	\$ -	\$ -	\$ -	\$ -
Property taxes levied for future year	1,700,000	-	-	-	-
Sales and use taxes	292,001	-	-	-	-
Franchise fees	32,605	-	-	-	-
Energy taxes	28,864	-	-	-	-
State receivable, Class C Road Fund	88,658	-	-	-	-
Accounts receivable	23,112	18,803	189,308	181,778	97,901
Allowance for uncollectible accounts	-	-	(3,000)	(2,000)	(2,000)
Net accounts receivable	<u>\$ 2,741,652</u>	<u>\$ 18,803</u>	<u>\$ 186,308</u>	<u>\$ 179,778</u>	<u>\$ 95,901</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2009, most of the deferred revenue was for property taxes levied for the fiscal year ending June 30, 2010.

Enterprise funds report *deferred revenue* in connection with fees collected in anticipation of establishing a water special improvement district in the *water utility fund*. These fees will be recorded as revenues once the assessments of the special improvement district are established.

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

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

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 15,558,581	\$ -	\$ -	\$ 15,558,581
Total capital assets not being depreciated	15,558,581	-	-	15,558,581
Capital assets being depreciated:				
Buildings	2,721,316	-	-	2,721,316
Equipment	2,582,589	257,246	-	2,839,835
Infrastructure	71,685,725	5,542,585	-	77,228,310
Total capital assets being depreciated	76,989,630	5,799,831	-	82,789,461
Accumulated depreciation for:				
Buildings	(219,361)	(75,392)	-	(294,753)
Equipment	(770,590)	(461,498)	-	(1,232,088)
Infrastructure	(9,948,055)	(3,548,029)	-	(13,496,084)
Total accumulated depreciation	(10,938,006)	(4,084,919)	-	(15,022,925)
Total capital assets being depreciated, net	66,051,624	1,714,912	-	67,766,536
Total governmental activity capital assets, net	<u>\$ 81,610,205</u>	<u>\$ 1,714,912</u>	<u>\$ -</u>	<u>\$ 83,325,117</u>

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Business-type activities				
Capital assets not being depreciated:				
Water rights	\$ 12,558,130	\$ -	\$ -	\$ 12,558,130
Total capital assets not being depreciated	12,558,130	-	-	12,558,130
Capital assets being depreciated:				
Water capacities	10,950,988	-	-	10,950,988
Culinary water system	55,327,227	701,491	-	56,028,718
Secondary water irrigation system	5,117,846	493,699	-	5,611,545
Sewer system	18,844,496	835,924	-	19,680,420
Equipment	525,044	29,570	-	554,614
Total capital assets being depreciated	90,765,601	2,060,684	-	92,826,285
Accumulated depreciation for:				
Water capacities	(1,806,047)	(547,550)	-	(2,353,597)
Culinary water system	(4,226,357)	(1,391,669)	-	(5,618,026)
Secondary water irrigation system	(203,408)	(130,854)	-	(334,262)
Sewer system	(2,147,481)	(635,644)	-	(2,783,125)
Equipment	(287,584)	(84,935)	-	(372,519)
Total accumulated depreciation	(8,670,877)	(2,790,652)	-	(11,461,529)
Total capital assets being depreciated, net	82,094,724	(729,968)	-	81,364,756
Total business-type activity capital assets, net	\$ 94,652,854	\$ (729,968)	\$ -	\$ 93,922,886

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

Governmental activities:	
General	\$ 93,050
Public safety	241,801
Highways and public improvements	2,736,187
Parks and recreation	1,013,881
Total depreciation expense - governmental activities	<u>\$ 4,084,919</u>
Business-type activities:	
Water utility	\$ 2,120,859
Sewer utility	669,793
Total depreciation expense - business-type activities	<u>\$ 2,790,652</u>

NOTE 5. INTERFUND ACCOUNTS

Interfund account balances at June 30, 2009 consisted of \$25,317 due by the *garbage utility fund* to the *water utility fund* for services provided. Also during the year ended June 30, 2009, the *water utility fund* transferred \$300,000 to the *general fund* to subsidize general City activities.

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM OBLIGATIONS

Long-term obligation activity for the year ended June 30, 2009 was as follows:

	Balance at June 30, 2008	Additions	Reductions	Balance at June 30, 2009	Due Within One Year
Governmental activities:					
Obligations under capital leases	\$ 2,455,702	\$ -	\$ (256,459)	\$ 2,199,243	\$ 277,699
Compensated absences	138,579	140,070	(117,438)	161,211	161,211
Total governmental activity long-term liabilities	<u>\$ 2,594,281</u>	<u>\$ 140,070</u>	<u>\$ (373,897)</u>	<u>\$ 2,360,454</u>	<u>\$ 438,910</u>
Business-type activities:					
Interim warrant certificate	\$ 6,122,986	\$ -	\$ -	\$ 6,122,986	\$ 6,122,986
Water revenue bonds	5,048,595	-	(206,000)	4,842,595	203,000
Culinary water system settlement	17,306,750	-	(364,000)	16,942,750	-
Obligations under capital leases	127,143	-	(45,971)	81,172	41,196
Compensated absences	20,021	14,988	(13,057)	21,952	21,952
Total business-type activity long-term liabilities	<u>\$ 28,625,495</u>	<u>\$ 14,988</u>	<u>\$ (629,028)</u>	<u>\$ 28,011,455</u>	<u>\$ 6,389,134</u>

Obligations Under Capital Leases – The City has entered into several lease agreements as lessee for financing the acquisition of the City office building and equipment. The leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Lease payments are paid from the fund where the assets are primarily used.

Assets acquired through capital leases at June 30, 2009 were as follows:

	Governmental Activities	Business-type Activities	
		Water Utility	Sewer Utility
Building	\$ 1,121,024	\$ -	\$ -
Equipment	1,888,681	102,710	41,831
Accumulated depreciation	(823,637)	(60,345)	(25,662)
Total	<u>\$ 2,186,068</u>	<u>\$ 42,365</u>	<u>\$ 16,169</u>

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

Years Ending June 30,	Governmental Activities	Business-type Activities	
		Water Utility	Sewer Utility
2010	\$ 385,788	\$ 34,813	\$ 9,268
2011	360,048	13,823	3,948
2012	346,230	8,883	3,948
2013	248,123	3,393	660
2014	207,331	1,948	
2015-2019	653,653	6,817	-
2020-2024	520,966	-	-
2025-2027	52,098	-	-
Total minimum lease payments	2,774,237	69,677	17,824
Amount representing interest	(574,994)	(5,266)	(1,063)
Present value of future minimum lease payments	\$ 2,199,243	\$ 64,411	\$ 16,761

Interim Warrant Certificate – On August 21, 2006, the City issued a \$6,000,000 interim warrant certificate to temporarily finance certain water system improvements within the City. The certificate’s interest rate is equal to 4.00%. On November 19, 2009, the certificate was refunded by the issuance of special assessment bonds (see Note 10).

Water Revenue Bonds – The City issued bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. During 2005, \$2,031,000 of Series 2005 water revenue bonds were issued; these bonds mature January 1, 2026. During 2006, \$3,500,000 of Series 2006 water revenue bonds were issued; \$3,258,595 has been drawn on these bonds as of June 30, 2009; these bonds mature January 1, 2027. Revenue bonds outstanding at June 30, 2009 were as follows:

Bond	Purpose	Interest Rates	Amount
2005 Water Revenue Bond	Culinary water system	3.84%	\$ 1,815,000
2006 Water Revenue Bond	Culinary water system	3.20%	3,027,595
			<u>\$ 4,842,595</u>

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

Revenue bond debt service requirements to maturity are as follows:

Years Ending June 30,	Amount
2010	\$ 203,000
2011	221,000
2012	229,000
2013	236,000
2014	244,000
2015-2019	1,353,000
2020-2024	1,603,000
2025-2026	753,595
Total	<u>\$ 4,842,595</u>

Culinary Water System Settlement – Prior to the City being established in December 1997, a water company had built a water system in the area covered by the City. On February 2, 2005, the City entered into a settlement agreement to purchase the water system and the rights to unused capacities. The City’s obligation of \$21,000,000 is to be serviced by paying two-thirds (or \$2,000) of each connection or impact fee collected. By agreement, the obligation bears no interest. If the City has not paid the full obligation by February 2, 2025, the remaining unpaid balance becomes due at that date. Based on a projection of 525 connections annually, the obligation is expected to be retired as follows:

Years Ending June 30,	Amount
2010	\$ 1,050,000
2011	1,050,000
2012	1,050,000
2013	1,050,000
2014	1,050,000
2015-2019	5,250,000
2020-2024	5,250,000
2025	1,192,750
Total	<u>\$ 16,942,750</u>

The City made payments of \$364,000 towards this obligation during the year ended June 30, 2009. Payments made on this obligation for 2009 and prior years are summarized as follows:

Beginning obligation	\$ 21,000,000
Payments in 2009	(364,000)
Payments in prior years	<u>(3,693,250)</u>
Obligation at June 30, 2009	<u>\$ 16,942,750</u>

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for some of these risks. Various policies are purchased through various insurance agencies to cover life, health, workers compensation, and other employee-related policies. The City also participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. Losses have not exceeded coverage during the last three years.

NOTE 8. RETIREMENT PLAN

Defined Benefit Plans

Plan Description. The City of Saratoga Springs contributes to the Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and the Firefighters Retirement System, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

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 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 for the Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members are required to contribute a percent of their covered salary (all paid by the employer) to the respective systems to which they belong: 11.62% to the Noncontributory System, 25.49% to the Public Safety System, and 9.68% to the Firefighters System. The contribution requirements of the Systems are approved by the Board as authorized by Chapter 49.

City contributions for the years ended June 30, 2009, 2008, and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Local Government			
Noncontributory System	\$ 199,710	\$ 267,758	\$ 181,764
Public Safety System	152,716	127,855	12,348
Firefighters System	10,766	13,195	10,279

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

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

Defined Contribution Plans

The City also offers its employees two defined contribution plans established in accordance with Internal Revenue Code Sections 401(k) and 457. Under a Section 218 agreement authorized by the Social Security Act, certain City employees are excluded from Social Security coverage. Accordingly, the City makes payments to the defined contribution plans in lieu of contributing Social Security taxes for these employees. Employees can also defer a portion of their salary until future years.

Employer contributions for the years ended June 30, 2009, 2008, and 2007 to the 401(k) plan were \$172,200, \$160,326, and \$62,689, respectively. Employee contributions for the years ended June 30, 2009, 2008, and 2007 to the 401(k) plan were \$90,855, \$52,560, and \$34,551, respectively. Employer contributions for the years ended June 30, 2009, 2008, and 2007 to the 457 plan were \$90,604, \$70,924, and \$0, respectively. Employee contributions for the years ended June 30, 2009, 2008, and 2007 to the 457 plan were \$68,516, \$52,702, and \$13,880, respectively. Plan assets are held by and administered by the Systems.

NOTE 9. CONTINGENT LIABILITIES

The City has entered into an agreement with a developer to reimburse the developer for installing added improvements to the sewer system. The City will pay the developer \$700 for each connection to the north sewer system service area to the year 2020 up to a maximum of \$2,200,396. The City makes payments to the developer as fees are collected. The total amount paid to the developer as of June 30, 2009 was \$683,360, of which \$80,500 was paid during the year ended June 30, 2009.

NOTE 10. SUBSEQUENT EVENTS

On November 19, 2009, the City issued special assessment bonds of \$4,669,539. The interest rate is 5.16 % and then changes to 9.00% on April 1, 2012. The bonds mature April 2029. The proceeds of the bonds (less costs of \$241,540) were used to refund the interim warrant certificate (see Note 6).

On July 20, 2009, the City issued Series 2009 water revenue bonds of \$866,000. The interest rate on the bonds is 4.16 %. The bonds mature June 2024. The proceeds of the bonds (less costs of \$36,000) were used to refund the interim warrant certificate (see Note 6).

On November 25, 2009, the City entered into an agreement with the Central Utah Water Conservancy District (District) to obtain delivery of water through District facilities equal to 10,000 acre feet. The City is obligated to pay a one-time development charge of \$6,200 per acre foot (\$62 million for 10,000 acre feet) to the District which is due when the City takes delivery but no later than June 30, 2020. The City's obligation is backed by a contract with a landowner of property that is either in the City or by agreement will be annexed into the City. The contract with the landowner requires collateral in the amount of the obligation and the funding of an account twelve months prior to the payment due date. The purpose of the water rights is to serve land in the future as those parcels are developed.

CITY OF SARATOGA SPRINGS
NOTES TO BASIC FINANCIAL STATEMENTS

During February 2009, the City paid \$150,000 earnest money and entered into a real estate purchase contract to purchase facilities for its police department. The City closed on the purchase on July 2, 2009. The total purchase price was \$1,487,500. The City primarily financed the purchase with \$850,000 of public safety impact fees held in reserve plus an intrafund note payable of \$475,000 to the parks impact fee reserve. The note will be recorded and serviced in the *capital projects fund*. Interest accrues on the note at the same monthly earnings rate paid by the Utah Public Treasurer's Investment Fund. The note will be repaid with future public safety impact fees collected; any remaining balance is due June 30, 2014.

**REPORTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS,
AND THE STATE OF UTAH
LEGAL COMPLIANCE AUDIT GUIDE**

Year Ended June 30, 2009



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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*

Honorable Mayor and City Council
City of Saratoga Springs, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Saratoga Springs (the City) as of and for the year ended June 30, 2009, which collectively comprise the City of Saratoga Springs' basic financial statements and have issued our report thereon dated December 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described as follows, that we consider to be significant deficiencies in internal control over financial reporting:

Certain accounts were reconciled and adjusted subsequent to the end of the year. Accordingly, interim reports and information may have been incomplete. We recommend reconciling all accounting records monthly.

Certain utility customer accounts are past due; many of these accounts have been terminated. Although not significant to the overall financial statements, we recommend the allowance for uncollectible accounts provide for these past due accounts; otherwise, these accounts should be written off. Past due accounts should be monitored and adjustments should be authorized.

Management's response – We will provide monthly statements that reconcile accounting records as required. We will review accounts receivable and adjust the allowance or customer accounts as necessary.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying letter to management.

We also noted certain other matters that we reported to management of the City in a separate letter dated December 9, 2009.

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

This report is intended solely for the information and use of the Mayor and City Council, federal and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.



December 9, 2009



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Independent Auditor’s Report on Legal Compliance in
Accordance with the *State of Utah Legal Compliance Audit Guide*

Honorable Mayor and City Council
City of Saratoga Springs, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Saratoga Springs, Utah (the City) for the year ended June 30, 2009, and have issued our report thereon dated December 9, 2009.

The City did not receive any major state grants during the year ended June 30, 2009. The City received nonmajor grants which are not required to be audited for specific compliance requirements; however, these programs were subject to test work as part of the audit of the City’s financial statements.

Our audit included test work on the City’s compliance with the following general compliance requirements identified in the *State of Utah Legal Compliance Audit Guide*:

- | | |
|---------------------------|--|
| Public Debt | B and C Road Funds |
| Cash Management | Other General Compliance Requirements |
| Purchasing Requirements | Uniform Building Code Standards |
| Budgetary Compliance | Impact Fees and Other Development Fees |
| Property Tax Limitations | Asset Forfeiture |
| Liquor Law Enforcement | Utah Retirement System Compliance |
| Justice Courts Compliance | |

Management of the City is responsible for the City’s compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying letter to management. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Saratoga Springs complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2009.

December 9, 2009



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Letter to Management

Honorable Mayor and City Council
City of Saratoga Springs, Utah

In planning and performing our audit of the financial statements of the City of Saratoga Springs for the year ended June 30, 2009, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 9, 2009 on the financial statements of the City of Saratoga Springs. Also, significant deficiencies and material weaknesses, if any, are included in our reports dated December 9, 2009 required by *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

Formal procurement and conflict of interest policies and procedures have been developed, but need to be officially adopted by the City Council. We recommend the City adopt written procurement and conflict of interest policies and procedures.

At June 30, 2009, the City's cash deposits exceed amounts that are covered by depository insurance. We recommend that the City review bank balances to ensure deposits are safe (insured or properly collateralized).

Public funds should be deposited daily but not later than three business days after receipt. We noted that some receipts are batched and deposited only twice a month. This is due in part to receiving some receipts in a different accounting system and then reconciling them at a later date. We recommend that the receptionist receive all receipts and record them in the central accounting system on a daily basis. Cash receipts should be deposited daily.

We were unable to trace justice court receipts to the bank deposit. We recommend developing a method to summarize and record justice court receipts separately. In addition, the court's trust account should be reconciled monthly.

Budgets for proprietary funds are prepared on a modified accrual basis of accounting. However, proprietary funds report balances and activities using an accrual basis of accounting. The primary difference between the two methods of accounting is how capital asset purchases are recorded in the funds. We recommend that the City prepare budgets for its proprietary funds using the accrual basis of accounting.

Several transactions remain outstanding (uncleared from prior periods) on the City's bank account reconciliation. We encourage the City to review of outstanding items each month and resolve any uncleared items. Unclaimed property should be forwarded to the State.

Views of responsible officials – We appreciate the comments and recommendations. We will review these matters and make changes as needed.

The status of these comments will be reviewed as part of your next audit. We recommend management establish monitoring policies and procedures to provide the City with reasonable assurance that the City

complies with its internal control objectives and various state and federal requirements. Monitoring includes ongoing evaluations, recommendations for improvement, timely response to necessary changes, and periodic reports to management and the Mayor and City Council.

Agui & Company, PC

December 9, 2009