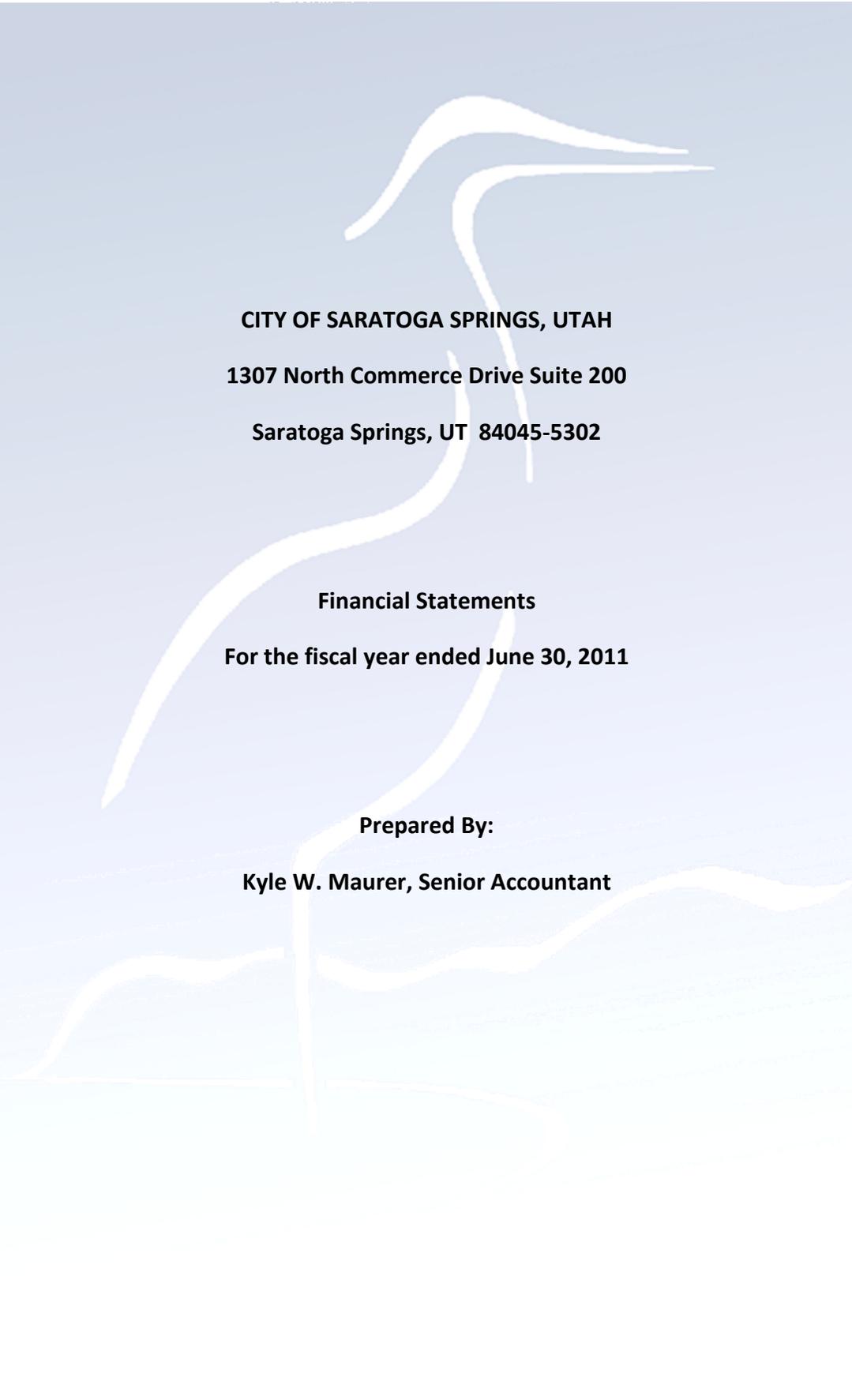


CITY OF SARATOGA SPRINGS, UTAH

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011



A large, stylized white graphic of a bird, possibly a crane or heron, is centered on the page. The bird is facing right and has its neck curved downwards. The background is a light blue gradient with faint, wavy white lines at the bottom.

CITY OF SARATOGA SPRINGS, UTAH
1307 North Commerce Drive Suite 200
Saratoga Springs, UT 84045-5302

Financial Statements
For the fiscal year ended June 30, 2011

Prepared By:

Kyle W. Maurer, Senior Accountant

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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 aggregate remaining fund information of the City of Saratoga Springs, 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 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 aggregate remaining fund information of the City of Saratoga Springs, 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 October 11, 2011, on our consideration of the City of Saratoga Springs, 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.

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".

October 11, 2011

Management's Discussion and Analysis

As management of the City of Saratoga Springs, Utah, 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.

Financial Highlights

- The City's assets exceeded liabilities by \$168,469,068 (net assets) at the close of the most recent fiscal year. Of this amount, \$5,066,457 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,164,048 during the year. Of this increase, 90.3 percent is attributable to governmental activities. Business-type activities provided a \$307,183 increase to the City's net assets. Overall, the increase is largely due to the addition of 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). The increase is also attributable to an increase in charges for services and other program revenue.
- At the close of fiscal year 2011, unassigned fund balance of the general fund was \$1,782,816, or 21.4 percent of total general fund expenditures (excluding transfers).
- The City's total long-term debt increased \$1,797,994 as a net result of issuing 2011 Sales Tax Revenue bonds (\$4,000,000), refinancing the City Hall building capital lease, and paying regularly scheduled debt service payments.

Overview of the Financial Statements

This discussion and analysis are 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.

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 private-sector business. The *statement of net assets* presents information on all of the City's assets and liabilities, 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 City's net assets 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 earned but unused vacation leave).

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, and parks and recreation. The business-type activities of the City include the water, sewer, garbage, and storm drain utilities.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements: A fund is a grouping of related accounts 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 (enterprise) 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.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into nonspendable, restricted, committed, assigned, and unassigned portions. *Nonspendable* includes inventories and prepaid expenditures that are not expected to be converted to cash. *Restricted* includes net fund resources of the City that are subject to external constraints due to state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions include bond proceeds designated for specific projects. *Committed* balances reflect the City's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. *Assigned* balances in the general fund and other governmental funds are those that do not meet the requirements of restricted or committed but are intended to be used for specific purposes. *Unassigned* balances in the general fund are all other available net resources. At June 30, 2011, the City's combined governmental fund balance is \$11,142,024 (\$22,459 in nonspendable, \$7,373,476 in restricted, \$1,963,273 in assigned, and \$1,782,816 in unassigned fund balances).

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 (*street lighting*) is also provided.

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

The basic governmental fund financial statements can be found on pages 16-20 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 four utilities. Separate information is provided for the *water utility fund*, the *sewer utility fund*, and the *storm drain utility fund*, each of which are considered to be major funds. Data from the other enterprise fund (*garbage utility fund*) is also provided.

The basic proprietary fund financial statements can be found on pages 21-23 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 24-41 of this report.

Other information: Reports required by *Governmental Auditing Standards* and the *State of Utah Legal Compliance Audit Guide* are presented on pages 43-46 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 of Saratoga Springs, assets exceeded liabilities by \$168,469,068 at the close of fiscal year 2011.

By far the largest portion of the City's net assets (90.8 percent) 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 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.

CITY OF SARATOGA SPRINGS
 Summary of Net Assets
 June 30, 2011

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		Change 2011-2010
	2011	2010	2011	2010	2011	2010	
Current and Other Assets	\$ 14,454,755	\$ 11,108,037	\$ 7,150,588	\$ 5,451,975	\$ 21,605,343	\$ 16,560,012	\$ 5,045,331
Capital Assets	<u>76,733,306</u>	<u>74,775,651</u>	<u>104,615,073</u>	<u>106,627,459</u>	<u>181,348,379</u>	<u>181,403,110</u>	(54,731)
Total Assets	91,188,061	85,883,688	111,765,661	112,079,434	202,953,722	197,963,122	4,990,600
Other Liabilities	2,735,898	3,105,087	936,961	743,136	3,672,859	3,848,223	(175,364)
Long-Term Liabilities Outstanding	<u>4,912,002</u>	<u>2,095,305</u>	<u>25,899,793</u>	<u>26,714,574</u>	<u>30,811,795</u>	<u>28,809,879</u>	2,001,916
Total Liabilities	7,647,900	5,200,392	26,836,754	27,457,710	34,484,654	32,658,102	1,826,552
Net Assets:							
Invested in Capital Assets, Net of Related Debt	74,023,634	72,879,872	79,011,572	80,299,189	153,035,206	153,179,061	(143,855)
Restricted	6,879,966	5,418,579	3,487,439	2,156,528	10,367,405	7,575,107	2,792,298
Unrestricted	<u>2,636,561</u>	<u>2,384,845</u>	<u>2,429,896</u>	<u>2,166,007</u>	<u>5,066,457</u>	<u>4,550,852</u>	515,605
Total Net Assets	\$ 83,540,161	\$ 80,683,296	\$ 84,928,907	\$ 84,621,724	\$ 168,469,068	\$ 165,305,020	\$ 3,164,048

An additional portion of the City's net assets (6.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$5,066,457) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of fiscal year 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Restricted net assets for governmental activities increased 26.9 percent (\$1,461,387) during fiscal year 2011. This increase is attributable to unspent impact fee revenue, unspent debt proceeds from the 2011 Sales Tax Revenue Bond (\$1,859,771), and unspent capital project developer proceeds (\$1,490,827). The City will undergo a capital project and impact fee analysis during fiscal year 2012.

CITY OF SARATOGA SPRINGS
Change in Net Assets
For the Year Ended June 30, 2011

	Governmental Activities		Business-Type Activities		Total		Change 2011-2010
	2011	2010	2011	2010	2011	2010	
Revenues:							
Program Revenues:							
Charges for Services	\$ 1,600,554	\$ 1,522,477	\$ 5,087,783	\$ 4,440,588	\$ 6,688,337	\$ 5,963,065	\$ 725,272
Operating Grants and Contributions	1,719,874	713,486	-	-	1,719,874	713,486	1,006,388
Capital Grants and Contributions	5,740,308	5,754,442	2,223,380	5,724,324	7,963,688	11,478,766	(3,515,078)
General Revenues:							
Property Taxes	2,395,277	2,442,112	-	-	2,395,277	2,442,112	(46,835)
Sales and Use Taxes	1,881,168	1,723,051	-	-	1,881,168	1,723,051	158,117
Franchise Fees	227,207	158,393	-	-	227,207	158,393	68,814
Energy Taxes	632,865	549,691	-	-	632,865	549,691	83,174
Interest Earnings	98,172	56,812	49,480	17,749	147,652	74,561	73,091
Gain on Sale of Capital Assets	34,787	-	-	-	34,787	-	34,787
Total Revenues	14,330,212	12,920,464	7,360,643	10,182,661	21,690,855	23,103,125	(1,412,270)
Expenses:							
Governmental Activities:							
General Government	1,291,631	1,292,510	-	-	1,291,631	1,292,510	(879)
Public Safety	4,651,168	3,669,436	-	-	4,651,168	3,669,436	981,732
Highways and Public Improvements	3,364,997	3,126,167	-	-	3,364,997	3,126,167	238,830
Parks and Recreation	1,738,032	1,614,955	-	-	1,738,032	1,614,955	123,077
Interest on Long-Term Debt	47,519	27,858	-	-	47,519	27,858	19,661
Business-Type Activities:							
Water Utility	-	-	4,286,081	3,940,978	4,286,081	3,940,978	345,103
Sewer Utility	-	-	2,043,128	1,766,075	2,043,128	1,766,075	277,053
Garbage Utility	-	-	633,551	649,154	633,551	649,154	(15,603)
Storm Drain Utility	-	-	470,700	467,758	470,700	467,758	2,942
Total Expenses	11,093,347	9,730,926	7,433,460	6,823,965	18,526,807	16,554,891	1,971,916
Changes in Net Assets Before Transfers	3,236,865	3,189,538	(72,817)	3,358,696	3,164,048	6,548,234	(3,384,186)
Transfers	(380,000)	(14,318,928)	380,000	14,318,928	-	-	-
Changes in Net Assets	2,856,865	(11,129,390)	307,183	17,677,624	3,164,048	6,548,234	(3,384,186)
Net Assets, Beginning	80,683,296	91,812,686	84,621,724	66,944,100	165,305,020	158,756,786	6,548,234
Net Assets, Ending	\$ 83,540,161	\$ 80,683,296	\$ 84,928,907	\$ 84,621,724	\$ 168,469,068	\$ 165,305,020	\$ 3,164,048

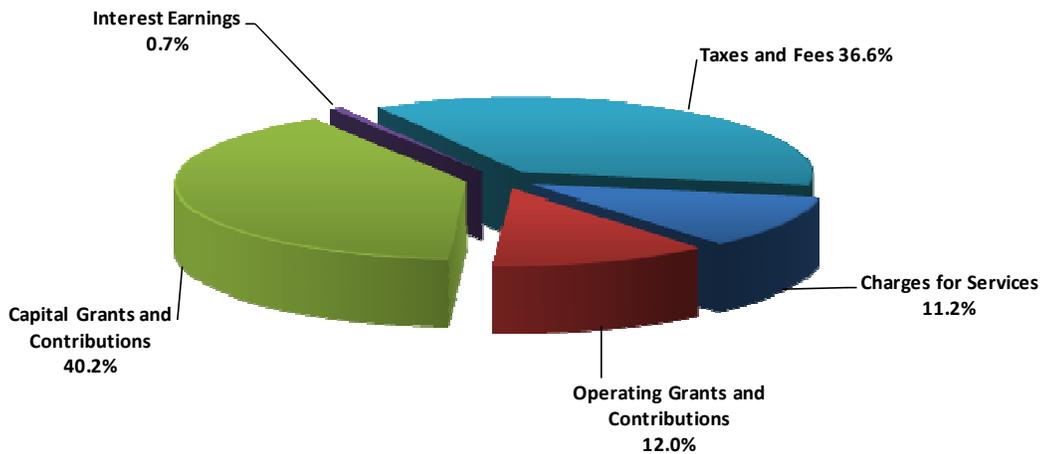
The City's net assets increased \$3,164,048 during fiscal year 2011. This growth is largely due to capital asset additions.

Governmental Activities: Governmental activities increased the City's net assets by \$2,856,865. Key elements affecting governmental activities net assets are as follows:

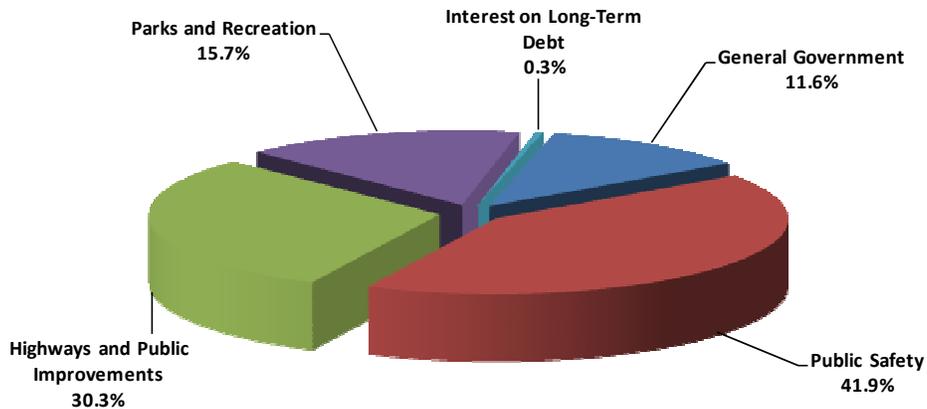
- Capital assets increased \$1,957,655 during fiscal year 2011. This includes \$4,900,524 of completed capital projects and \$2,391,833 of donated assets. The most significant projects include the public works land purchase (\$1,026,377), Lake Mountain Estates corner park (\$390,594), Pony Express Parkway (\$108,809), and Saratoga Hills 3 Park (\$158,191). Governmental activities also contributed \$1,375,332 of construction in progress. Please see "Capital Assets and Debt Administration" of the MD&A on page 9 for more information.
- Long-term liabilities increased \$2,816,697 during the year. The City issued \$4,000,000 in Sales Tax Revenue Bonds Series 2011 and retired \$1,375,248 through regularly scheduled debt payments and refinanced the City Hall building. See the "Long-Term Debt" section on page 11 for more information.

- Current assets increased \$3,346,718 as a result of unspent impact fee collections and unspent capital project developer proceeds. In fiscal year 2012 the City will undergo an impact fee and capital facilities analysis.
- Public safety expenses increased \$981,732 largely due to expenses associated with providing public safety to the neighboring city of Bluffdale (\$538,169) and the purchase of capital equipment (\$279,825). Increases in defined benefit retirement rates and increases in operating expenses constitute the remainder of the increase.
- Transfers decreased \$13,938,928 during fiscal year 2011. This decrease is attributable to transferring capital assets to the newly created *storm drain fund* during fiscal year 2010.

Revenues by Source - Governmental Activities Year Ended June 30, 2011



Expenses by Function - Governmental Activities Year Ended June 30, 2011



Business-Type Activities: Business-type activities increased the City's net assets by \$307,183. Key elements of the change in business-type net assets are as follows:

- Charges for services increased \$647,195. This increase is attributable to rate increases and an increase in customers.
- Contributions decreased by \$3,500,944, largely due to continued softness in the residential building sector.
- Total expenses increased by \$609,495 during fiscal year 2011. This increase is mainly attributable to increased maintenance expenses in the water fund and an increase in depreciation expense.
- Transfers in decreased \$13,938,928. The *storm drain utility fund* was created in fiscal year 2010.
- Current assets increased \$1,698,613 largely due to unspent impact fees and a \$380,000 transfer for the Well # 1 project that was unspent at year end. The City will undergo an impact fee and capital facilities analysis during fiscal year 2012.
- Capital assets decreased by \$2,012,386 due to accumulated depreciation additions and fewer capital asset donations from developers.
- Long-term obligations decreased \$814,781 due to scheduled debt service payments.

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, unassigned 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 fiscal year 2011, the City's governmental funds reported combined ending fund balances of \$11,142,024, an increase of \$3,715,026 in comparison with fiscal year 2010. Of this amount, \$1,782,816 (16.0 percent) is unassigned, and is therefore available for spending at the City's discretion. Assigned fund balance totals \$1,963,273, meaning that the City intends to use this amount for specific purposes (capital projects and street lighting). Fund balance of \$7,373,476 is *restricted* to indicate it is not available for new spending because it has already been committed to pay for capital and road projects, along with liquor control. The City has also paid for certain services it expects to receive in the future (\$22,459) which are classified as *nonspendable* fund balance.

The general fund is the chief operating fund of the City. At the end of fiscal year 2011, fund balance of the general fund was \$2,548,238, of which \$22,459 has been paid for future services (prepaid expenditures) and is therefore nonspendable. An additional \$742,963 has external restrictions on how the money is spent. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance (\$1,782,816) and total fund balance to total fund expenditures. Unassigned fund balance represents 21.4 percent of the total general fund expenditures.

The overall fund balance of the City's general fund increased \$539,819. Much of this increase is attributable to property and sales tax collections above expectations (\$435,541).

The capital projects fund experienced an increase in fund balance of \$3,089,680. Much of this increase is attributable to unspent developer proceeds (\$1,490,827), unspent bond proceeds (2011 Sales Tax Revenue Bonds) of \$1,859,771, and impact fee collections. The City will undergo a capital facility and impact fee analysis in fiscal year 2012. \$6,630,513 of the ending fund balance of \$8,344,333 is restricted for specific capital projects.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's proprietary funds experienced a change in net assets of \$307,183. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Fiscal year 2011 reported an overall increase of \$1,255,440 between the original budget and the final amended budget for general fund expenditures. Highlights of this increase included the following:

- \$27,500 for the Amanda Lane reconstruction project (partially offset by contributions)
- \$20,000 to fund a Communities That Care coordinator (50 percent of expenses paid for by Utah County and 25 percent of expenses paid for by Eagle Mountain City)
- \$64,600 in library expenditures (offset by donation income)
- \$115,488 for the purchase of police vehicles
- \$55,366 increase in engineering department expenses
- \$28,000 increase in police professional contract services (offset by increased Bluffdale City contract revenue)

- \$1,095,965 increase to recognize the refinance of the City Hall building
- \$254,925 decrease in road projects and maintenance budget that was transferred from the general fund to governmental capital projects to facilitate better cost tracking

General fund expenditures were \$695,271 less than expectations during fiscal year 2011. \$93,345 of this difference is attributable to an operating lease originally budgeted as capital. Personnel vacancies in the fire department contributed to \$146,703 of the savings. Other notable items include capital lease payments under budget by \$95,994 and grant expenditures less than expectations by \$80,623. Grant expenditures were less than expectations due to grant revenue not coming in as expected.

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, 2011 are land, water rights, construction in progress, buildings, equipment, infrastructure, water capacities, water systems, and the sewer system. The net decrease in the City's investment in capital assets for fiscal year 2011 was \$54,731 (a 2.6 percent increase for governmental activities and a 1.9 percent decrease for business-type activities).

Major capital asset events during fiscal year 2011 included the following:

- The City purchased land for a public works building for \$1,026,377
- The water fund purchased water rights for \$675,200
- The City purchased a new ambulance for \$157,000 and proceeds from the sale of three police vehicles totaled \$50,050.
- Governmental funds capital projects contributed \$1,375,332 in construction in progress, including \$409,945 for Fox Hollow, \$256,777 for the public works building, \$211,805 for the marina, \$315,186 for Neptune park, and \$43,837 for Sunset Haven park.
- The sewer fund had construction in progress of \$276,860 at fiscal year-end; the majority is for the Timpanogos Special Service District (TSSD) metering station.
- Donated capital assets totaled \$2,580,008

CITY OF SARATOGA SPRINGS

Capital Assets, Net of Accumulated Depreciation

June 30, 2011

	Governmental Activities		Business-type Activities		Total		Change 2011-2010
	2011	2010	2011	2010	2011	2010	
Land	\$ 16,896,158	\$ 15,558,581	\$ -	\$ -	\$ 16,896,158	\$ 15,558,581	\$ 1,337,577
Water Rights	-	-	14,659,649	13,984,449	14,659,649	13,984,449	675,200
Buildings	3,844,841	3,924,240	-	-	3,844,841	3,924,240	(79,399)
Equipment	1,233,409	1,302,021	125,727	166,450	1,359,136	1,468,471	(109,335)
Infrastructure	53,383,566	53,990,809	-	-	53,383,566	53,990,809	(607,243)
Water Capacities	-	-	7,502,293	8,049,842	7,502,293	8,049,842	(547,549)
Culinary Water System	-	-	47,991,513	49,368,277	47,991,513	49,368,277	(1,376,764)
Secondary Water Irrigation System	-	-	5,019,216	5,136,998	5,019,216	5,136,998	(117,782)
Storm Drain System	-	-	13,375,581	13,658,276	13,375,581	13,658,276	(282,695)
Sewer System	-	-	15,632,607	16,263,167	15,632,607	16,263,167	(630,560)
Construction in Progress	1,375,332	-	308,487	-	1,683,819	-	1,683,819
Total	\$ 76,733,306	\$ 74,775,651	\$ 104,615,073	\$ 106,627,459	\$ 181,348,379	\$ 181,403,110	\$ (54,731)

CITY OF SARATOGA SPRINGS

Donated Capital Assets

Year Ended June 30, 2011

Governmental activities:	
Curb, Gutters, and Sidewalks	\$ 206,878
Street Improvements	1,289,340
Street Lights	100,963
Street Land	129,600
Park Land	181,600
Parks & Open Space	483,452
	<u>2,391,833</u>
Business-type activities:	
Culinary Water System	38,514
Secondary Irrigation Water System	22,755
Sewer System	26,550
Storm Drains	100,356
	<u>188,175</u>
Total	\$ 2,580,008

Additional information regarding the City's capital assets can be found in note 6 of the notes to the basic financial statements on pages 32-34 of this report.

Long-Term Debt. At the end of fiscal year 2011, the City had total long-term debt outstanding of \$30,383,571. Of this amount, \$4,601,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The City is liable to the extent of funds created and received from 1) proceeds from the sale of any bonds issued to refund and retire the original special assessment bonds, 2) assessments, including assessments collected through foreclosure sales, and 3) monies on deposit in the debt service reserve fund. The remainder of the City's

bonded debt (\$9,193,000) represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The City’s long-term obligations outstanding also include obligations under a culinary water system settlement and obligations under capital leases totaling \$16,589,571.

CITY OF SARATOGA SPRINGS
Outstanding Debt
As of June 30, 2011

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Change 2011-2010</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Revenue Bonds	\$ 4,000,000	\$ -	\$ 5,193,000	\$ 5,458,595	\$ 9,193,000	\$ 5,458,595	\$ 3,734,405
Special Assessment Bond	-	-	4,601,000	4,669,539	4,601,000	4,669,539	(68,539)
Total Bonds Payable	4,000,000	-	9,794,000	10,128,134	13,794,000	10,128,134	3,665,866
Culinary Water System Settlement	-	-	15,971,500	16,460,750	15,971,500	16,460,750	(489,250)
Obligations Under Capital Leases	549,948	1,895,779	68,123	100,914	618,071	1,996,693	(1,378,622)
Total Other Debt	549,948	1,895,779	16,039,623	16,561,664	16,589,571	18,457,443	(1,867,872)
Total Outstanding Debt	\$ 4,549,948	\$ 1,895,779	\$ 25,833,623	\$ 26,689,798	\$ 30,383,571	\$ 28,585,577	\$ 1,797,994

The City’s long-term debt increased \$1,797,994 (6.3 percent) during fiscal year 2011. Significant events that contributed to this change are:

- The City issued Series 2011 Sales Tax Revenue Bonds (\$4,000,000) for the purpose of financing the acquisition and construction of a public works building, fire station remodel, well improvements, and to refinance the City Hall building.
- Principal payments of \$2,223,406 were made on long-term debt (bonds, capital leases, and culinary water settlement) during fiscal year 2011.

The City’s sales tax revenue bond received a rating of “AA” from Standard & Poor’s during fiscal year 2011. Factors influencing this bond rating include:

- Positive population trends, which will likely lead to continued revenue growth
- Very strong income levels and access to employment opportunities
- Strong coverage ratios on maximum annual debt service
- 2010 median household effective buying income at 136 percent of the national level

Additional information on the City’s long-term debt can be found in note 7 on pages 34-39 of this report.

Economic Factors and Next Year’s Budgets and Rates

The City’s fiscal year 2012 budget assumes a flat and low rate of growth with revenues not increasing until the middle of fiscal year 2012. Although Utah’s June unemployment rate of 7.5 percent is a small increase over the prior year (7.2 percent), this rate is lower than the national average of 9.1 percent. While the current employer survey administered by the United States Bureau of Labor Statistics suggests the Utah economy is operating in a mild state of recovery, the City’s administration remains cautiously optimistic about the financial future. General fund revenues are budgeted to be \$1,591,099 (20.9 percent) higher than fiscal year 2011. \$1,283,868 of this increase is attributable to the City instituting an administrative charge to various departments. This charge is offset by increased expenses

in the general fund. In addition, the City expects an increase in sales tax revenue of \$331,000 (18.7 percent) largely due to revised population estimates used by the state of Utah to distribute sales tax.

Modest fee increases occurred for the water, sewer, and storm drain utilities. The increases will be used for debt service on the 2011 Sales Tax Revenue Bond and to begin building capital reserves within each utility. Garbage utility rates were also increased to correspond with increases by the City's waste collection contractor.

Requests for Information

This financial report is designed to provide a general overview of the City of Saratoga Spring's finances to everyone with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Saratoga Springs
ATTN: Finance Department
1307 N Commerce Dr Ste 200
Saratoga Springs, UT 84045-5302

CITY OF SARATOGA SPRINGS

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Investments	\$ 9,425,341	\$ 5,364,236	\$ 14,789,577
Restricted Cash and Investments	1,862,640	731,363	2,594,003
Receivables	3,030,176	732,485	3,762,661
Prepaid Expenses and Inventories	22,459	92,383	114,842
Bond Issuance Costs, Net of Accumulated Amortization	114,139	230,121	344,260
Capital Assets:			
Land, Water Rights, and Construction in Progress	18,271,490	14,968,136	33,239,626
Other Capital Assets, Net of Accumulated Depreciation	<u>58,461,816</u>	<u>89,646,937</u>	<u>148,108,753</u>
Total Assets	91,188,061	111,765,661	202,953,722
Liabilities:			
Accounts Payable and Accrued Expenses	809,430	640,617	1,450,047
Accrued Interest	13,615	136,854	150,469
Deposits	65,084	159,489	224,573
Unearned Revenue	1,847,769	-	1,847,769
Noncurrent Liabilities:			
Due or Payable Within One Year	519,132	1,569,297	2,088,429
Due or Payable After One Year	<u>4,392,870</u>	<u>24,330,497</u>	<u>28,723,367</u>
Total Liabilities	7,647,900	26,836,754	34,484,654
Net Assets:			
Invested in Capital Assets, Net of Related Debt	74,023,634	79,011,572	153,035,206
Restricted for Debt Service	-	731,363	731,363
Restricted for Capital Improvements	6,879,966	2,756,076	9,636,042
Unrestricted	<u>2,636,561</u>	<u>2,429,896</u>	<u>5,066,457</u>
Total Net Assets	<u>\$ 83,540,161</u>	<u>\$ 84,928,907</u>	<u>\$ 168,469,068</u>

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

CITY OF SARATOGA SPRINGS
Statement of Activities
Year Ended June 30, 2011

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	\$ 1,291,631	\$ 734,865	\$ -	\$ -	\$ (556,766)		\$ (556,766)
Public Safety	4,651,168	715,131	1,038,908	197,200	(2,699,929)		(2,699,929)
Highways and Public Improvements	3,364,997	-	680,966	4,140,816	1,456,785		1,456,785
Parks and Recreation	1,738,032	150,558	-	1,402,292	(185,182)		(185,182)
Interest on Long-Term Debt	47,519	-	-	-	(47,519)		(47,519)
Total Governmental Activities	11,093,347	1,600,554	1,719,874	5,740,308	(2,032,611)		(2,032,611)
Business-Type Activities:							
Water Utility	4,286,081	2,222,973	-	1,823,649	-	\$ (239,459)	(239,459)
Sewer Utility	2,043,128	1,970,431	-	186,635	-	113,938	113,938
Garbage Utility	633,551	745,432	-	-	-	111,881	111,881
Storm Drain Utility	470,700	148,947	-	213,096	-	(108,657)	(108,657)
Total Business-Type Activities	7,433,460	5,087,783	-	2,223,380	-	(122,297)	(122,297)
Total Primary Government	\$ 18,526,807	\$ 6,688,337	\$ 1,719,874	\$ 7,963,688	(2,032,611)	(122,297)	(2,154,908)
General Revenue:							
Property Taxes					2,395,277	-	2,395,277
Sales and Use Taxes					1,881,168	-	1,881,168
Franchise Fees					227,207	-	227,207
Energy Taxes					632,865	-	632,865
Interest Earnings					98,172	49,480	147,652
Gain on Sale of Capital Assets					34,787	-	34,787
Total General Revenue					5,269,476	49,480	5,318,956
Transfers							
					(380,000)	380,000	-
Changes in Net Assets					2,856,865	307,183	3,164,048
Net assets, Beginning					80,683,296	84,621,724	165,305,020
Net Assets, Ending					\$ 83,540,161	\$ 84,928,907	\$ 168,469,068

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

CITY OF SARATOGA SPRINGS
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds			Total Governmental Funds
	General	Capital Projects	Street Lighting	
Assets:				
Cash and Investments	\$ 2,193,239	\$ 6,997,337	\$ 234,765	\$ 9,425,341
Receivables	3,014,847	-	15,328	3,030,175
Prepaid Expenditures	22,459	-	-	22,459
Restricted Cash and Investments	761	1,861,879	-	1,862,640
Total Assets	\$ 5,231,306	\$ 8,859,216	\$ 250,093	\$ 14,340,615
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable and Accrued Expenditures	\$ 293,907	\$ 514,883	\$ 640	\$ 809,430
Deferred Revenue	2,324,077	-	-	2,324,077
Deposits	65,084	-	-	65,084
Total Liabilities	2,683,068	514,883	640	3,198,591
Fund Balances:				
Nonspendable - Prepaid Expenditures	22,459	-	-	22,459
Restricted For:				
Class C Roads and Liquor Tax	742,202	-	-	742,202
Impact Fees (Roads and Parks)	-	4,768,634	-	4,768,634
Construction	761	1,861,879	-	1,862,640
Assigned To:				
Capital Improvements	-	1,713,820	-	1,713,820
Street Lighting	-	-	249,453	249,453
Unassigned	1,782,816	-	-	1,782,816
Total Fund Balances	2,548,238	8,344,333	249,453	11,142,024
Total Liabilities and Fund Balances	\$ 5,231,306	\$ 8,859,216	\$ 250,093	\$ 14,340,615

The notes to the basic 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, 2011

Total fund balances for governmental funds \$ 11,142,024

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	\$ 16,896,158	
Construction in Progress	1,375,332	
Buildings, net of \$498,530 accumulated depreciation	3,844,841	
Equipment, net of \$1,820,049 accumulated depreciation	1,233,409	
Infrastructure, net of \$19,594,328 accumulated depreciation	<u>53,383,566</u>	76,733,306

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.

476,309

Long-term liabilities applicable to the City's governmental funds are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.

Accrued Interest Payable	\$ (13,615)	
Unamortized Bond Issuance Costs	114,139	
Unamortized Bond Premium	(133,634)	
Bonds and Leases Payable	(4,549,948)	
Compensated Absence Obligation	<u>(228,420)</u>	<u>(4,811,478)</u>

Total net assets - governmental activities

\$ 83,540,161

The notes to the basic 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, 2011

	Major Funds			Total Governmental Funds
	General	Capital Projects	Street Lighting	
Revenues:				
Taxes	\$ 5,240,234	\$ -	\$ -	\$ 5,240,234
Licenses and Permits	321,571	-	-	321,571
Intergovernmental	1,470,853	328,641	-	1,799,494
Fees	1,206,938	1,157,406	142,334	2,506,678
Interest Earnings	31,056	65,472	1,644	98,172
Other	189,220	1,831,940	20,001	2,041,161
Total revenues	8,459,872	3,383,459	163,979	12,007,310
Expenditures:				
Current:				
General Government	1,256,561	-	-	1,256,561
Public Safety	4,611,206	2,218	-	4,613,424
Highways and Public Improvements	465,201	1,920,371	78,452	2,464,024
Parks and Recreation	568,696	1,695,316	-	2,264,012
Debt service:				
Capital Lease Payments	1,405,289	-	-	1,405,289
Bond Issuance Costs and Trustee Fees	30,385	84,232	-	114,617
Total Expenditures	8,337,338	3,702,137	78,452	12,117,927
Excess (Deficiency) of Revenues Over (Under) Expenditures	122,534	(318,678)	85,527	(110,617)
Other Financing Sources (Uses):				
Proceeds From Obligations Under Capital Leases	21,400	-	-	21,400
Issuance of Sales Tax Revenue Bonds	1,060,391	2,939,609	-	4,000,000
Bond Premium	35,574	98,619	-	134,193
Proceeds From Sales of Capital Assets	50,050	-	-	50,050
Transfers In	-	750,130	-	750,130
Transfers Out	(750,130)	(380,000)	-	(1,130,130)
Total Other Financing Sources (Uses)	417,285	3,408,358	-	3,825,643
Net Change in Fund Balances	539,819	3,089,680	85,527	3,715,026
Fund Balances - Beginning	2,008,419	5,254,653	163,926	7,426,998
Fund Balances - Ending	\$ 2,548,238	\$ 8,344,333	\$ 249,453	\$ 11,142,024

The notes to the basic 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, 2011

Net change in fund balances-total governmental funds \$ 3,715,026

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	\$ 3,884,025	
Proceeds from Sales of Capital Assets	(15,263)	
Donations of Capital Assets (Infrastructure) from Developers	2,391,832	
Depreciation Expense	<u>(4,302,938)</u>	1,957,656

The issuance of long-term debt (e.g., bonds and obligations under capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items.

Proceeds from Issuance of Long-Term Debt	(4,000,000)	
Proceeds from Obligations Under Capital Leases	(21,400)	
Bond Premium	(134,193)	
Bond Issuance Costs	114,617	
Interest expense - obligations under capital leases	2,833	
Interest expense - bond premium and issuance cost amortization; accrued interest payable	(12,293)	
Principal payments of obligations under capital leases	<u>1,367,231</u>	(2,683,205)

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 decreased during the year. (103,718)

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. (28,894)

Change in net assets of governmental activities \$ 2,856,865

The notes to the basic 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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 4,634,945	\$ 4,634,945	\$ 5,240,234	\$ 605,289
Licenses and Permits	265,678	265,678	321,571	55,893
Intergovernmental	1,364,800	1,501,192	1,470,853	(30,339)
Fees	982,138	982,138	1,206,938	224,800
Interest Earnings	13,728	13,728	31,056	17,328
Other	25,022	100,622	189,220	88,598
Total Revenues	7,286,311	7,498,303	8,459,872	961,569
Expenditures:				
Current:				
General Government	1,210,505	1,335,401	1,256,561	78,840
Public Safety	4,801,292	4,985,630	4,611,206	374,424
Highways and Public Improvements	733,711	563,952	465,201	98,751
Parks and Recreation	595,198	615,198	568,696	46,502
Debt Service:				
Capital Lease Payments	436,463	1,501,283	1,405,289	95,994
Bond Issuance Costs and Trustee Fees	-	31,145	30,385	760
Total Expenditures	7,777,169	9,032,609	8,337,338	695,271
Excess (Deficiency) of Revenues Over (Under) Expenditures	(490,858)	(1,534,306)	122,534	1,656,840
Other Financing Sources (Uses):				
Proceeds From Obligations Under Capital Leases	192,811	115,488	21,400	(94,088)
Issuance of Sales Tax Revenue Bonds	-	1,088,241	1,060,391	(27,850)
Bond Premium	-	35,574	35,574	-
Proceeds From Sales of Capital Assets	-	22,000	50,050	28,050
Transfers Out	-	(750,130)	(750,130)	-
Total Other Financing Sources (Uses)	192,811	511,173	417,285	(93,888)
Net Change in Fund Balances	(298,047)	(1,023,133)	539,819	1,562,952
Fund Balances - Beginning	2,008,419	2,008,419	2,008,419	-
Fund Balances - Ending	\$ 1,710,372	\$ 985,286	\$ 2,548,238	\$ 1,562,952

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

CITY OF SARATOGA SPRINGS
Statement of Fund Net Assets
Proprietary Funds (Enterprise Funds)
June 30, 2011

	Major Funds				Totals
	Water Utility	Sewer Utility	Storm Drain Utility	Garbage Utility	
Assets:					
Current Assets:					
Cash and Investments	\$ 2,464,048	\$ 1,943,774	\$ 819,927	\$ 136,487	\$ 5,364,236
Receivables	237,963	401,148	14,670	78,704	732,485
Inventories and Deposits	92,382	-	-	-	92,382
Total Current Assets	2,794,393	2,344,922	834,597	215,191	6,189,103
Noncurrent Assets:					
Restricted Cash and Investments	731,363	-	-	-	731,363
Bond Issuance Costs, Net	230,121	-	-	-	230,121
Capital Assets:					
Water Rights	14,659,649	-	-	-	14,659,649
Construction in Progress	26,643	276,860	4,985	-	308,488
Water Capacities	10,950,988	-	-	-	10,950,988
Culinary Water System	56,435,835	-	-	-	56,435,835
Secondary Irrigation Water System	5,634,300	-	-	-	5,634,300
Sewer System	-	19,729,005	-	-	19,729,005
Storm Drain System	-	-	15,380,808	-	15,380,808
Equipment	347,032	216,207	143,115	-	706,354
Accumulated Depreciation	(12,828,301)	(4,279,356)	(2,082,696)	-	(19,190,353)
Net Capital Assets	75,226,146	15,942,716	13,446,212	-	104,615,074
Total Noncurrent Assets	76,187,630	15,942,716	13,446,212	-	105,576,558
Total Assets	78,982,023	18,287,638	14,280,809	215,191	111,765,661
Liabilities:					
Current Liabilities:					
Current Portion of:					
Water Revenue Bonds	275,000	-	-	-	275,000
Special Assessment Bonds	161,000	-	-	-	161,000
Culinary Water System Settlement	1,050,000	-	-	-	1,050,000
Obligations Under Capital Leases	8,199	3,814	17,202	-	29,215
Accounts Payable and Accrued Expenses	207,751	429,771	1,423	1,672	640,617
Compensated Absence Obligation	36,303	15,492	1,724	563	54,082
Interest Payable	136,854	-	-	-	136,854
Customer Deposits	155,677	3,812	-	-	159,489
Total Current Liabilities	2,030,784	452,889	20,349	2,235	2,506,257
Noncurrent Liabilities:					
Water Revenue Bonds	4,918,000	-	-	-	4,918,000
Special Assessment Bonds	4,440,000	-	-	-	4,440,000
Culinary Water System Settlement	14,921,500	-	-	-	14,921,500
Obligations Under Capital Leases	10,969	654	27,285	-	38,908
Compensated Absence Obligation	8,596	2,957	536	-	12,089
Total Long-Term Obligations	24,299,065	3,611	27,821	-	24,330,497
Total Liabilities	26,329,849	456,500	48,170	2,235	26,836,754
Net Assets:					
Invested in Capital Assets, net of Related Debt	49,671,599	15,938,248	13,401,725	-	79,011,572
Restricted for Debt Service	731,363	-	-	-	731,363
Restricted for Improvements	1,751,011	269,474	735,591	-	2,756,076
Unrestricted	498,201	1,623,416	95,323	212,956	2,429,896
Total net assets	\$ 52,652,174	\$ 17,831,138	\$ 14,232,639	\$ 212,956	\$ 84,928,907

The notes to the basic 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, 2011

	Major Funds				Totals
	Water Utility	Sewer Utility	Storm Drain Utility	Garbage Utility	
Operating Revenues:					
Charges for Services	\$ 2,042,538	\$ 1,667,539	\$ 148,947	\$ 745,432	\$ 4,604,456
Installation Service Fees	117,200	79,800	-	-	197,000
Other	63,235	223,092	-	-	286,327
Total Operating Revenues	2,222,973	1,970,431	148,947	745,432	5,087,783
Operating Expenses:					
Personnel	798,679	323,346	42,631	17,680	1,182,336
Supplies and Maintenance	399,951	113,872	22,247	9,673	545,743
Professional Services	66,756	2,156	-	-	68,912
Administrative	81,708	50,566	117	25,994	158,385
Power and Pumping	289,299	45,955	-	-	335,254
Treatment and Sanitation	-	804,658	-	580,204	1,384,862
Depreciation	2,138,400	679,627	402,995	-	3,221,022
Other	6,852	4,795	-	-	11,647
Total Operating Expenses	3,781,645	2,024,975	467,990	633,551	6,908,161
Operating Income (Loss)	(1,558,672)	(54,544)	(319,043)	111,881	(1,820,378)
Nonoperating Revenues (Expenses):					
Interest Earnings	23,922	15,982	8,573	1,003	49,480
Impact Fees	1,762,380	238,800	124,098	-	2,125,278
Developer Reimbursements	-	(78,715)	(11,358)	-	(90,073)
Interest Expense and Fiscal Charges	(504,436)	(18,153)	(2,710)	-	(525,299)
Total Nonoperating Revenues (Expenses)	1,281,866	157,914	118,603	1,003	1,559,386
Net Income (Loss) Before Transfers	(276,806)	103,370	(200,440)	112,884	(260,992)
Transfers	380,000	-	-	-	380,000
Net Income Before Contributions	103,194	103,370	(200,440)	112,884	119,008
Developer Contributions	61,269	26,550	100,356	-	188,175
Changes in Net Assets	164,463	129,920	(100,084)	112,884	307,183
Total Net Assets - Beginning	52,487,711	17,701,218	14,332,723	100,072	84,621,724
Total Net Assets - Ending	\$ 52,652,174	\$ 17,831,138	\$ 14,232,639	\$ 212,956	\$ 84,928,907

The notes to the basic 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, 2011

	Major Funds				Totals
	Water Utility	Sewer Utility	Storm Drain Utility	Garbage Utility	
Cash Flows From Operating Activities:					
Receipts From Customers	\$ 2,171,239	\$ 1,762,983	\$ 150,146	\$ 740,757	\$ 4,825,125
Payments to Suppliers	(702,978)	(781,866)	(22,082)	(615,272)	(2,122,198)
Payments to Employees	(766,013)	(315,583)	(43,813)	(16,769)	(1,142,178)
Net Cash Provided by Operating Activities	702,248	665,534	84,251	108,716	1,560,749
Cash Flows From Noncapital Financing Activities:					
Transfers	380,000	-	-	-	380,000
Cash Flows From Capital and Related Financing Activities:					
Purchase of Capital Assets	(701,842)	(285,569)	(33,050)	-	(1,020,461)
Payment of Deposit	-	(35,403)	-	-	(35,403)
Receipt of Impact Fees	1,762,380	238,800	124,098	-	2,125,278
Payments to Developers	-	(78,715)	(11,358)	-	(90,073)
Principal Paid on Capital Debt	(836,091)	(3,633)	(17,599)	-	(857,323)
Interest Paid on Capital Debt	(585,716)	(18,153)	(1,562)	-	(605,431)
Net Cash Provided by Capital and Related Financing Activities	(361,269)	(182,673)	60,529	-	(483,413)
Cash Flows From Investing Activities:					
Interest Received	23,922	15,982	8,573	1,003	49,480
Net Change in Cash and Cash Equivalents	744,901	498,843	153,353	109,719	1,506,816
Cash and Cash Equivalents - Beginning	<u>2,450,510</u>	<u>1,444,931</u>	<u>666,574</u>	<u>26,768</u>	<u>4,588,783</u>
Cash and Cash Equivalents - Ending	<u>\$ 3,195,411</u>	<u>\$ 1,943,774</u>	<u>\$ 819,927</u>	<u>\$ 136,487</u>	<u>\$ 6,095,599</u>
Displayed on the Statement of Fund Net Assets as:					
Cash and Investments	\$ 2,464,048	\$ 1,943,774	\$ 819,927	\$ 136,487	\$ 5,364,236
Restricted Cash and Investments	731,363	-	-	-	731,363
Total Cash and Investments	<u>\$ 3,195,411</u>	<u>\$ 1,943,774</u>	<u>\$ 819,927</u>	<u>\$ 136,487</u>	<u>\$ 6,095,599</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ (1,558,672)	\$ (54,544)	\$ (319,043)	\$ 111,881	\$ (1,820,378)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation Expense	2,138,400	679,627	402,995	-	3,221,022
Changes in Operating Assets and Liabilities:					
Receivables	(67,471)	(207,448)	1,199	(4,675)	(278,395)
Inventories and Deposits	62,281	-	-	-	62,281
Accounts Payable and Accrued Expenses	79,307	238,585	248	947	319,087
Compensated Absence Obligations	32,666	9,314	(1,148)	563	41,395
Customer Deposits	15,737	-	-	-	15,737
Total Adjustments	2,260,920	720,078	403,294	(3,165)	3,381,127
Net Cash Provided by Operating Activities	<u>\$ 702,248</u>	<u>\$ 665,534</u>	<u>\$ 84,251</u>	<u>\$ 108,716</u>	<u>\$ 1,560,749</u>
Noncash Investing, Capital, and Financing Activities:					
Donated Capital Assets From Developers	\$ 61,269	\$ 26,550	\$ 100,356	\$ -	\$ 188,175

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

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Saratoga Springs, Utah is located on the northwest shores of Utah Lake in Utah County. 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 Council establishes City policy, approves the budget, and ratifies the appointment of City Officials. The City Council is authorized to issue bonds, incur short-term debt, levy property taxes, and is not dependent on any other unit of local government.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the activities of the City. For the most part, interfund activity has been removed from these statements. Governmental activities, which are largely supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are supported to a significant extent by charges for services.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within 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 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

Basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

All governmental fund financial statements are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. 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, generally 60 days. Property taxes are considered “measurable” when levied and available when collected and held by Utah County (the County). Any amounts not available are recorded as deferred revenue. Franchise taxes are considered “measurable” when collected and held by the utility company, and are recognized as revenue at that time. Other revenue sources susceptible to accrual include sales taxes, special assessments, and interest on investments. Furthermore, expenditures are recorded when fund liabilities are incurred. Revenues collected in advance are deferred and recognized in the period to which they apply.

Proprietary (enterprise) fund financial statements are reported using the accrual basis of accounting. These funds are accounted for on a cost of services or "economic resources" measurement focus. This means all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds. Pronouncements of the Financial Accounting Standards Board (FASB) are applied if issued on or before November 30, 1989 and do not conflict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 for the City’s 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 restricted, assigned, and unassigned resources are available for use, it is the City’s policy to use restricted resources first, then assigned, and finally unassigned resources as they are needed.

Description of Funds

The City reports the following major Governmental funds:

- The **general fund** is the government’s primary operating fund. It accounts for the normal activities of the City (police, fire, public works, parks, community development, general government, etc.). These activities are funded principally by property taxes, sales and use taxes, franchise taxes, licenses, and permits.
- The **capital projects fund** accounts for the resources used to acquire, construct, and improve major capital facilities, other than those financed by proprietary (enterprise) funds. Capital projects funds allow the City to compile project cost data and demonstrate legal or contractual requirements regarding the use of the resources are fully satisfied. The principal source of funding is contributions from developers restricted for capital construction, transfers from the

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

general fund, grants, impact fees, and bonding. All funds received for a particular purpose are restricted and used specifically for that purpose.

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

- The **water utility fund** accounts for the water distribution systems of the City (culinary and secondary irrigation water).
- The **sewer utility fund** accounts for the sewage collection system of the City.
- The **storm drain utility fund** accounts for the storm drain system of the City.

Fund Balance Classifications

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Implementation of this statement had no impact on the total beginning fund balances of the governmental funds.

The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the City is bound to honor them. The City first determines and reports nonspendable balances, then restricted, then committed, then assigned, and so on. Fund balance classifications are summarized as follows:

- **Nonspendable** – This category includes fund balance amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact. Fund balance amounts related to inventories and prepaid expenditures are classified as nonspendable.
- **Restricted** – This category includes net fund resources that are subject to external constraints that have been placed on the use of the resources either 1) imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. Restricted fund balances include Class "C" road funds, liquor tax allotment, impact fees, and bond proceeds restricted for construction.
- **Committed** – This category includes amounts that can only be used for specific purposes established by formal action of the City Council. Fund balance commitments can only be removed or changed by the same type of action (for example, resolution) of the City Council.
- **Assigned** – This category includes the remaining positive fund balance for the other governmental funds (Capital Projects and Street Lighting). These funds are assigned to capital improvements or street lighting projects.
- **Unassigned** – Residual balances in the General Fund are classified as unassigned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted.

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Budget Operation

The City operates within the budget requirements as specified by Utah state law. The financial reports reflect the following budget standards:

- For the fiscal year beginning July 1, the budget officer prepares a tentative budget which is presented to the City Council on or before the first regularly scheduled meeting in May.
- By resolution, the City Council legally adopts the final budget on or before June 22, after appropriate public hearings have been held. However, if there is a change to the certified tax rate, the final budget can be adopted as late as August 17.
- Once adopted, the budget can be amended by subsequent City Council action. Reductions in or reallocations of departmental appropriations can be approved by the City Council upon recommendation of the Budget Officer, but increased appropriations require a public hearing prior to amending the budget. Transfers of unexpended appropriations from one expenditure account to another in the same department can be made with the approval of the Budget Officer.
- Interim adjustments in estimated revenue and departmental appropriations during the fiscal year 2011 have been included in the final budget approved by the City Council, as presented in the financial statements.
- As determined by Utah state law, the level for which expenditures may not legally exceed appropriations is the departmental budget within a given fund.
- Budgets for the general, special revenue and capital projects funds are adopted on a basis consistent with GAAP. Operating and capital budgets are required by Utah state law for proprietary (enterprise) fund types, although such budgets are not required to be presented in the financial statements. In addition, budgets for special assessment funds are not required by Utah state law.
- All unexpended appropriations lapse at the end of the budget year. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

Cash, Cash Equivalents, and Investments

The City reports all investments at fair value. The City's investment in the State of Utah Public Treasurers' Investment Fund (PTIF) has a fair value equivalent to the value of the pool shares. In all statements, the City considers cash on hand, demand deposits, and highly liquid short-term investments as cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost, determined on the first-in first-out basis, or market.

Prepaid Expenditures/Expenses

Prepaid items are accounted for using the consumption method in the governmental funds.

Bond Issuance Costs

Issuance costs on bonds are amortized over the life of the issue using the straight-line method, which approximates the interest method.

Interfund Transactions

In the normal course of its operations, the City has various transactions between funds. Various City funds provide a number of services such as administrative functions to other City funds. Charges are treated as revenues in the fund providing the service and as operating expenses in the fund receiving the service. Non-recurring and non-routine transfers are accounted for as changes in fund balance. Other transfers are recognized as transfers in and out, respectively, by the funds involved. Short-term payables are shown as due to/from other funds. Long-term payables are shown as advances to/from other funds.

Capital Assets

Capital assets, which include land, water rights, buildings, equipment, infrastructure assets (*e.g.*, roads, bridges, sidewalks, street lighting, 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 individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

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:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

	<u>Years</u>
Buildings	40
Infrastructure	
Curbing, Gutters, and Sidewalks	25
Park Improvements	15
Street Lighting and Signs	10
Roads and Public Improvements	20
Water Capacities	20
Culinary Water Distribution System	40
Secondary Water Irrigation System	40
Sewer Collection System	30
Storm Drain System	40
Equipment	5-20

Contributions

Certain proprietary funds receive contributions for aid in construction from various sources and are reflected as nonoperating revenue.

Unearned Revenue

Deferred property tax revenue as of June 30, 2011, consists of property taxes levied for fiscal year 2011-2012 and collected in advance or recorded as a receivable.

Note 2 – Property Taxes

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 attach as an enforceable lien on property as of January 1. Taxes are levied on all business personal property on January 1, and real estate and improvement taxes are levied on January 1 and are payable by November 30. The real property taxes, which are due in November, are reported as a receivable from 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 and personal 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 collection 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 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.

Note 3 – Cash and Investments

A summary of restricted and unrestricted cash and cash equivalents at June 30, 2011 is as follows:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Carrying amount of deposits	\$ 2,139,985
Carrying amount of investments	<u>15,243,595</u>
Total cash and investments	<u>\$ 17,383,580</u>
Governmental fund cash and investments	\$ 9,425,341
Governmental fund restricted investments	1,862,640
Proprietary fund cash and investments	5,364,236
Proprietary fund restricted investments	<u>731,363</u>
Total cash and investments	<u>\$ 17,383,580</u>

Detailed cash and investment accounting records are maintained for each individual fund. However, to provide the maximum amount of interest earnings on all funds of the City, all cash is pooled for investment purposes.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law 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 Commissioner of Financial Institutions as meeting the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes a formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds. The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City’s deposits may not be recovered. The City’s deposits are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC), with the exception of the US Government Money Market Sweep held at a bank. The amount in this account as of June 30, 2011, was \$1,668,193. Deposits above \$250,000 per bank are exposed to credit risk. The bank balance of the City’s deposits totaled \$2,162,305, with a carrying value of \$2,139,985. Of this amount, \$369,644 was insured and the remaining \$1,792,661 was uninsured and uncollateralized. The City’s policy to minimize custodial credit risk is to follow the City’s approved investment policy and the Utah Money Management Act.

The City’s investments are governed by state statutes and the City’s approved investment policy. City funds can be invested only in the following: (1) obligations of the U.S. Treasury and most government-sponsored agencies; (2) commercial paper; (3) bankers acceptances; (4) publicly traded fixed rate corporate obligations; (5) certain variable rate securities and deposits; (6) deposits with the Public

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Treasurer's Investment Fund (PTIF); and (7) certain fixed rate negotiable deposits with a certified depository. All investments are subject to restrictions specified in the Utah Money Management Act.

The City invests in the PTIF which is an external investment pool administered by the Utah State Treasurer. The PTIF is authorized and regulated by the Utah Money Management Act. The Act establishes the Money Management Council which oversees the activities of the State Treasurer and the PTIF. Deposits in the PTIF are not insured or otherwise guaranteed by the state of Utah and participants share proportionally in any realized gains or losses on investments.

The PTIF allocates income and issues statements on a monthly basis. The PTIF operates and reports to participants on an amortized cost basis. The participant's balance is their investment deposited in the PTIF plus their share of income, gains, and losses net of administration fees which is allocated to each participant on the ratio of each participant's share to the total funds. The participant's monthly investment amount is based upon their average daily balance.

Twice a year, at June 30 and December 31, the investments are valued at fair value and participants are informed of the valuation factor that enables them to adjust their statement balances to fair value. As of June 30, 2011, the City's fair value of investments in the PTIF was \$91,490 more than the amortized cost of \$15,152,105. The City's investments have been adjusted to show this increase in value. As of June 30, 2011, the City's \$15,243,595 investment in the PTIF had an average adjusted maturity of less than one year.

Credit Risk

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City reduces its exposure to credit risk is to comply with the approved investment policy and the Utah Money Management Act. The Act details authorized investments which are high-grade securities, and, therefore, subject to very little credit risk except in the most unusual and unforeseen circumstances. The credit risk of the PTIF is not rated.

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 fair value loss arising from increasing interest rates by complying with the approved investment policy and the Utah Money Management Act. The Act requires the remaining term to maturity of investments not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed corporate obligations 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Note 4 – Restricted Assets

Unspent proceeds of the City's 2011 Sales Tax Revenue Bond (\$1,862,640) are classified as restricted assets on the balance sheet because they are maintained in a separate bank account and their use is restricted to construction as set forth by the applicable bond covenants.

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Note 5 – Receivables

Receivables as of June 30, 2011 for the City’s funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		
	General Fund	Street Lighting	Total
Taxes receivable:			
Property taxes levied for current and prior years (delinquent)	\$ 551,202	\$ -	\$ 551,202
Property taxes levied for future year	1,855,196	-	1,855,196
Sales and use taxes	358,708	-	358,708
Franchise fees	32,962	-	32,962
Energy taxes	38,270	-	38,270
State receivable, Class C Road Fund	102,815	-	102,815
Accounts receivable	75,694	15,328	91,022
Net accounts receivable	<u>\$ 3,014,847</u>	<u>\$ 15,328</u>	<u>\$ 3,030,175</u>

	Enterprise Funds				
	Water Utility	Sewer Utility	Storm Drain Utility	Garbage Utility	Total
Accounts receivable	\$ 254,570	\$ 410,901	\$ 15,656	\$ 84,492	\$ 765,619
Allowance for uncollectible accounts	(16,607)	(9,753)	(986)	(5,788)	(33,134)
Net accounts receivable	<u>\$ 237,963</u>	<u>\$ 401,148</u>	<u>\$ 14,670</u>	<u>\$ 78,704</u>	<u>\$ 732,485</u>

Note 6 – Capital Assets

The following tables summarize the changes in capital assets for governmental and business-type activities during the year ended June 30, 2011:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Governmental Activities				
Capital Assets not Being Depreciated:				
Land	\$ 15,558,581	\$ 1,337,577	\$ -	\$ 16,896,158
Construction in Progress	-	1,375,332	-	1,375,332
Total Capital Assets not Being Depreciated	15,558,581	2,712,909	-	18,271,490
Capital Assets Being Depreciated:				
Buildings	4,307,450	35,921	-	4,343,371
Equipment	2,831,565	309,111	(87,218)	3,053,458
Infrastructure	69,759,979	3,217,915	-	72,977,894
Total Capital Assets Being Depreciated	76,898,994	3,562,947	(87,218)	80,374,723
Accumulated Depreciation for:				
Buildings	(383,210)	(115,320)	-	(498,530)
Equipment	(1,529,544)	(362,460)	71,955	(1,820,049)
Infrastructure	(15,769,170)	(3,825,158)	-	(19,594,328)
Total Accumulated Depreciation	(17,681,924)	(4,302,938)	71,955	(21,912,907)
Total Capital Assets Being Depreciated, net	59,217,070	(739,991)	(15,263)	58,461,816
Total Governmental Activity Capital Assets, net	<u>\$ 74,775,651</u>	<u>\$ 1,972,918</u>	<u>\$ (15,263)</u>	<u>\$ 76,733,306</u>
	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Business-Type Activities				
Capital Assets not Being Depreciated:				
Water Rights	\$ 13,984,449	\$ 675,200	\$ -	\$ 14,659,649
Construction in Progress	-	308,487	-	308,487
Total Capital Assets not Being Depreciated	13,984,449	983,687	-	14,968,136
Capital Assets Being Depreciated:				
Water Capacities	10,950,988	-	-	10,950,988
Culinary Water System	56,397,321	38,514	-	56,435,835
Secondary Water Irrigation System	5,611,545	22,755	-	5,634,300
Sewer System	19,702,371	26,634	-	19,729,005
Storm Drain System	15,280,452	100,356	-	15,380,808
Equipment	669,664	36,690	-	706,354
Total Capital Assets Being Depreciated	108,612,341	224,949	-	108,837,290
Accumulated Depreciation for:				
Water Capacities	(2,901,146)	(547,549)	-	(3,448,695)
Culinary Water System	(7,029,044)	(1,415,278)	-	(8,444,322)
Secondary Water Irrigation System	(474,547)	(140,537)	-	(615,084)
Sewer System	(3,439,204)	(657,194)	-	(4,096,398)
Storm Drain System	(1,622,176)	(383,051)	-	(2,005,227)
Equipment	(503,214)	(77,413)	-	(580,627)
Total Accumulated Depreciation	(15,969,331)	(3,221,022)	-	(19,190,353)
Total Capital Assets Being Depreciated, net	92,643,010	(2,996,073)	-	89,646,937
Total Business-Type Activity Capital Assets, net	<u>\$106,627,459</u>	<u>\$ (2,012,386)</u>	<u>\$ -</u>	<u>\$104,615,073</u>

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

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

Governmental activities:		
General		\$ 82,570
Public safety		254,732
Highways and public improvements		2,788,557
Parks and recreation		<u>1,177,079</u>
Total depreciation expense - governmental activities		<u>\$ 4,302,938</u>
Business-type activities:		
Water utility		\$ 2,138,400
Sewer utility		679,627
Storm drain utility		<u>402,995</u>
Total depreciation expense - business-type activities		<u>\$ 3,221,022</u>

Note 7 – Long-Term Liabilities

Revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds are included in the accounts of such funds. All other long-term obligations of the City are accounted for in the governmental activities of the government-wide statements. The following table summarizes changes in long-term liabilities for the year ended June 30, 2011:

	Rate (%)	Amount of Original Issue	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Governmental Activities:							
2011 Sales Tax Revenue Bond	3.00 to 4.125	\$ 4,000,000	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 140,000
2011 Sales Tax Revenue Bond Premium			-	134,193	559	133,634	-
Obligations Under Capital Leases	3.92 to 6.45	2,796,840	1,895,779	21,400	(1,367,231)	549,948	190,038
Compensated Absences		-	199,526	36,911	(8,017)	228,420	189,094
Total Governmental Activity Long-Term Liabilities		<u>\$ 6,796,840</u>	<u>\$ 2,095,305</u>	<u>\$ 4,192,504</u>	<u>\$ (1,374,689)</u>	<u>\$ 4,912,002</u>	<u>\$ 519,132</u>
Business-Type Activities:							
2005 Water Revenue Refunding Bond	3.84	\$ 2,031,000	\$ 1,737,000	\$ -	\$ (81,000)	\$ 1,656,000	\$ 84,000
2006 Water Revenue Bond	3.20	3,285,000	2,902,595	-	(140,595)	2,762,000	145,000
2009 Water Revenue Bond	4.16	866,000	819,000	-	(44,000)	775,000	46,000
2009 Special Assessment Bond	5.16 to 9.00	4,669,539	4,669,539	-	(68,539)	4,601,000	161,000
Culinary Water System Settlement	0.00	21,000,000	16,460,750	-	(489,250)	15,971,500	1,050,000
Obligations Under Capital Leases	4.26 to 4.91	226,265	100,914	-	(32,791)	68,123	29,215
Compensated Absences		-	24,776	42,543	(1,148)	66,171	54,082
Total Business-Type Activity Long-Term Liabilities		<u>\$ 32,077,804</u>	<u>\$ 26,714,574</u>	<u>\$ 42,543</u>	<u>\$ (857,323)</u>	<u>\$ 25,899,794</u>	<u>\$ 1,569,297</u>

The annual debt requirements to maturity, including principal and interest, as of June 30, 2011 are listed in the following tables:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Year Ending June 30	Governmental Activities	
	Sales Tax	
	Revenue Bonds	
	Principal	Interest
2012	\$ 140,000	\$ 148,500
2013	145,000	144,300
2014	150,000	139,950
2015	155,000	135,450
2016	160,000	130,800
2017-2021	885,000	568,400
2022-2026	1,065,000	389,663
2027-2031	<u>1,300,000</u>	<u>163,100</u>
	<u>\$ 4,000,000</u>	<u>\$ 1,820,163</u>
Unamortized Premium	<u>133,634</u>	
Net Debt	<u><u>\$ 4,133,634</u></u>	

Year Ending June 30	Business-Type Activities							
	Water		Special Assessment Bonds		Culinary System Settlement		Totals	
	Revenue Bonds		Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 275,000	\$ 184,214	\$ 161,000	\$ 241,368	1,050,000	-	\$ 1,486,000	\$ 425,583
2013	284,000	174,435	170,000	405,150	1,050,000	-	1,504,000	579,585
2014	294,000	164,330	178,000	389,638	1,050,000	-	1,522,000	553,968
2015	305,000	153,866	187,000	373,395	1,050,000	-	1,542,000	527,261
2016	315,000	143,004	197,000	357,308	1,050,000	-	1,562,000	500,312
2017-2021	1,756,000	538,034	1,148,000	1,493,522	5,250,000	-	8,154,000	2,031,556
2022-2026	1,931,000	204,756	1,478,000	912,273	5,471,500	-	8,880,500	1,117,030
2027-2031	<u>33,000</u>	<u>1,056</u>	<u>1,082,000</u>	<u>200,935</u>	<u>-</u>	<u>-</u>	<u>1,115,000</u>	<u>201,991</u>
	<u>\$ 5,193,000</u>	<u>\$ 1,563,696</u>	<u>\$ 4,601,000</u>	<u>\$ 4,373,588</u>	<u>\$ 15,971,500</u>	<u>\$ -</u>	<u>\$ 25,765,500</u>	<u>\$ 5,937,284</u>

Water Revenue Bonds

On December 28, 2005, the City issued \$2,031,000 in Series 2005 Water Revenue Refunding Bonds with a maturity date of January 1, 2026 at an interest rate of 3.84 percent. Principal and interest remaining on the bonds is \$2,209,152. The bonds were issued to 1) finance the costs associated with acquiring, constructing, and equipping portions of the City's culinary water system, 2) refund the Series 2004 Water Revenue Bonds, and 3) finance the costs of issuance of the Series 2005 Bonds. Each principal payment is subject to prepayment and redemption at any time, in whole or in part (if in part, in integral multiples of \$1,000), in inverse order, at the election of the City. The redemption price will equal 100 percent of the principal amount to be repaid or redeemed, plus accrued, interest, if any, to the date of redemption.

On April 8, 2006, the City issued \$3,285,000 in Series 2006 Water Revenue Bonds with a maturity date of January 1, 2027 at a 3.20 percent interest rate. Principal and interest remaining on the bonds is \$3,528,560. The bonds were issued to finance the costs associated with acquiring, constructing, and equipping portions of the City's culinary water system, along with financing the costs of issuance of the Series 2006 Bonds. Each principal payment is subject to prepayment and redemption at any time, in

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

whole or in part (if in part, in integral multiples of \$1,000), in inverse order, at the election of the City. The redemption price is equal to 100 percent of the principal amount to be prepaid or redeemed, plus accrued interest, if any, to the date of redemption.

On July 20, 2009, the City issued \$866,000 in Series 2009 Water Revenue Bonds with a maturity date of June 1, 2024 at an initial rate of 4.16 percent. The interest rate will reset every 5 years to 90 percent of the five-year advanced fixed rate as quoted by the Seattle Federal Home Loan Bank. The maximum interest rate allowed is 7.50 percent. Total principal and interest remaining on the bonds is \$1,018,984. The bonds were issued for the purpose of financing the construction of improvements and additions to the City's water system and paying cost of issuance expenses. The Series 2009 Bonds are subject to redemption on any business day and with at least 30 days prior written notice at the option of the City, in whole or in part, at the redemption price of 100 percent of the principal amount of the Series 2009 Bonds to be redeemed plus accrued interest to the redemption date. If the interest rate adjustment is to exceed 7.50 percent, the owners of the Series 2009 Bonds will require the City to purchase all outstanding Series 2009 Bonds at a purchase price equal to 100 percent of the aggregate unpaid principal plus accrued interest at the rate immediately preceding the interest rate adjustment date.

Principal and interest paid for all Water Revenue Bonds totaled \$265,595 and \$199,920, respectively, in fiscal year 2011. It is estimated that annual principal and interest payments are expected to require approximately 19.6 percent of net utility revenues (total utility revenue less operating expenses, excluding depreciation).

Sales Tax Revenue Bonds

Sales Tax Revenue Bonds are special limited obligations of the City backed by the portion of sales and use taxes levied by the City under the Local Sales and Use Tax Act.

On June 1, 2011, the City issued \$4,000,000 in Series 2011 Sales Tax Revenue Bonds at interest rates from 3.000 to 4.125 percent with a maturity date of June 1, 2031. Total principal and interest remaining on the bonds is \$5,820,163. The bonds were issued to finance the costs associated with acquiring, constructing, renovating, equipping, and furnishing the City's facilities (including a public works facility, fire station, and city well improvements) and to exercise a purchase option under an outstanding financing lease for the City Hall building. Bond proceeds were also used to pay the cost of issuance of the Series 2011 Bonds. The bonds maturing on and after June 1, 2021 are subject to redemption prior to maturity, in whole or in part, at the option of the City on December 1, 2020 or on any date thereafter, from such maturities or parts thereof as selected by the City. The redemption price will be 100 percent of the principal amount to be redeemed plus accrued interest (if any) thereon to the redemption date. It is estimated that approximately 13.7 percent of sales and use tax revenues will be used for annual principal and interest payments.

Special Assessment Bonds

On November 19, 2009, the City issued \$4,669,539 in Series 2009 Special Assessment Bonds at an initial interest rate of 5.16 percent. After April 1, 2012, the interest rate increases to 9.00 percent. Total principal and interest remaining on the bonds is \$8,974,588. The bonds were issued for the purpose of

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

1) refunding and retiring all outstanding interim warrants issued by the City to finance improvements within the improvement district; 2) funding a debt service reserve fund; and 3) paying the costs of issuance of the Series 2009 Bonds. The Series 2009 Bonds are not subject to optional redemption prior to April 1, 2012. On and after April 1, 2012, the Series 2009 Bonds shall be subject to redemption at the option of the City, in whole or in part, on any business day at a redemption price equal to 100 percent of the principal amount of each bond to be redeemed plus accrued interest to the date of redemption.

The Series 2009 Bonds are subject to extraordinary mandatory redemption, in whole or in part, on and after April 1, 2012, and at a redemption price equal to 100 percent of the principal amount of each Bond to be redeemed plus accrued interest to the date of redemption in the amount of assessments (rounded to the nearest \$1,000 increment) as the City collects from the foreclosure sale of delinquent property. The particular Series 2009 Bonds or portion thereof to be redeemed shall be selected prior to the redemption date by the Bond Registrar.

These bonds will be repaid from amounts levied against the property owners benefited by this construction. The City is not liable for payment of the bonds, except to the extent of the funds created and received from 1) proceeds from the sale of any bonds issued to refund and retire the Series 2009 bonds; 2) assessments including assessments collected through foreclosure sales resulting from unpaid assessments; and 3) monies on deposit in the Debt Service Reserve fund. As of June 30, 2011, the amount of delinquent special assessments totaled \$41,090. The City expects to collect this amount in fiscal year 2012 through collections and foreclosure proceedings.

Principal and interest paid during fiscal year 2011 totaled \$68,539 and \$329,296, respectively. It is estimated that 100 percent of special assessment collections will be used to pay principal and interest on the special assessment bonds.

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 (\$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 remaining obligation is expected to be retired as follows:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Years Ending June 30,	Amount
2012	\$ 1,050,000
2013	1,050,000
2014	1,050,000
2015	1,050,000
2016	1,050,000
2017-2021	5,250,000
2022-2025	5,471,500
Total	<u>\$ 15,971,500</u>

Payments made on this obligation for 2011 and prior years are summarized as follows:

Original obligation	\$ 21,000,000
Payments in 2011	(489,250)
Payments in prior years	<u>(4,539,250)</u>
Obligation at June 30, 2011	<u>\$ 15,971,500</u>

Obligations Under Capital Leases

The City has entered into several lease agreements as lessee for financing the acquisition of City vehicles 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, 2011 were as follows:

	Governmental Activities	Business-type Activities		
		Water Utility	Sewer Utility	Storm Drain Utility
Equipment	\$ 1,272,306	\$ 46,597	\$ 17,478	\$ 115,050
Accumulated depreciation	<u>(743,992)</u>	<u>(35,964)</u>	<u>(13,983)</u>	<u>(73,961)</u>
Total	<u>\$ 528,313</u>	<u>\$ 10,633</u>	<u>\$ 3,495</u>	<u>\$ 41,089</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

Years Ending June 30,	Governmental Activities	Business-type Activities			Total
		Water Utility	Sewer Utility	Storm Drain Utility	
2012	\$ 215,294	\$ 8,884	\$ 3,948	\$ 18,841	\$ 31,673
2013	136,854	3,390	658	18,841	22,889
2014	105,490	1,948	-	9,420	11,368
2015	77,940	1,948	-	-	1,948
2016	31,017	1,948	-	-	1,948
2017-2021	34,391	2,922	-	-	2,922
Total minimum lease payments	600,985	21,039	4,606	47,102	\$ 72,747
Amount representing interest	(51,037)	(1,871)	(138)	(2,615)	(4,624)
Present value of future minimum lease payments	\$ 549,948	\$ 19,168	\$ 4,468	\$ 44,487	\$ 68,123

Operating Leases

The City leases vehicles under noncancelable operating leases. Total costs for such leases were \$16,609 for the year ended June 30, 2011. Under the lease, \$28,473 will be due in fiscal year 2012 and \$11,864 in fiscal year 2013.

Compensated Absence Obligations

It is the City's policy to permit employees to accumulate earned vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The maximum number of hours an employee can be paid out for upon termination varies between 200 to 280 hours (depending on the employee's years of service). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Historically the general fund has been used to liquidate the majority of governmental funds' compensated absences.

Note 8 – 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 these risks. Various policies are purchased through various insurance agencies to cover life, health, workers compensation, and other employee-related policies. The City also purchases policies to cover 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 9 – Retirement Plans

Defined benefit plans

Plan Description. The state of Utah requires all agencies with public employees to contribute to the Utah State Retirement Systems (URS). The City contributes to the Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and the Firefighters Retirement System, all of

CITY OF SARATOGA SPRINGS
Notes to the Basic Financial Statements

which are cost-sharing multiple-employer defined benefit pension plans. The URS 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 URS and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The URS issue a publicly available financial report which includes financial statements and required supplementary information for the Plans. A copy of the report may be obtained by writing to the Utah State Retirement Systems, 540 E 200 S, Salt Lake City, UT 84102-2044 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: 13.37 percent to the Noncontributory System, 28.24 percent to the Public Safety System, and 16.18 percent to the Firefighters System. The contribution requirements of the URS are actually determined rates and are approved by the Board as authorized by Chapter 49.

City contributions for the years ended June 30, 2011, 2010, and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Local Government			
Noncontributory System	\$ 235,277	\$ 190,977	\$ 199,710
Public Safety System	263,464	181,562	152,716
Firefighters System	57,079	28,660	10,766

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

Defined Contribution Plans

The City also offers its employees three defined contribution plans established in accordance with Internal Revenue Code Sections 401(k), 401(a), 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 defined contribution plans in lieu of contributing Social Security taxes for these employees. Employees may also defer a portion of their salary until future years.

Employer contributions for the years ended June 30, 2011, 2010, and 2009 to the 401(k) and 401(a) plans were \$288,142, \$234,063, and \$172,200, respectively. Employee contributions for the years ended June 30, 2011, 2010, and 2009 to the 401(k) plan were \$62,841, \$61,223, and \$90,855, respectively. Employer contributions for the years ended June 30, 2011, 2010, and 2009 to the 457 plan were \$0, \$20,076, and \$90,604, respectively. Employee contributions for the years ended June 30, 2011, 2010, and 2009 to the 457 plan were \$52,103, \$58,272, and \$68,516, respectively. Plan assets are held and administered by a third-party administrator.

Note 10 – Post-Employment Benefits

The City allows terminated or retired employees to continue their health insurance benefits for a period of 18 months after the employee’s termination or retirement date. All terminated or retired employees are required to pay the full cost of such extended health insurance coverage. As of June 30, 2011, one employee had elected to participate in this post-employment benefit program bearing the full cost of the insurance coverage. The administrative costs to the City for such benefits were not significant, and the City does not have a post-employment benefit (OPEB) liability.

Note 11 – Commitments and Contingent Liabilities

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 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 located within 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.

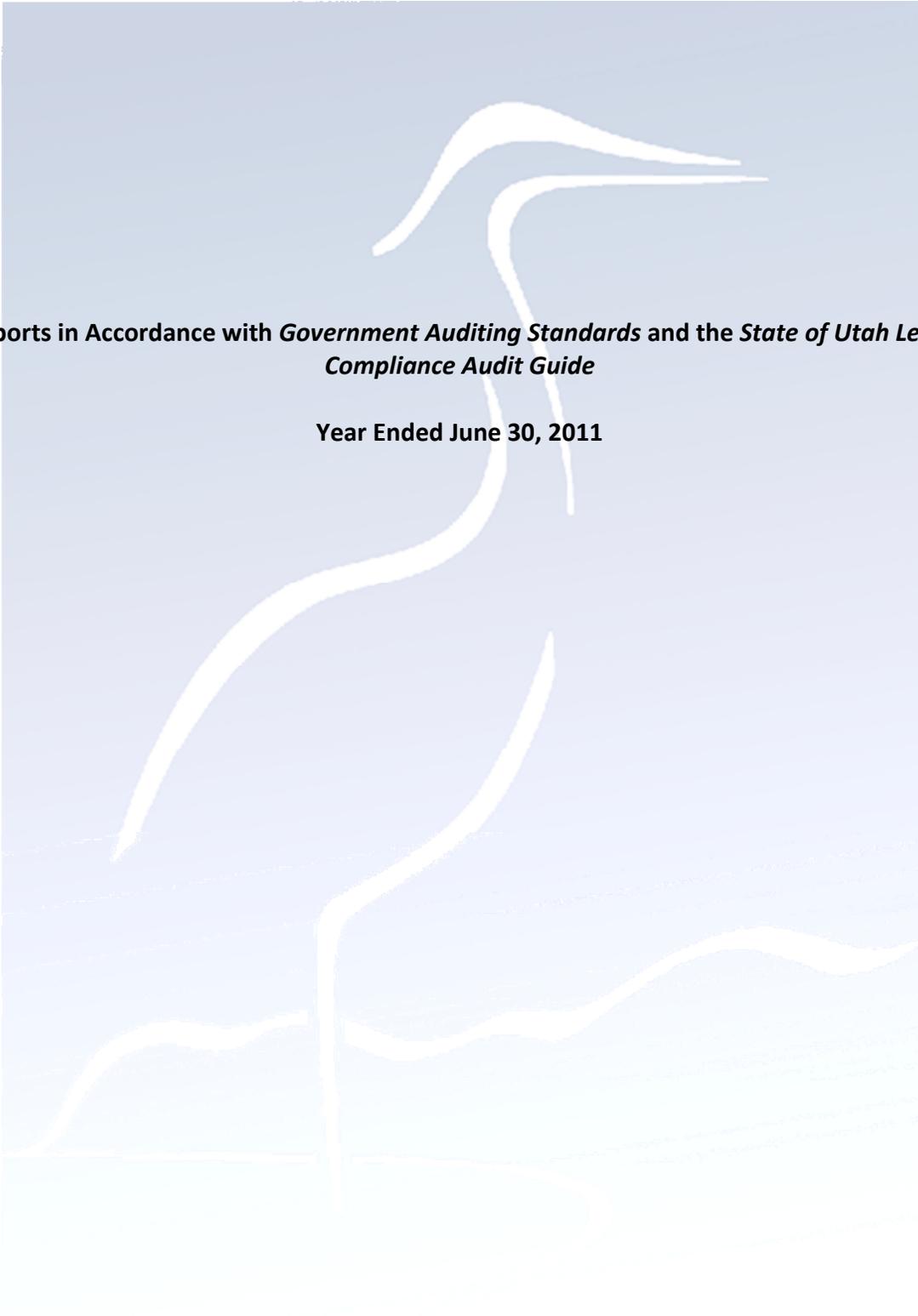
On March 30, 2010, the City entered into an agreement with a neighboring municipality to provide police services. In accordance with the agreement the City is to receive \$1,492,388 from March 2010 through March 2012.

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, 2011 was \$824,060, of which \$78,400 was paid during the year ended June 30, 2011.

Note 12 – Transfers In/Out

During the normal course of operations, the City makes transfers between the various funds. The principal purpose of the City’s interfund transfers is for capital projects. Transfers in and out for the year ended June 30, 2011 are summarized as follows:

	<u>Transfers Out From:</u>		
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Transfers In</u>
Transfers In to the Following Funds:			
Capital Projects	\$ 750,130	\$ -	\$ 750,130
Water Utility	-	380,000	380,000
Total Transfers Out	\$ 750,130	\$ 380,000	1,130,130



Reports in Accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*

Year Ended June 30, 2011



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

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 aggregate remaining fund information of the City of Saratoga Springs (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 11, 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

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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Aguirre & Company, P.C.

October 11, 2011



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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 compliance of the City of Saratoga Springs, Utah (the City) with general 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 | 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 | Liquor Law Enforcement |
| Utah Retirement System Compliance | Fund Balance Limitation |
| Justice Courts Compliance | |

The City had no major state programs during the year.

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 and guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a material effect on a general compliance requirement identified above occurred. 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 on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an other instance of noncompliance with those requirements, which is required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which is described below:

According to Utah Code 10-6-116(2), the general fund unrestricted fund balance may not exceed 18% of next year’s total general fund budgeted revenue minus any beginning fund balances appropriated. At June 30, 2011, the City’s unrestricted general fund balance exceeds the limit by \$124,676. We recommend that the City make needed adjustments to ensure compliance with this limitation.

Management's response – In the future, City staff will closely monitor general fund balance and budget any necessary transfers before year-end to ensure the City is in compliance with State law.

Management's response to the finding identified in our audit is described above. We did not audit management'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, management, Office of the Utah State Auditor, and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Aguirre & Company, PC

October 11, 2011