

City of Naples, Utah
Annual Financial Report

June 30, 2011

CITY OF NAPLES, UTAH

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Independent Auditors' Report

Honorable Mayor and City Council
City of Naples, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Naples, 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 of Naples, Utah 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 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, each major fund, and the aggregate remaining fund information of the City of Naples, Utah as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011 on our consideration of City of Naples, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11, and 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Naples, Utah's basic financial statements as a whole. The combining nonmajor fund financial statements on pages 48 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

Caldwell Coombs & Foley LLP

Vernal, Utah
December 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Naples, Utah

Financial Statement – FY 2010/2011

Completed by: Craig Blunt

Our discussion and analysis of the City of Naples financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2011. Please read this in conjunction with the City's Financial Statements.

Purpose of Report

This annual report consists of a series of financial statements, which follow uniform governmental accounting, financial, and auditing standards. The Statement of Net Assets and the Statement of Activities on pages 12 and 13 provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. These statements tell how the City is financed in the short term as well as what remains for future spending. The Statement of Revenues, Expenditures, and Changes in Fund Balances on page 16, reports the City's operations in more detail by providing information about the City's most significant funding, expenditure, and revenue categories in more detail.

Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides information about activities for which the City acts solely as an agent for the benefit of those outside the government.

Financial Highlights

The City's net assets have changed significantly, an increase of about \$1,400,000 or 7%. This is primarily due to highway sales taxes being accumulated for a construction project. Total assets have increased 18% over the prior year. This is primarily due to improvements to roads and buildings and unexpended grant funds received for a road construction project in progress. The road department received a grant and loan to fund a major road construction project.

The City's restricted net assets increased 50% and unrestricted net assets decreased 16% over the prior year. Restricted net assets increased primarily because of highway sales tax funds being accumulated for road construction projects.

The Governmental Funding resources that increased the capital projects and assets for the City were generated mainly from the sales tax, grant awards, and revenue bonds.

The City of Naples' major businesses are the gas, oil, and mining industries. This year saw a recovery in oil and gas activity, which resulted in a sales tax revenue increase of 47%.

Reporting the City as a Whole

The analysis of the City as a Whole begins on page 12 and 13. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities provide an overview of the City as a whole and about its activities in a way that helps answer the above question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between the assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base and the condition of the City's roads to assess the overall health of the City. The statements indicate that the City is in good financial health and is improving.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 14. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State Law and by the Bond Covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes such as the capital projects road fund or to show that it is meeting legal responsibilities for using certain taxes, grants, or other monies such as the Naples Redevelopment Agency. The City's most significant fund is the General Fund. All of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The governmental fund information helps you determine what resources are available to be spent in the near future to finance the City's programs.

The City's Combined Net Assets

The City's combined net assets increased 7% from a year ago. Prior year was \$19,520,921 while the current year is \$20,964,656. Looking at the net assets and net expenses of our government activities separately, two different stories emerge. Our analysis below focuses on the net assets, (Table 1) and the change in net assets (Table 2) of the City's governmental activities.

Table 1
NET ASSETS

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Capital Assets	\$17,352,861	\$ 15,727,114	\$ 1,625,747	10%
Current and other assets	7,668,089	5,425,760	2,242,329	41%
Total Assets	<u>25,020,950</u>	<u>21,152,874</u>	<u>3,868,076</u>	18%
Long-term liabilities	2,413,491	1,092,666	1,320,825	121%
Other liabilities	1,642,803	539,287	1,103,516	205%
Total liabilities	<u>4,056,294</u>	<u>1,631,953</u>	<u>2,424,341</u>	149%
Net assets				
Invested in capital assets, net of related debt	14,981,485	14,664,522	316,963	2%
Restricted	4,316,096	2,872,121	1,443,975	50%
Unrestricted	1,667,075	1,984,278	(317,203)	-16%
Total net assets	<u>\$20,964,656</u>	<u>\$ 19,520,921</u>	<u>\$ 1,443,735</u>	7%

Unrestricted net assets – the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased 16% from the prior year.

Table 2
CHANGES IN NET ASSETS

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Program Revenues:				
Charges for services	\$ 167,127	\$ 214,767	\$ (47,640)	-22%
Operating grants and contributions	132,591	226,157	(93,566)	-41%
Capital grants and contributions	1,064,324	313,720	750,604	239%
General Revenues:				
Property taxes levied for:				
General purposes	105,794	114,212	(8,418)	-7%

Redevelopment	120,009	117,620	2,389	2%
Sales taxes	2,792,511	1,902,735	889,776	47%
Franchise taxes	190,169	190,491	(322)	0%
Transient rooms tax	8,983	4,011	4,972	124%
Miscellaneous	51,397	70,576	(19,179)	-27%
Total revenues	<u>4,632,905</u>	<u>3,154,289</u>	<u>1,478,616</u>	47%
Expenses:				
General government	798,595	896,291	(97,696)	-11%
Public Safety				
Police	857,204	798,854	58,350	7%
Fire	120,959	128,503	(7,544)	-6%
Other	29,155	35,623	(6,468)	-18%
Highways & public improvements	1,299,577	1,255,528	44,049	4%
Parks, recreation & public property	78,530	79,493	(963)	-1%
Interest and fiscal charges on long-term debt	5,150	1,476	3,674	249%
Total expenses	<u>3,189,170</u>	<u>3,195,768</u>	<u>(6,598)</u>	0%
Change in net assets	1,443,735	(41,479)	1,485,214	-3581%
Net assets - beginning	<u>19,520,921</u>	<u>19,562,400</u>	<u>(41,479)</u>	0%
Net assets - ending	<u>\$ 20,964,656</u>	<u>\$ 19,520,921</u>	<u>\$1,443,735</u>	7%

The City's total revenues increased 47% from the prior year. The main factors that lead to the increase in total revenue were a large grant to partially fund a road construction project and increased revenues from sales taxes.

The Statement of Activities shown on page 13 presents the cost of each of the City's largest programs and compares total costs less revenues generated by the activities. The cost shows the financial burden that was placed on the City's taxpayers by each of these functions and the amount generated by property taxes, sales taxes, and franchise taxes levied to pay for these functions. Because costs for the City's largest programs are substantial, the City made application to other governmental programs and organizations to help subsidize funding and allowed us to complete these programs. This year's capital grants and contributions totaled \$1,064,324, which came mainly from the Utah Permanent Community Impact Board. Streets are and will be high maintenance costs, mainly due to the heavy industrial business equipment traffic and the harsh winter months. The City management must seek outside funds to keep roads in top condition due to the City's small revenue from sales tax, property tax, and franchise tax.

The City's Funds

As the City completed the year, its governmental funds as presented on the Balance Sheet on page 14, report a combined fund balance of \$6,019,495, which is an increase of \$1,141,395 compared to the prior year. These numbers confirm a healthy City.

Redevelopment Agencies

The City has two Redevelopment Agencies (RDA), RDA1 and RDA 1500 South. The larger agency, RDA1, was set up in the early 1980's for the purpose of leveling the blight conditions at the economy's bust of the mining industries. Due to the passed bust, the agencies received little income, but plan to provide the necessary infrastructure in its jurisdiction to help elevate the blight conditions and encourage a "Down Town" commercial development. The RDA 1 will fund for 2012 a Retail Outlet to get the Down Town started

General Fund Budgetary Highlights

Over the course of the year, the City Council opened and amended the City budget a few times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect actual beginning balances. The second category includes changes that the Council made during the third quarter to take into account several increases in appropriations to prevent budget overruns. The third category includes the allocation of increased grant revenues.

Transfers

Surplus revenues from the prior year in the general fund were transferred to capital projects funds to partially fund construction projects and equipment purchases, and to the debt service fund to provide for debt retirement.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011 the City had an investment of \$17,352,861 in a broad range of capital assets, including police equipment, fire equipment, buildings, park facilities, and roads. This year's major projects represent and include:

- 2500 South Road Project in progress
- Completion of the road department utility shed
- Equipment for police, and planning departments
- Ball diamonds at the park

Table 3
Capital Assets at Year-end
(Net of Depreciation)

	6/30/2011	6/30/2010	Increase (Decrease)	% Change
Land	\$ 384,600	\$ 384,600	\$ -	0%
Streets, sidewalks and bridges	11,798,839	12,402,077	(603,238)	-5%
Equipment	800,727	1,013,145	(212,418)	-21%
Improvements	658,919	668,647	(9,728)	-1%
Buildings	1,046,312	995,385	50,927	5%
Construction in progress	2,663,464	263,260	2,400,204	912%
Total	<u>\$17,352,861</u>	<u>\$ 15,727,114</u>	<u>\$ 1,625,747</u>	<u>10%</u>

The City's 2012 Capital Budget calls for it to spend on road reconstruction, storm drainage and emergency preparedness equipment purchases. The City will seek grants to fund 80% of the road projects, emergency preparedness equipment and utilize general funds for the other 20%.

Debt

The State limits the amount of debt that cities can carry to 4% of the assessed value of all taxable property within the City's corporate limits. The City has no general obligation debt. However, Ashley Valley Water and Sewer District is a district that carries a considerable amount of general obligation debt for the upgrading of sewer

and water within Naples City and Uintah County. This debt is an impact to the Naples City taxpayers. They pay the taxes to pay off these general obligation bonds and should be considered as part of our tax obligation when we are discussing debt within Naples City.

During 2010 the City issued revenue bonds to partially fund a road reconstruction project. The 2010 series is secured by revenues from the portion of the City's sales taxes that was assessed for highway construction and maintenance.

Table 4
Outstanding Debt at Year-end

	6/30/2011	6/30/2010	Increase (Decrease)	% Change
Road Revenue Bonds Series 2008	\$ 295,000	\$ 338,000	\$ (43,000)	-13%
Road Revenue Bonds Series 2009	424,000	424,000	-	0%
Road Revenue Bonds Series 2010	140,000	156,000	(16,000)	-10%
Sales Tax Revenue Bonds 2010	1,418,000	-	1,418,000	100%
Police Car Capital Lease	94,376	144,592	(50,216)	-35%
Accrued Leave	42,115	30,074	12,041	40%
Total	\$ 2,413,491	\$ 1,092,666	\$ 1,320,825	121%

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the 2012 budget, tax rates, and fees. One of those factors is the economy. The City's population growth has dropped to a 1% increase. Unemployment in the City now stands at 6.9% with the State's unemployment at 7.6% and the National rate of 10.2%.

The mining industry with its supporting services provides the City's employment base and tax revenue base. The mining and government industry have the largest payrolls in the County, which are the City's primary businesses that generate sales tax revenue. Their activity has dropped to 2005 activity levels which will decrease the sales tax revenue. The local economy appears to have leveled off at the 2005 year levels. The current mining activities indicate an increase need for a streamline environmental permit process to allow the mining industry to get back to work. It appears that the federal environmental permit process has increased the process rather than streamline the process.

These indicators were taken into account when adopting the General Fund budget for 2012. Amounts available for appropriation into the General Fund budget for 2012 should decrease 40% over 2009 revenues.

We expect inflation of 3% plus but will need to hold our budget at the year 2005 level to maintain current infrastructure. The City will need to look at reduced spending in

other areas. If these estimates are realized, the City's budgeted General Fund expenditures are expected to mirror the 2005 budget. More importantly, the City realizes that the mining industry economics fluctuate from year to year. The City's management must keep close contact with local businesses in order to foretell what the mining economics and its impacts will bring from year to year. The City must be conservative in its spending and not build more than can be maintained when the mining industry is at a low.

Contacting the City's Financial Management

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

Treasurers Office
1420 East 2850 South
Naples, Utah 84078
Phone: 435-789-9090
Fax: 435-789-9458

CITY OF NAPLES, UTAH
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets:	
Cash and investments	\$ 5,307,663
Receivables:	
Sales taxes	443,328
Property taxes	203,138
Franchise taxes	9,013
Other governments	32,815
Other accounts receivable	3,554
Restricted assets	
Restricted cash	1,633,932
Special assessments receivable	2,139
Long-term loans receivable	32,507
Capital Assets	
Land	384,600
Streets, sidewalks and bridges (net of depreciation)	11,798,839
Equipment (net of depreciation)	800,727
Improvements (net of depreciation)	658,919
Buildings (net of depreciation)	1,046,312
Construction in progress	2,663,464
Total assets	25,020,950
Liabilities:	
Accounts payable	131,160
Accounts payable from restricted assets	79,478
Employee benefits and taxes payable	5,683
Accrued interest	755
Building permit bonds	32,500
Deferred revenue:	
Property taxes	225,306
Grant revenue	1,167,921
Noncurrent liabilities	
Due within one year	222,332
Due in more than one year	2,191,159
Total liabilities	4,056,294
Net Assets:	
Invested in capital assets, net of related debt	14,981,485
Restricted for:	
Parks	168
Drainage projects	23,640
Rehabilitation loans	97,057
Debt service	855,525
Equipment purchase/replacement	48,352
Redevelopment	581,294
Road construction and maintenance	2,710,060
Unrestricted	1,667,075
Total net assets	\$ 20,964,656

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

CITY OF NAPLES, UTAH
Statement of Activities
For the year ended June 30, 2011

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities:					
General government	\$ 798,595	\$ 131,101			\$ (667,494)
Public safety					
Police	857,204	346	\$ 4,815	\$ 9,499	(842,544)
Fire	120,959		47,749		(73,210)
Other	29,155	35,680			6,525
Highways & public improvements	1,299,577		80,027	1,054,825	(164,725)
Parks, recreation & public property	78,530				(78,530)
Interest and fiscal charges on long-term debt	5,150				(5,150)
Total City	\$ 3,189,170	\$ 167,127	\$ 132,591	\$ 1,064,324	(1,825,128)
General Revenues					
Property taxes levied for					
General purposes					105,794
Redevelopment					120,009
Sales taxes					2,792,511
Franchise and telecommunication taxes					190,169
Transient rooms tax					8,983
Miscellaneous					51,397
Total general revenues					3,268,863
Change in net assets					1,443,735
Net assets - beginning					19,520,921
Net assets - ending					\$ 20,964,656

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

CITY OF NAPLES, UTAH
BALANCE SHEET -- GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Naples Redevelopment Agency	Debt Service	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash (Note 3.A.)	\$ 2,564,216	\$ 581,699	\$ 855,525	\$ 670,062	\$ 636,161	\$ 5,307,663
Sales taxes receivable	443,328					443,328
Property taxes receivable	77,138	120,000			6,000	203,138
Franchise taxes receivable	9,013					9,013
Due from other governments	32,815					32,815
Due to other funds	1,360					1,360
Other accounts receivable	3,554					3,554
Restricted assets:						
Restricted cash (Note 3.A.)	30,000		1,559,417		44,515	1,633,932
Special assessments receivable (Note 3.B.)					2,139	2,139
Long-term loans receivable (Note 3.C.)	32,507					32,507
Total Assets	3,193,931	701,699	855,525	2,229,479	688,815	7,669,449
LIABILITIES						
Accounts payable	104,900	26,260		79,478		131,160
Accounts payable from restricted assets						79,478
Benefits payable	5,683					5,683
Deferred property taxes	103,713	120,000			6,000	229,713
Building permit bonds	32,500					32,500
Deferred special assessments					2,139	2,139
Deferred grant revenues				1,167,921		1,167,921
Due to other funds					1,360	1,360
Total Liabilities	246,796	146,260		1,247,399	9,499	1,649,954
FUND EQUITY						
Fund balance:						
Restricted for:						
Parks	168					168
Drainage Projects	23,640					23,640
Rehabilitation loans	97,057					97,057
Debt service			855,525			855,525
Equipment purchase/replacement				3,837		44,515
Redevelopment		555,439				581,294
Road construction & maintenance	2,394,205			315,855		2,710,060
Committed for:						
Equipment replacement					177,398	177,398
Parks					432,908	432,908
Roads				662,388		662,388
Unassigned	432,065				(1,360)	430,705
Total fund equity	2,947,135	555,439	855,525	982,080	679,316	6,019,495
Total Liabilities & Fund Equity	\$ 3,193,931	\$ 701,699	\$ 855,525	\$ 2,229,479	\$ 688,815	\$ 7,669,449

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

CITY OF NAPLES, UTAH
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2011

Total fund balances for governmental funds \$ 6,019,495

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

Property taxes levied for the current and prior year not received within 60 days of the year end are deferred in the governmental funds: but are recorded as income in the government-wide financial statements. 4,407

The income from special assessments is deferred until the annual payments from property owners become due, or are received in the governmental funds. However, in the government wide financial statements special assessments are recorded as revenue when the assessment is effective. 2,139

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

Land	\$ 384,600	
Construction in progress	2,663,464	
Streets & Bridges \$16,443,611, net of depreciation of \$4,644,772	11,798,839	
Equipment \$2,229,592, net of depreciation of \$1,428,865	800,727	
Improvements \$1,117,551, less depreciation of \$458,632	658,919	
Buildings \$1,387,913 less depreciation of \$341,601	<u>1,046,312</u>	
		17,352,861

Interest on long-term debt (special assessment bonds) is not accrued in governmental funds, but rather is recognized as an expenditure when due. (755)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Revenue bonds payable	\$ (2,277,000)	
Capital lease contract payable	(94,376)	
Compensated absences payable	<u>(42,115)</u>	<u>(2,413,491)</u>

Total net assets of governmental activities \$ 20,964,656

CITY OF MAPLES, UTAH
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	General	Redevelopment Agency #1	Debt Service	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
REVENUES						
Sales and use taxes	\$ 2,792,511				\$	2,792,511
Franchise and telecommunication taxes	190,169					190,169
Property taxes	97,485	115,000			5,009	217,494
Fee in-lieu of taxes	11,294					11,294
Transient room taxes	8,983					8,983
Licenses and permits	60,191					60,191
Intergovernmental revenue	142,090		\$ 1,054,825			1,196,915
Fees and charges for services	886					886
Fines and forfeitures	98,470					98,470
Miscellaneous	29,698	2,560	4,102	16,872	2,553	55,785
Total Revenues	3,431,777	117,560	4,102	1,071,697	7,562	4,632,698
EXPENDITURES						
Current						
General government	709,961	60,305				770,266
Public safety						
Police	759,452					759,452
Fire	49,056					49,056
Other	29,155					29,155
Highways and public improvements	386,001					386,001
Parks, recreation and public property	4,609					4,609
Capital Outlay						
General government	25,155	18,973				44,128
Public safety						
Police	18,846					18,846
Fire						
Other						
Highways and public improvements	49,969			2,650,369	35,875	2,700,338
Parks, recreation and public property						35,875
Debt Service			109,217			109,217
Principal			5,552			5,552
Interest						
Total Expenditures	2,032,204	79,278	114,769	2,650,369	35,875	4,912,495
Excess revenues over (under) expenditures	1,399,573	38,282	(110,667)	(1,578,672)	(28,313)	(279,797)
Other financing sources (uses)						
Operating transfers in			185,768	300,000	16,000	501,768
Operating transfers out	(401,768)				(100,000)	(501,768)
Proceeds from long-term debt				1,418,000		1,418,000
Sale of capital assets	5,143					5,143
Reduction in Long-term Loans Receivable	(1,951)					(1,951)
Total Other Financing Sources (Uses)	(398,576)	-	185,768	1,718,000	(84,000)	1,421,192
Excess of revenues and other sources over (under) expenditures and other uses	1,000,997	38,282	75,101	139,328	(112,313)	1,141,395
Fund Balance - Beginning of Year	1,946,138	517,157	780,424	842,782	791,629	4,878,100
Fund Balance - End of Year	\$ 2,947,135	\$ 555,439	\$ 855,525	\$ 982,080	\$ 679,316	\$ 6,019,495

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

CITY OF NAPLES, UTAH
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 **\$ 1,141,395**

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

Property taxes levied for the current year not received within 60 days of the year end are deferred in the governmental funds; but are recorded as income in the statement of activities. 2,983

Governmental funds report income from special assessments when they become due from property owners. However, special assessments are recorded in the statement of activities when the assessment is effective.

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets (including contributed assets) with an initial, individual cost of \$5000 or more are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. When such assets are sold, gain or loss is reported in the statement of activities for the difference between the undepreciated cost and the sales price. In the governmental funds statement of revenues, expenditures, and changes in fund balances the full amount received from the sale of capital assets is reported as income when it is received or due. The differences are summarized as follows:

Capitalized asset acquisitions	\$ 2,775,748	
Undepreciated cost of sold assets	-	
Depreciation expense	<u>(1,150,001)</u>	1,625,747

Governmental funds report the proceeds from bond issues as other financing resources, and repayments of revenue and special assessment bond principal and the related interest as expenditures when the payments are due. In the statement of activities interest on revenue bonds is reported as expense as it accrues, regardless of when it is due. Bond issues are reported as additions to liabilities and principal payments are reported as reductions to liabilities in the statement of net assets. The net effect of these differences in the treatment of revenue bonds and related interest is as follows:

Proceeds from revenue bonds issued	\$ (1,418,000)	
Proceeds from capital lease agreements	-	
Bond principal repaid	59,000	
Capital lease principal paid	50,217	
Interest expense - adjustment to accrual basis	<u>402</u>	(1,308,381)

Governmental funds report compensation for employee absences when such amounts become due. In the statement of activities that expense is accrued as the benefit is earned by employees:

Compensated absences - adjustment to accrual basis	<u>(12,041)</u>
--	-----------------

Change in net assets of governmental activities **\$ 1,449,703**

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

CITY OF NAPLES, UTAH
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Agency Funds
	Justice Court
ASSETS	
Cash	\$ 1,272
Total assets	1,272
LIABILITIES	
Due to other government agencies	972
Bail bonds	300
Total liabilities	\$ 1,272

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

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government	City of Naples
Blended Component Units	Naples Redevelopment Agency Naples 1500 South Redevelopment Agency Special Assessment Improvement District No. 2000-1

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit; or a financial benefit or burden relationship exists.

None of the component units have issued separate financial statements.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council, or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Blended Component Units

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Naples Redevelopment Agency	Created January 19, 1983, to accumulate resources and fund redevelopment improvements in its area as provided for in the <i>Utah Neighborhood Development Act</i> . The current City Council serves as the entire governing body.	Special Revenue Fund
Naples 1500 South Redevelopment Agency	Created October 13, 1992, to accumulate resources and fund redevelopment improvements in its area as provided for in the <i>Utah Neighborhood Development Act</i> . The current City Council serves as the entire governing body.	Special Revenue Fund
Special Improvement District No. 2000-1	Created April 26, 2001, to accumulate resources, fund street, curb and sidewalk improvements in its area, and retire special improvement bonds. The current City Council serves as the entire governing body.	Debt Service

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities; however, since the City has no business type activities only governmental activities are shown. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. (Since the City has no proprietary funds, that category is eliminated.) An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. Since the City has no enterprise funds this 5% rule is not applicable.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Debt Service Funds

Debt service funds account for the accumulation of financial resources for the payment of interest and principal on the long-term debt of the City. The City has revenue bonds outstanding.

Capital Projects Funds

Capital projects funds are used to accumulate and expend resources for acquisition or construction of capital assets. The City has three capital projects funds.

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund. Agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The agency fund is as follows:

Fund	Brief Description
Justice Court Fund	Accounts for fines and forfeitures collected by the Justice Court for other government agencies, and for bail bonds posted by individuals waiting for court dates.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

<u>Classification</u>	<u>Brief Description</u>
Major:	
General Fund	See above for description
Special Revenue	
Naples Redevelopment Agency	Accumulates resources and funds redevelopment improvements within its area.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Classification	Brief Description
Major:	
Debt Service	
Debt Service	Accumulates resources and pays principal and interest on revenue bonds.
Capital Projects	
Roads	Accumulates resources from government grants and transfers from general fund and constructs improvements to roads, bridges and related structures.
Nonmajor:	
Special Revenue	
Naples 1500 South Redevelopment Agency	Accumulates resources and funds redevelopment improvements within its area.
Debt Service	
Special Assessment Improvement District No. 2000-1	Receives special assessments from property owners and pays principal and interest on special assessment bonds.
Capital Projects	
Assets Acquisition	Accumulates resources from government grants and transfers from general fund and purchases capital assets for the City's use..
Parks	Accumulates resources from government grants, private contributions, and transfers from general fund and constructs capital improvements to the City's parks.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Funds classified as *major* are separately reported in the fund financial statements, whereas funds classified as *nonmajor* are combined and reported in a single column.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the *economic resources* measurement focus as defined in item b. below.

In the fund financial statements, the *current financial resources* measurement focus is used.

- a. All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of changes in net assets and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when *measurable and available*. *Measurable* means knowing or being able to reasonably estimate the amount. *Available* means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for bond principal and interest which are reported when due.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, *cash* includes all demand, and savings accounts of the City.

Investments in the Public Treasurers' Investment Fund (PTIF) are carried as cost, plus accrued interest, which approximates fair value. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. No allowance for uncollectible accounts receivable has been recorded since collection of the accounts is substantially certain. Major receivable balances for the governmental activities include sales taxes, property taxes, franchise taxes, grants and revenue allotments from other governmental entities.

Restricted Assets

Restricted assets include cash restricted by grantors/donors for roads, parks, rehabilitation loans, and equipment replacement, by developers for drainage projects, and by bond resolutions for payment of long-term debt. Special assessments receivable are restricted for payment of special assessment bonds. And long-term rehabilitation loans, when collected, may only be used to fund future rehabilitation loans.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Government-wide Statements

In the government-wide financial statements, capital assets are accounted for as capital assets. The City considers individual assets (equipment, buildings, other real estate, or improvements to real estate, and infrastructure) with an acquisition cost or estimated value of \$5,000 or greater with a useful life exceeding one year to be capital assets. All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets (streets, sidewalks and bridges) were not capitalized. Certain of these assets have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings 20-40 years
- Improvements 10-40 years
- Machinery and equipment 5-10 years
- Streets, sidewalks and bridges 10-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term Debt

The accounting for long-term debt depends on whether it is reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. The long-term debt consists of revenue bonds, capital leases, and accrued compensated absences.

Long-term debts for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Compensated Absences

The City's policies regarding vacation and compensatory time permit employees to accumulate earned but unused vacation and compensatory leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

During the fiscal year ended June 30, 2011 the City implemented Statement No. 54 of the Governmental Accounting Standards Board – Fund Balance Reporting and Governmental Fund Type Definitions. Fund balance reclassifications made to conform to the provisions of the Statement were applied retroactively by restating fund balance for all prior periods presented. The requirements of Statement No. 54 are explained in the following six paragraphs.

Governmental fund equity is classified as fund balance. Fund balance is further classified as *nonspendable, restricted, committed, assigned, or unassigned*.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The restricted fund balance classification includes amounts where constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution or ordinance) of the city's highest level of decision-making authority, the city council. Those committed amounts cannot be used for any other purpose unless the city council removes or changes the specified use by taking the same type of action (resolution or ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

The assigned fund balance classification includes amounts that are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed. The authority to make an assignment may be delegated by the city council to a committee or a city official. Furthermore, the nature of the actions necessary to make, remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification.

The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. If funds other than the general fund incur a deficit fund balance the negative residual amounts are also classified as unassigned fund balance.

Expenditure of Restricted, Committed, Assigned, and Unassigned Resources

Restricted resources are used first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Similarly, when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be used the city first expends committed resources, followed by assigned resources before spending unassigned resources.

Minimum and Maximum Fund Balance Requirements

The *Utah Code* requires that appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. Deficits in any fund are illegal.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Cities may accumulate fund balances in any fund. However, the unrestricted (committed, assigned, or unassigned) portion of the general fund may not exceed 18% of the total estimated revenue of the general fund. Furthermore, only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Taxes

The City levies a one percent sales tax on taxable sales within the City, and a one percent use tax on personal property purchased outside the City limits, but used or consumed within the City. In November 2007 voters approved a .25% highways sales and use tax. The rate was increased to .30% effective April 1, 2010. The highways sales and use tax became effective April 1, 2008. The taxes are collected by the Utah State Tax Commission and remitted to the City in the month following receipt by the Tax Commission, which is due one to three months after vendors collect the tax. Sales and use taxes are reported in the General Fund and are used by the City without restriction, except that the highways sales and use tax may only be used for road construction and maintenance or the payment of debt incurred for road construction. Sales and use taxes collected by the Tax Commission in June and July and received by the City in July and August have been accrued and are included under the caption *sales taxes receivable*.

Franchise Taxes

The City levies a franchise tax on cable television and electric utilities, a telecommunications sales tax on telephone utilities, and a municipal energy sales tax on natural gas utilities within the City. The utility companies remit the taxes directly to the City, except for municipal telecom franchise taxes, which are remitted through the Utah State Tax Commission. Taxes are reported in the General Fund and are used without restriction. Taxes received by the City in July and August for the month of June or prior months are accrued.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and payable on November 30. Uintah County bills and collects property taxes for all taxing districts within the County. Collections are periodically apportioned to the City with final settlement being made on March 31 of the subsequent year. In the fund financial statements, property taxes are recorded as revenue in the year for which they were levied to the extent they are collected within 60 days after year-end. In the government-wide financial statements additional accrual is made for the delinquent taxes reported by the Uintah County

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Treasurer that were not received within 60 days after year-end. Property taxes receivable include both property taxes and fees in-lieu of property taxes, which are collected in the same manner as property taxes. In addition to the City's property tax levy for the General Fund, the Naples Redevelopment Agency and the Naples 1500 South Redevelopment Agency receive property taxes based on the incremental value of assessed properties within the agencies. The General Fund property taxes may be used without restriction. The redevelopment agencies' property taxes are restricted to use within the respective redevelopment agencies.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, governmental funds expenditures are classified by character: current (further classified by function), debt service, and capital outlay. Governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as Interfund transfers. For purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

Fund	Required By:
Naples Redevelopment Agency	State Law
Naples 1500 South Redevelopment Agency	State Law
Special Improvement District No. 2000-1	State Law
Debt Service Fund	Bond Resolution
Capital Projects: Assets Acquisition	Grant Agreement

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Deposits and investments for the local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, “the Act”) and by rules of the Utah Money Management Council (“the Council”).

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from federal, state, and local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
“C” Road Allotment	Highways and Streets
State Liquor Tax	Liquor Law Enforcement
State Permanent Community Impact Board	Streets Department Equipment Buildings and Road construction
Rehabilitation Loan Payments	Rehabilitation Loans
Property Taxes	Redevelopment Projects
Highways sales and use taxes	Road construction /maintenance
Special Improvement Assessments	Debt Service

For the year ended June 30, 2011, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

The *Constitution of Utah, Article XIV* limits the amount of general obligation debt the City may issue to four percent of the fair market value of taxable property in its jurisdiction, plus up to an additional eight percent for the purpose of supplying the City with water, sewer or electricity when such public works are owned and controlled by the municipality, and requires the proposition to create general obligation debt be submitted to a vote of qualified electors. The city currently has no general obligation debt.

The *Constitution* allows the City to issue revenue bonds and special assessment bonds. The City has issued the following bonds. Each of the bond issues has certain sinking fund requirements as explained below.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Road Revenue Bond Series 2008

The City issued B and C Road Revenue Bonds Series 2008 on September 16, 2008 for the purpose of partially funding improvements to city streets. The bonds are payable from the City's "C" Road Allotment which is received quarterly from the State of Utah. The bonds mature in ten (10) annual payments beginning April 1, 2009 with no interest.

The bond resolution for the B and C Road Revenue Bonds Series 2008 requires quarterly deposits of 1/4 the annual bond payment into a sinking fund. Deposits are due January 10, April 10, July 10, and October 10 to service the bond payment due on April 1.

The bond resolution also requires quarterly deposits of \$1,792 into a reserve fund until a balance of \$43,000 is accumulated and maintained until the final bond payment. Deposits are due January 10, April 10, July 10, and October 10.

As of June 30, 2011 the City had deposited funds totaling \$43,000 into the sinking fund and \$43,000 into the reserve fund. These deposits exceeded the required amounts.

The City also covenanted that every officer, agent, or employee having custody or control of any of the revenues or of the proceeds of the Series 2008 Bonds shall be bonded by a responsible corporate surety in an amount not less than \$86,000. The City has complied with this requirement.

Road Revenue Bond Series 2009

The City issued Sales Tax Revenue Bonds Series 2009 on February 24, 2009 for the purpose of partially funding improvements to city streets. The bonds are payable from sales taxes received by the City. The bonds mature in ten (10) annual payments beginning April 1, 2019 with no interest.

The bond resolution for the Sales Tax Revenue Bonds Series 2009 requires quarterly deposits of 1/4 the annual bond payment into a sinking fund beginning August 10, 2018. Deposits are due January 10, April 10, July 10, and October 10 to service the bond payment due on April 1.

The bond resolution also requires quarterly deposits of \$1,792 beginning September 10, 2018 into a reserve fund until a balance of \$43,000 is accumulated and maintained until the final bond payment. Deposits are due January 10, April 10, July 10, and October 10.

As of June 30, 2011 the City had deposited funds totaling \$43,000 each into the sinking fund and reserve fund. These deposits exceeded the required amounts.

The City also covenanted that every officer, agent, or employee having custody or control of any of the revenues or of the proceeds of the Series 2009 Bonds shall be bonded by a

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

responsible corporate surety in an amount not less than \$86,000. The City has complied with this requirement.

Excise Tax Road Revenue Bonds 2010

The City issued Taxable Excise Tax Road Revenue Bonds Series 2010 on March 11, 2010 for the purpose of partially funding the purchase of road department equipment. The bonds are payable from the City's "C" Road Allotment which is received quarterly from the State of Utah. The bonds mature in ten (10) annual payments beginning October 1, 2010 with no interest.

The bond resolution for Taxable Excise Tax Road Revenue Bonds Series 2010 requires quarterly deposits of 1/4 the annual bond payment into a sinking fund beginning January 10, 2010. Deposits are due January 10, April 10, July 10, and October 10 to service the bond payment due on October 1.

The bond resolution also requires quarterly deposits of \$666 beginning January 1, 2010 into a reserve fund until a balance of \$16,000 is accumulated and maintained until the final bond payment. Deposits are due January 10, April 10, July 10, and October 10.

As of June 30, 2011 the City had deposited funds totaling \$16,000 each into the sinking fund and the reserve fund. These deposits exceeded the required amounts.

The City covenanted that the average annual installments of principal on the Series 2010 Bonds and all bonds on parity therewith will not exceed 80% of the total amount of the revenues received by the City during the Sinking Fund Year immediately preceding the Sinking Fund Year in which the Resolution was adopted. The City complied with this requirement.

The City also covenanted that every officer, agent, or employee having custody or control of any of the revenues or of the proceeds of the Series 2010 Bonds shall be bonded by a responsible corporate surety in an amount not less than \$32,000. The City has complied with this requirement.

Taxable Transportation Sales Tax Revenue Bonds Series 2010

The City issued Taxable Transportation Sales Tax Revenue Bonds Series 2010 on November 2, 2010 for the purpose of partially funding the construction of road improvements. The bonds are payable from the City's Highway Sales and Use Tax. The bonds mature in ten (20) annual payments beginning January 1, 2012 with no interest.

The bond resolution for the Taxable Transportation Sales Tax Revenue Bonds Series 2010 requires monthly deposits of 1/12 the annual bond payment into a sinking fund beginning

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

January 10, 2011. Deposits are due on or before the tenth day of each month to service the bond payment due on January 1.

The bond resolution also requires monthly deposits of \$986 beginning January 10, 2011 into a reserve fund until a balance of \$71,000 is accumulated and maintained until the final bond payment. Deposits are due on or before the tenth day of each month.

As of June 30, 2011 the City had deposited funds totaling \$71,000 each into the sinking fund and the reserve fund. These deposits exceeded the required amounts.

The City covenanted that the average annual installments of principal on the Taxable Transportation Sales Tax Revenue Bonds Series 2010 and all bonds on parity therewith will not exceed 80% of the total amount of the revenues received by the City during the Sinking Fund Year immediately preceding the Sinking Fund Year in which the Resolution was adopted. The City complied with this requirement.

The City also covenanted that every officer, agent, or employee having custody or control of any of the revenues or of the proceeds of the Series 2010 Bonds shall be bonded by a responsible corporate surety in an amount not less than \$142,000. The City has complied with this requirement.

2.E. PURCHASING REQUIREMENTS

The Utah Uniform Fiscal Procedures Act for Cities requires cities to adopt an ordinance or resolution governing purchasing procedures, and requires that purchases be made in accordance with the established purchasing procedures. The City has adopted the required ordinance and follows those procedures.

2.F. BUDGETARY PROCEDURES AND COMPLIANCE

The *Utah Code, Section 10-6* requires that all City expenditures be made only from amounts appropriated in a legally adopted budget. The budgetary compliance level in the general fund is each department. The budgetary compliance level in all other City funds is the fund total. An annual budget is to be adopted for each governmental fund and may be amended as follows:

- Prior to May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The proposed budget is reviewed, revised and tentatively adopted by the City Council prior to public hearing.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

- A public hearing is conducted to obtain taxpayer comments after which the final budget is adopted.
- The City Council is authorized to transfer budgeted amounts between departments within the general fund by resolution; however, the budget of any governmental fund may only be increased after the proper public hearing.

For the fiscal year ended June 30, 2011 expenditures in all departments of the general fund and in the other funds were within budget allotments.

2.G. TRUTH IN TAXATION AND PROPERTY TAX LIMITATIONS

The *Utah Code 59-2-912* requires the City Council to adopt, on or before June 22 of each year, a proposed property tax rate or, if the tax rate is not more than the certified tax rate, a final tax rate for the City. The City reports the rate and levy to the county auditor.

If the City Council proposes a tax rate exceeding the certified tax rate, the following requirements specified by *Utah Code 59-2-919 and 920* must be met:

- The City must notify the county that it will hold a tax increase hearing on the date previously set. The county must include the information on the proposed increase and the date and time of the hearing in its *Notice of Valuation and Tax Changes*. This notice must be mailed at least ten days prior to the hearing date
- The City must advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county. The advertisement must appear once each week for the two weeks preceding the hearing. The date of the advertisement must be at least 7 days prior to the hearing.
- The advertisement must be at least a quarter page in size and must not be placed in the portion of the newspaper where legal notices and classified advertising appear. The type used shall not be less than 18, and shall be surrounded by a ¼ inch border.
- A public hearing must be held at the date and time advertised.
- The City Council must adopt an ordinance or resolution setting the tax rate and certify that rate to the county auditor.

The City Council adopted a tax rate equal to the certified rate for tax year 2011, and complied in all other respects with law.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

2.H. FUND BALANCES

Deficit Fund Balances

Utah Code 10-6-117(1) states that appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. In other words, deficits in any fund are illegal.

As of June 30, 2011 all the City's funds had positive fund balances except for the Special Assessment Improvement District No. 2000-1, which had a deficit fund balance of \$1,360.

Limits on Fund Balances

Utah cities may accumulate fund balances in any fund. However, *Utah Code 10-6-116* provided minimum and maximum fund balance limitations for the general fund. Only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund.

As of June 30, 2011 the general fund balance was within allowable limits.

2. I. JUSTICE COURT COMPLIANCE

Utah Code Section 78-5-135 requires the City's Justice Court to deposit funds it collects within three business days after receipt into an account controlled by the City Treasurer. Amounts collected are to be reported and distributed to the State and other governmental entities, including the City, by the 10th of the following month.

Utah Code Section 63-63a-1 requires the Justice Court to impose a surcharge on all criminal fines, penalties and forfeitures, and specifies the rate of the surcharge depending on the type of offence committed. The Justice Court is required to remit the surcharges collected together with the State's portion specified fines and penalties to the State. Other *Utah Code* sections specify amounts to be collected and how they are to be divided between the State, the City, and other governmental entities.

During the fiscal year ended June 30, 2011 the City complied in all material respects with the requirements governing its Justice Court.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the City's basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3. A. DEPOSITS AND INVESTMENTS

The City's policies and applicable laws regarding deposits of cash and investments are discussed in Notes 1.D. and 2.B.

- **Custodial Credit Risk**

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined 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 of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2011 all of the City's bank balances totaling \$969,424 were insured.

- **Credit Risk**

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

At June 30, 2011, the local government had investments of \$6,359,792 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

• **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the fund to be invested.

Reconciliation to Government-wide Statement of Net Assets

Demand Deposits	\$ 581,825
Cash on hand	1,250
Investments in external investment pool	<u>6,359,792</u>
Total cash and investments	<u>\$6,942,867</u>
Cash and investments	\$5,307,663
Restricted cash	1,633,932
Agency fund cash (not included in government-wide statement)	<u>1,272</u>
Total	<u>\$6,942,867</u>

Restricted Cash

Certain funds have been placed in separate cash or investment accounts for the following restricted purposes:

Restricted for:	
Building permit bonds	\$ 30,000
Total General Fund	<u>30,000</u>
Road construction	1,559,417
Fire equipment	<u>44,515</u>
Total Other Governmental Funds	<u>1,603,932</u>
Total Restricted Cash	<u>\$1,633,932</u>

3.B. SPECIAL ASSESSMENTS RECEIVABLE

The Special Assessment Improvement District No. 2000-1 issued Naples City, Utah Special Assessment Bonds, Series 2002 during the fiscal year ended June 30, 2003. The bonds are to be paid from the proceeds of special assessments to property owners within the special

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

improvement district. The City retired the bonds during the year ended June 30, 2010. Balances due from property owners at June 30, 2011 were \$2,139.

3.C. LONG-TERM LOANS RECEIVABLE

The City received federal grant funding for its Rehabilitation Loan Program. The City used the grant to fund loans for qualified low-income residents to renovate their homes. The loans are payable monthly at varying low rates of interest. The City makes additional loans to other qualified residents as funds become available from repayments on previous loans. At June 30, 2011, loans receivable totaled \$32,507. Funds available for future loans at June 30, 2011 totaled \$64,550. The total of loans receivable and program cash on hand, \$97,057, is reported in the statement of net assets as restricted for rehabilitation loans.

3.D. CAPITAL ASSETS

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

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Land	\$ 384,600	\$ -	\$ -	\$ 384,600
Streets, sidewalks and bridges	16,236,879	206,732		16,443,611
Equipment	2,247,857	63,116	(81,381)	2,229,592
Improvements	1,101,509	16,042		1,117,551
Buildings	1,298,259	89,654		1,387,913
Construction in progress	263,260	2,400,204		2,663,464
Total	<u>21,532,364</u>	<u>2,775,748</u>	<u>(81,381)</u>	<u>24,226,731</u>
	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Less accumulated depreciation:				
Streets, sidewalks and bridges	(3,834,802)	(797,028)		(4,631,830)
Equipment	(1,234,712)	(257,889)	81,381	(1,411,220)
Improvements	(432,862)	(56,357)		(489,219)
Buildings	(302,874)	(38,727)		(341,601)
Total	<u>(5,805,250)</u>	<u>(1,150,001)</u>	<u>81,381</u>	<u>(6,873,870)</u>
Governmental activities capital assets, net	<u>\$ 15,727,114</u>	<u>\$ 1,625,747</u>	<u>\$ -</u>	<u>\$ 17,352,861</u>

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Depreciation expense was charged to governmental activities as follows:

General government	\$ 18,665
Public safety	
Police	89,530
Fire	71,903
Highways and public improvements	895,982
Parks, recreation and public property	<u>73,921</u>
Total depreciation	<u>\$ 1,150,001</u>

The gross amount of assets reported in the statement of net assets recorded under capitalized leases at June 30, 2011 is \$200,361, less accumulated amortization of \$48,526, or net capitalized leased assets of \$151,835. The capitalized leased assets are included with owned capital assets. Amortization expense totaling \$40,072 is included in depreciation and was all charged to the police function.

3.E. LONG-TERM DEBT

The City's long-term debt is described in Note 2.D. The following is a summary of the changes in long-term debt:

Description of Debt	Balance 6/30/2010	Borrowed	Retired	Balance 6/30/2010	Due Within 1 Year	Due in More Than One Year
Road Bonds 2008 B&C	\$ 338,000	\$ -	\$ 43,000	\$ 295,000	\$ 43,000	\$ 252,000
Road Bonds 2009 Sales Tax	424,000	-	-	424,000	-	424,000
Road Bonds 2010 B&C	156,000	-	16,000	140,000	16,000	124,000
Road Bonds 2010 Sales Tax	-	1,418,000	-	1,418,000	71,000	1,347,000
Police Car Capital Lease	144,592	-	50,216	94,376	50,217	44,159
Accrued Leave	30,074	12,041	-	42,115	42,115	-
Total	<u>\$ 1,092,666</u>	<u>\$ 1,430,041</u>	<u>\$ 109,216</u>	<u>\$ 2,413,491</u>	<u>\$222,332</u>	<u>\$ 2,191,159</u>

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The combined aggregate amount of debt service requirements (principal and interest) by year is as follows:

Due Fiscal Year Ended June 30	Road Bonds 2009 Sales Tax	Road Bonds 2008 B&C	Road Bonds 2010 B&C	Road Bonds 2010 Sales Tax	Police Car Capital Lease			Total Debt Service
	Principal	Principal	Principal	Principal	Principal	Interest	Total	
2012	-	43,000	16,000	71,000	30,281	3,624	33,905	163,905
2013	-	43,000	16,000	71,000	31,444	2,461	33,905	163,905
2014	-	43,000	16,000	71,000	32,651	1,254	33,905	163,905
2015	-	43,000	16,000	71,000				130,000
2016	-	43,000	16,000	71,000				130,000
2017-2021	129,000	80,000	60,000	355,000				624,000
2022-2026	215,000	-	-	355,000				570,000
2027-2031	80,000	-	-	353,000				433,000
Total	\$ 424,000	\$295,000	\$140,000	\$1,418,000	\$ 94,376	\$ 7,339	\$ 101,715	\$ 2,378,715

The general fund liquidates accrued leave when it is used by employees and makes payments to terminating employees. The City's debt service fund pays the Road Bonds and the capital lease as they become due.

3. F. INTERFUND TRANSFERS

The City transferred \$185,768 from the General fund to the Debt Service fund. The City transferred funds from the General Fund to partially fund capital expenditures in the Capital Projects Assets Acquisition Fund \$16,000, and in the Capital Projects Roads Fund \$200,000. The Capital Projects Parks Fund transferred \$100,000 to the Capital Projects Roads Fund.

4. PENSION PLANS

Plan Description. The City of Naples, Utah contributes to the Local Governmental Contributory Retirement System (Contributory System) and the Public Safety Retirement System. The systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

Funding Policy. For the year ended June 30, 2011, plan members in the Local Governmental Contributory Retirement System were required to contribute 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and Naples City was required to contribute 9.36% of annual covered salaries. In the Public Safety Division A Noncontributory System Naples City was required to contribute 26.13% of covered salaries. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49. Naples City paid all employee contributions for its employees.

Naples City's contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2011, 2010, and 2009 were \$67,365, \$58,020, and \$51,545 respectively. For the Public Safety Noncontributory Retirement System the contributions for the years ending June 30, 2011, 2010, and 2009 were \$71,954, \$66,916, and \$71,924 respectively. The contributions were equal to the required contributions for each year.

Defined Contribution System 401(k) Plan

Naples City also contributed \$15,965, \$16,439, and \$43,482 to the State Retirement System's 401(k) defined contribution plan for the benefit of employees for the years ended June 30, 2011, 2010, and 2009 respectively. Employee contributions for the respective years were \$44,514, \$41,446, and \$39,869. Employee contributions are voluntary salary deferrals. The City's contribution rate is determined by the City Council.

5. RISK MANAGEMENT

The City of Naples, Utah 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. These risks are covered by commercial insurance purchased through the Utah Local Governments Trust. Settled claims from these risks have not exceeded commercial insurance coverage.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

6. REDEVELOPMENT AGENCIES - REQUIRED DISCLOSURES

Utah State Code Section 17A-2-1217(3) requires disclosure of certain information regarding each of the City's redevelopment agencies. The City of Naples, Utah has two redevelopment agencies. The required disclosures for the year ended 6/30/11 for each agency are as follows:

Naples Redevelopment Agency

• The tax increment collected by the agency	\$115,000
• The amount of tax increment paid to any taxing agency pursuant to Section 17a-2-1258	\$ 0
• The outstanding principal amount of bonds issued or other loans incurred to finance the costs associated with the project areas	\$ 0
• The actual amount expended for:	
(i) acquisition of property	\$ 18,973
(ii) site improvements or preparation costs	\$ 21,198
(iii) installation of public utilities or other public improvements	\$ 12,402
(iv) administrative costs of the agency	\$ 26,705

Naples 1500 South Redevelopment Agency

• The tax increment collected by the agency	\$5,009
• The amount of tax increment paid to any taxing agency pursuant to Section 17a-2-1258	\$ 0
• The outstanding principal amount of bonds issued or other loans incurred to finance the costs associated with the project areas	\$ 0
• The actual amount expended for:	
(i) acquisition of property	\$ 0
(ii) site improvements or preparation costs	\$ 0
(iii) installation of public utilities or other public improvements	\$ 0
(iv) administrative costs of the agency	\$ 0

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

7. COMMITMENTS

At June 30, 2011 the City had an outstanding commitment for construction services as follows:

Construction Services:

Road Construction	
Contract estimate	\$1,460,626
Completed through 6/30/11	<u>561,542</u>
Balance of contract	<u>899,084</u>

Sidewalk Replacement	
Contract estimate	87,542
Completed through 6/30/11	<u>-</u>
Balance of contract	<u>87,542</u>

Engineering Services:

Contract estimate	370,601
Completed through 6/30/11	<u>220,393</u>
Balance of contract	<u>150,208</u>
Total	<u><u>\$1,136,834</u></u>

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

8. INSURANCE POLICIES

The bond resolutions for the various Road Revenue Bonds Series 2008, 2009 and 2010 require the annual disclosure of insurance policies in force at the end of the Sinking Fund Year. The following list provides the required information.

Policy Number	Insurer	Risk Covered	Policy Amount	Expiration Date
12670-GL2010	Utah Local Governments Trust	Comprehensive General Liability (including Public Officials Errors & Omissions)	\$ 2,000,000	10/5/2011
12670-GL2010	Utah Local Governments Trust	Auto Liability	\$ 2,000,000	10/5/2011
12670-WC2011	Utah Local Governments Trust	Workers Compensation	\$100,000 \$500,000 \$100,000	1/1/2012
ULGT-APDP-2010	Utah Local Governments Trust	Property Damage	\$ 2,464,934	10/5/2011
ULGT-APDP-2010	Utah Local Governments Trust	Auto PD Coverage	19 Vehicles	10/5/2010
22190999	CNA Surety	Position Schedule Bond - Treasurer/Recorder	Treasurer \$211,000 Recorder \$19,000	4/1/2012
70587156	CNA Surety	Position Schedule Bond - Treasurer/Recorder	\$86,000 each position	10/24/2012
70896329	CNA Surety	Position Schedule Bond - Treasurer/Recorder	\$142,000 each	3/23/2012
22191000	CNA Surety	Fidelity Blanket Bond	\$5,000 / \$14,000	4/1/2012

CITY OF NAPLES, UTAH
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Revenues:				
Sales and use taxes	\$ 1,639,500	\$ 1,848,000	\$ 2,792,511	\$ 944,511
Franchise and telecommunications taxes	173,663	173,663	190,169	16,506
Property taxes	83,050	104,950	97,485	(7,465)
Fee in-lieu of taxes	10,000	10,000	11,294	1,294
Transient room tax	-	8,365	8,983	618
Licenses and permits	26,620	32,051	60,191	28,140
Intergovernmental revenue	261,747	263,747	142,090	(121,657)
Fees and charges for services	17,350	17,350	886	(16,464)
Fines and forfeitures	108,500	108,500	98,470	(10,030)
Miscellaneous	42,150	53,650	29,698	(23,952)
Total revenues	<u>2,362,580</u>	<u>2,620,276</u>	<u>3,431,777</u>	<u>811,501</u>
Expenditures:				
General government				
Legislative	55,139	55,139	51,974	3,165
Justice Court	77,005	79,113	74,639	4,474
City Administrator	173,962	174,179	168,935	5,244
Treasurer	54,565	54,673	51,930	2,743
Recorder	84,180	84,288	74,736	9,552
Elections	250	250	-	250
City Attorney	63,611	63,611	62,153	1,458
Independent Auditor	18,600	18,600	17,591	1,009
Liability Insurance	40,000	40,000	34,906	5,094
General Government Buildings	218,930	244,818	80,151	164,667
Supplies/Equipment	26,765	41,765	30,079	11,686
Planning and Zoning	161,086	146,194	83,075	63,119
Boards and Commissions	8,225	13,275	13,259	16
Education and Promotion	23,225	23,225	9,388	13,837
Rehabilitation Loans	12,000	12,000	-	12,000
Public safety				
Police Department	762,298	772,832	745,186	27,646
Central Dispatch	34,000	34,000	33,112	888
Fire Protection	76,594	76,594	49,056	27,538
Building Inspector	17,938	27,738	25,254	2,484
Emergency Preparedness	64,800	64,800	3,792	61,008
School Crossing Guard	210	210	109	101
Highways and public improvements				
Highways	519,555	528,380	392,727	135,653
Street Lights	36,800	36,800	25,543	11,257
Parks, recreation and public property				
Parks	31,300	26,250	4,609	21,641
Total expenditures	<u>2,561,038</u>	<u>2,618,734</u>	<u>2,032,204</u>	<u>586,530</u>
Excess of revenues over (under) expenditures	(198,458)	1,542	1,399,573	1,398,031
Other financing sources (uses):				
Transfers to other funds	(201,768)	(401,768)	(401,768)	-
Sale of capital assets	600	600	5,143	4,543
Reduction in Long-term Loans Receivable	-	-	(1,951)	(1,951)
Total other financing sources (uses)	<u>(201,168)</u>	<u>(401,168)</u>	<u>(398,576)</u>	<u>2,592</u>
Excess of revenues and other sources over (under) expenditures and other uses	(399,626)	(399,626)	1,000,997	1,400,623
Fund Balance - Beginning	<u>1,946,138</u>	<u>1,946,138</u>	<u>1,946,138</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,546,512</u>	<u>\$ 1,546,512</u>	<u>\$ 2,947,135</u>	<u>\$ 1,400,623</u>

CITY OF NAPLES, UTAH
Budgetary Comparison Schedule - Naples Redevelopment Agency
For the year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 115,000	\$ 115,000	\$ 115,000	\$ -
Intergovernmental revenue		-	-	-
Miscellaneous	2,290	2,290	2,560	270
Total revenues	<u>117,290</u>	<u>117,290</u>	<u>117,560</u>	<u>270</u>
Expenditures:				
Acquisition of property	115,000	96,000	-	96,000
Main Street Down Town		-	26,260	(26,260)
Highway 40 beautification		-	11,017	(11,017)
			21,198	(21,198)
Planning and development		19,000	18,973	27
Promote economic development		-	445	(445)
Roadside Park expenses		-	1,385	(1,385)
Professional services	2,290	2,290	-	2,290
Total expenditures	<u>117,290</u>	<u>117,290</u>	<u>79,278</u>	<u>38,012</u>
Excess of revenues over (under) expenditures	-	-	38,282	38,282
Fund Balance - Beginning	<u>517,157</u>	<u>517,157</u>	<u>517,157</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 517,157</u>	<u>\$ 517,157</u>	<u>\$ 555,439</u>	<u>\$ 38,282</u>

CITY OF NAPLES, UTAH
 COMBINING BALANCE SHEET -- OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2011

	Naples 1500 South Redevelopment Agency	Capital Projects Parks	Capital Projects Assets Acquisition	Special Assessment Improvement District No. 2000-1	Total Other Governmental Funds
ASSETS					
Cash (Note 4)	\$ 25,855	\$ 432,908	\$ 177,398	\$	\$ 636,161
Property taxes receivable	6,000				6,000
Restricted cash (Note 4)		44,515			44,515
Special assessments receivable (Note 3.B.)				\$ 2,139	2,139
Total Assets	31,855	432,908	221,913	2,139	688,815
LIABILITIES					
Deferred property taxes Note 1.D.)	6,000			2,139	6,000
Deferred special assessments				1,360	2,139
Due to other funds					1,360
Total Liabilities	6,000	-	-	3,499	9,499
FUND EQUITY					
Fund balance:					
Restricted for:					
Equipment replacement			44,515		44,515
Redevelopment	25,855				25,855
Committed for:					
Equipment replacement			177,398		177,398
Parks		432,908			432,908
Unassigned				(1,360)	(1,360)
Total fund equity	25,855	432,908	221,913	(1,360)	679,316
Total Liabilities & Fund Equity	\$ 31,855	\$ 432,908	\$ 221,913	\$ 2,139	\$ 688,815

The accompanying notes are an integral part of this financial statement.

**CITY OF NAPLES, UTAH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011**

	Naples 1500 South Redevelopment Agency	Capital Projects Parks	Capital Projects Assets Acquisition	Special Assessment Improvement District No. 2000-1	Total Other Governmental Funds
REVENUES					
Property taxes	\$ 5,009			\$	5,009
Intergovernmental revenue					-
Miscellaneous	\$	1,670	\$ 883		2,553
Total Revenues	5,009	1,670	883	-	7,562
EXPENDITURES					
Capital Outlay					
Parks, Recreation and Public Property		35,875			35,875
Total Expenditures	-	35,875	-	-	35,875
Excess revenues over (under) expenditures	5,009	(34,205)	883	-	(28,313)
Other financing sources (uses)					
Operating transfers in			16,000		16,000
Operating transfers out		(100,000)			(100,000)
Total Other Financing Sources (Uses)	-	(100,000)	16,000	-	(84,000)
Excess of revenues & other sources over (under) expenditures & other uses	5,009	(134,205)	16,883	-	(112,313)
Fund Balance - Beginning of Year	20,846	567,113	205,030	(1,360)	791,629
Fund Balance - End of Year	\$ 25,855	\$ 432,908	\$ 221,913	\$ (1,360)	\$ 679,316

The accompanying notes are an integral part of this financial statement.



**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 Naples, Utah

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Naples, Utah 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 December 8, 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 of Naples, Utah'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 of Naples, Utah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Naples, Utah's internal control over financial reporting.

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

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. See finding 2011-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Naples, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters that we reported to management in the accompanying schedule of findings and responses as items 2011-2 through 2011-8.

The City of Naples, Utah's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Naples, Utah'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, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caldwell Coombs & Foley LLP

Vernal, Utah
December 8, 2011



**INDEPENDENT AUDITORS' REPORT ON STATE
LEGAL COMPLIANCE**

Honorable Mayor and City Council
The City of Naples, Utah

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

- | | |
|------------------------------|---------------------------------|
| Public Debt | B & C Road Funds |
| Cash Management | Other General Issues |
| Purchasing Requirements | Uniform Building Code Standards |
| Budgetary Compliance | Asset Forfeiture |
| Truth in Taxation & Property | URS Compliance |
| Tax Limitations | Fund Balance |
| Liquor Law Enforcement | |
| Justice Court | |

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

- Community Impact Grants (Dept. of Community and Economic Development)
- B & C Road Funds (Department of Transportation)
- Liquor Law Enforcement (State Tax Commission)

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the general compliance requirements identified above. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for

our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion the City of Naples, Utah complied, in all material respects, with the general compliance requirements identified above and the requirements that are applicable to each of its major State assistance programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in the accompanying schedule of findings and responses as items 2011-2 through 2011-5.

The city's written response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the city's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor and city council, Office of the Utah State Auditor, awarding and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Caldwell Coombs & Foley LLP

Vernal, Utah
December 8, 2011

**CITY OF NAPLES, UTAH
SCHEDULE OF FINDINGS and RESPONSES
For The Year Ended June 30, 2011**

INTERNAL CONTROL OVER FINANCIAL REPORTING

Significant Deficiencies and Material Weaknesses

2011-1 Lack of Controls over the Financial Reporting Process

Condition: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, activities, functional expenses, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally. Specifically, management is responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

The absence of controls over the preparation of the financial statements is considered a material weakness because more than a remote likelihood exists that a material misstatement of the financial statements could occur and not be prevented or detected by the entity's internal control. Services by independent auditors are not considered to be part of internal control.

Management's Response: We do not believe it to be practical for us to employ accountants internally who have the skills necessary to prepare financial statements in accordance with U.S. generally accepted accounting standards. We intend to continue to mitigate this weakness in our internal control over financial reporting by engaging our independent auditors to prepare draft financial statements including notes for management's review and acceptance.

COMPLIANCE AND OTHER MATTERS

2011-2. Justice Court Procedures for Waivers and Voids

Condition: The Justice Court Clerk routinely waives delinquent fees and interest without approval or review by anyone else. Similarly the Court Clerk enters transaction reversals (voids) in the CORIS system without approval or review by anyone else.

Criteria: Appropriate controls should insure that no single individual issues waivers or voids transactions without approval and or review by someone else. State compliance guidelines state that transaction reversals (voids) in the CORIS system should be approved by a second clerk/employee to compensate for separation of duties weaknesses.

Effect: This weakness in internal control may allow unauthorized changes in transactions.

Recommendation: We recommend that procedures be implemented requiring and documenting the review of all waivers of fees or interest and transaction reversals (voids). Perhaps reports such as the "credit detail report" could be submitted to the Judge for review and approval each month.

2011-3. Contractor Retainage Accounts

Condition: Certain amounts were retained from contractor payments and held pending successful completion and acceptance of construction projects. Retained amounts were not deposited in separate interest bearing accounts for the benefit of the contractors.

Criteria: *Utah Code* requires that amounts withheld or retained from contractors or subcontractors be placed in an interest bearing account and the interest shall accrue for the benefit of the contractor and subcontractors to be paid after the project is completed and accepted by the governing officials.

Effect: Contractors and subcontractors do not receive interest earned on amounts withheld or retained.

Recommendation: We recommend the City establish separate interest bearing accounts for each contractor or subcontractor and deposit retained amounts in the separate accounts at the time each progress payment is made to a contractor. The interest earned on the account should be paid to the contractor or subcontractor with the retained funds upon acceptance of the completed project. An analysis should be prepared to determine the amount of interest that would have been earned on retained funds prior to the establishment of separate accounts and that amount should be added to the respective contractor's separate account.

Response: We were not aware of this requirement and will immediately establish separate interest bearing accounts for each contractor or subcontractor and deposit the retained funds and calculated interest therein.

2011-4. Form TC-693 Tax Rate Summary

Condition: The amount reported in the "Budgeted Revenue" column did not agree with the City's adopted budget.

Criteria: The State Tax Commission requires the filing of form TC-693 *Tax Rate Summary* as part of the process of establishing the City's property tax rate. The information reported in the column "Budgeted Revenue" should agree with the City's adopted budget.

Recommendation: We recommend the City complete form TC-693 using information from its adopted budget, or if necessary amend the budget to agree with amounts reported on form TC-693.

Response: We will correctly complete form TC-693.

2011-5. Deficit Fund Balance (Repeated)

Condition: The Special Assessment Improvement District No. 2000-1 fund balance at June 30, 2011 was deficit \$1,360. This was caused because the final special assessment from a property owner is delinquent, which required deferral of the revenue. The fund borrowed the balance necessary to pay off the special assessment bonds from the general fund in the prior year.

Criteria: *Utah Code 10-6-117(1)* states that appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. In other words deficits in any fund are prohibited.

Recommendation: If collection of the delinquent special assessment is to be delayed beyond the 2011/2012 year we recommend a general fund transfer be used to offset the deficit fund balance.

Response: The subject property is currently in foreclosure by a financial institution. If the special assessment receivable is not paid before June 30, 2012 we will amend the budgets as necessary to transfer funds from the general fund to cure the deficit in the special assessment improvement district no. 2000-1.

2011-6. Review of Financial Reports

Condition: We noted that the Recorder provides a quarterly summary financial report titled "Fund Summary" to members of the city council. The report is included in the packet of material given to each councilman in the meeting. We noted no evidence that the reports are reviewed and discussed in the meetings.

Recommendation: We recommend that an item be added to the meeting agenda for review of the financial report. This would call attention to the report and provide council members with the opportunity to review the report and ask any questions they may have.

Response: We will follow the recommendation.

2011-7. Business License Fees for Closed Businesses

Condition: We noted that the accounts receivable aging report for business licenses included several old outstanding balances. These were for businesses that were closed and did not renew their licenses.

Recommendation: We suggest that a listing of old outstanding balances be presented to the City Council annually near the end of the fiscal year. The Council may approve issuance of credit memos to clear the uncollectible accounts.

Response: We will follow the recommendation.

2011-8. Bank Reconciliations – Training

Condition: We noted at least two instances where bank reconciliations had been prepared incorrectly. It appeared that the Treasurer did not understand completely how to complete the reconciliations correctly.

Recommendation: We recommend that the Treasurer be provided adequate training in the reconciliation process. We also suggest that another person review the bank reconciliations and indicate their review on the form.

Response: We will follow the recommendations.

CITY OF NAPLES, UTAH
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2011

The following findings and recommendations were reported in the prior year audit. The current status of each finding and recommendation is indicated.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Significant Deficiencies

2010-1 Lack of Controls over the Financial Reporting Process

Condition: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, activities, functional expenses, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally. Specifically, management is responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

The absence of controls over the preparation of the financial statements is considered a material weakness because more than a remote likelihood exists that a material misstatement of the financial statements could occur and not be prevented or detected by the entity's internal control. Services by independent auditors are not considered to be part of internal control.

Current Status: Management intends to continue to mitigate this weakness in internal control over financial reporting by engaging the independent auditors to prepare draft financial statements including notes for management's review and acceptance.

COMPLIANCE AND OTHER MATTERS

2010-2. Excess General Fund Balance

Condition: The unreserved general fund balance at June 30, 2010 exceeded the limit allowed by State Law by \$18,247. (Repeat of prior year finding 2009-2)

Recommendation: We recommend the excess fund balance be expended or be transferred to a capital projects fund as allowed by State Law. We note that the 2011 budget provides for expenditure/transfer of the excess fund balance..

Current Status: The excess fund balance was transferred to capital projects funds.

2010-3. Expenditures in Excess of Budget

Condition: The Special Assessment Improvement District No. 2000-1 incurred expenditures in excess of budget \$7,947.

Recommendation: We recommend that the City include all expenditures, including the expenditure of funds held in escrow accounts, in its budget appropriations.

Current Status: We noted no expenditures in excess of budget in the current year.

2010-4. Deficit Fund Balance

Condition: The Special Assessment Improvement District No. 2000-1 fund balance at June 30, 2010 was deficit \$1,360. This was caused because the final special assessment from a property owner is delinquent, which required deferral of the revenue. The fund borrowed the balance necessary to pay off the special assessment bonds from the general fund.

Recommendation: If collection of the delinquent special assessment is to be delayed beyond the 2010/2011 year, we recommend the general fund transfer be used to offset the deficit fund balance.

Current Status: The recommendation is repeated.