

**City of Naples, Utah**  
**Annual Financial Report**  
**June 30, 2012**

# 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, 2012, 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, 2012, 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 13, 2012 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 13, 2012

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Naples, Utah  
Financial Statement – FY 2010/2012  
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, 2012. 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 \$1,996,000 or 10%. This is primarily due to highway sales taxes being accumulated for a construction project. Total assets have increased 4% over the prior year. This is primarily due to improvements to roads and buildings and increased accumulated highway sales taxes.

The City's restricted net assets increased 26% and unrestricted net assets increased 20% over the prior year. Restricted net assets increased primarily because of highway sales tax funds being accumulated for road construction projects. Unrestricted net assets increased primarily due to increased general sales and use taxes, which were unexpended.

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

The City of Naples' major businesses are the gas, oil, and mining industries. This year saw a continued recovery in oil and gas activity, which resulted in a sales tax revenue increase of 18%.

### **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 10% from a year ago. Prior year was \$20,964,656 while the current year is \$22,961,097. 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	\$17,851,475	\$17,352,861	\$ 498,614	3%
Current and other assets	8,182,631	7,668,089	514,542	7%
Total Assets	<u>26,034,106</u>	<u>25,020,950</u>	<u>1,013,156</u>	4%
Long-term liabilities	2,363,189	2,413,491	(50,302)	-2%
Other liabilities	709,820	1,642,803	(932,983)	-57%
Total liabilities	<u>3,073,009</u>	<u>4,056,294</u>	<u>(983,285)</u>	-24%
<b>Net assets</b>				
Invested in capital assets, net of related debt	15,531,537	14,981,485	550,052	4%
Restricted	5,423,317	4,316,096	1,107,221	26%
Unrestricted	2,006,243	1,667,075	339,168	20%
Total net assets	<u>\$22,961,097</u>	<u>\$20,964,656</u>	<u>\$ 1,996,441</u>	10%

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, increased 20% from the prior year.

**Table 2**  
**CHANGES IN NET ASSETS**

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
<b>Program Revenues:</b>				
Charges for services	\$ 245,894	\$ 167,127	\$ 78,767	47%
Operating grants and contributions	257,751	132,591	125,160	94%
Capital grants and contributions	951,089	1,064,324	(113,235)	-11%
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes	108,645	105,794	2,851	3%
Redevelopment	125,018	120,009	5,009	4%
Sales taxes	3,303,547	2,792,511	511,036	18%
Franchise taxes	184,331	190,169	(5,838)	-3%
Transient rooms tax	13,668	8,983	4,685	52%
Loss on sale of capital assets	(20,145)		(20,145)	-100%
Miscellaneous	54,221	51,397	2,824	5%
Total revenues	<u>5,224,019</u>	<u>4,632,905</u>	<u>591,114</u>	13%
<b>Expenses:</b>				
General government	790,398	798,595	(8,197)	-1%
Public Safety				
Police	861,491	857,204	4,287	1%
Fire	122,673	120,959	1,714	1%
Other	28,078	29,155	(1,077)	-4%
Highways and public improvements	1,351,643	1,299,577	52,066	4%
Parks, recreation and public property	69,383	78,530	(9,147)	-12%
Interest and fiscal charges on long-term debt	3,912	5,150	(1,238)	-24%
Total expenses	<u>3,227,578</u>	<u>3,189,170</u>	<u>38,408</u>	1%
Change in net assets	1,996,441	1,443,735	552,706	38%
<b>Net assets - beginning</b>	<u>20,964,656</u>	<u>19,520,921</u>	<u>1,443,735</u>	7%
<b>Net assets - ending</b>	<u>\$22,961,097</u>	<u>\$ 20,964,656</u>	<u>\$1,996,441</u>	10%

The City's total revenues increased 13% from the prior year. The main factor that lead to the increase in total revenue was 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 \$951,089, 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 limited 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 \$7,298,209, which is an increase of \$1,278,714 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 2013 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 2012 the City had an investment of \$17,851,475 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 completed
- New lighting for the city office, shop and fire department
- Equipment for police, and road departments
- Drainage projects
- Sidewalk improvement

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

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Land	\$ 430,840	\$ 384,600	\$ 46,240	12%
Streets, sidewalks and bridges	15,001,832	11,798,839	3,202,993	27%
Equipment	707,467	800,727	(93,260)	-12%
Improvements	636,600	658,919	(22,319)	-3%
Buildings	1,019,358	1,046,312	(26,954)	-3%
Construction in progress	55,378	2,663,464	(2,608,086)	-98%
Total	<u>\$17,851,475</u>	<u>\$ 17,352,861</u>	<u>\$ 498,614</u>	<u>3%</u>

The City's 2013 Capital Budget calls for it to spend on road reconstruction, sidewalk improvements, equipment purchases, HWY 40 street safety lighting, 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 2012 the City issued capital lease obligations to fund purchase of new police cars. The obligation will be paid from general revenues.

**Table 4**  
**Outstanding Debt at Year-end**

	6/30/2012	6/30/2011	Increase (Decrease)	% Change
Road Revenue Bonds Series 2008	\$ 252,000	\$ 295,000	\$ (43,000)	-15%
Road Revenue Bonds Series 2009	424,000	424,000	-	0%
Road Revenue Bonds Series 2010	124,000	140,000	(16,000)	-11%
Sales Tax Revenue Bonds 2010	1,347,000	1,418,000	(71,000)	-5%
Police Car Capital Lease 2010	-	94,376	(94,376)	-100%
Police Car Capital Lease 2012	172,938		172,938	100%
Accrued Leave	43,251	42,115	1,136	3%
<b>Total</b>	<u>\$ 2,363,189</u>	<u>\$ 2,413,491</u>	<u>\$ (50,302)</u>	<u>-2%</u>

### **Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the 2013 budget, tax rates, and fees. One of those factors is the economy. The City's population growth has increased 2.7%. Unemployment in the City now stands at 3.8% with the State's unemployment at 5.2% and the National rate of 8.6%.

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 since the drop in 2005 has increased, which will increase the sales tax revenue. The local economy has had a gradual healthy increase. The current mining activities indicate an increase need for a streamline environmental permit process to allow the mining industry to get back to work. The gas and oil companies are working off permits issued in past years waiting for the proposed projects to be approved. One of our companies is waiting for 8,000 permit approval for the next 10 years, if approved our economy will increase but so will the impacts. 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 2013. Amounts available for appropriation into the General Fund budget for 2013 should increase 5% over 2011 revenues.

We expect inflation of 3% plus but will need to hold our budget at the year 2011 level to maintain current infrastructure and provide funding for needed projects. The City will need to prioritize their proposed projects and diligently go after grants. If these estimates are realized, the City's budgeted General Fund expenditures are expected to mirror the 2011 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, 2012**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 6,611,455
Receivables:	
Sales taxes	637,044
Property taxes	237,705
Franchise taxes	9,262
Other governments	55,121
Other accounts receivable	900
Restricted assets	
Restricted cash	430,288
Special assessments receivable	2,139
Long-term loans receivable	28,947
Self-help housing lots	169,770
Capital Assets	
Land	430,840
Streets, sidewalks and bridges (net of depreciation)	15,001,832
Equipment (net of depreciation)	707,467
Improvements (net of depreciation)	636,600
Buildings (net of depreciation)	1,019,358
Construction in progress	55,378
Total assets	26,034,106
<b>Liabilities:</b>	
Accounts payable	47,359
Accounts payable from restricted assets	
Employee benefits and taxes payable	6,361
Accrued interest	838
Building permit bonds	59,140
Deferred revenue:	
Property taxes	270,043
Grant revenue	326,079
Noncurrent liabilities	
Due within one year	221,188
Due in more than one year	2,142,001
Total liabilities	3,073,009
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	15,531,537
Restricted for:	
Parks	168
Drainage projects	23,640
Rehabilitation loans	97,057
Debt service	863,715
Equipment purchase/replacement	45,835
Redevelopment	662,396
Road construction and maintenance	3,560,736
Self-help housing	169,770
Unrestricted	2,006,243
Total net assets	\$ 22,961,097

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



CITY OF NAPLES, UTAH  
 BALANCE SHEET -- GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	General	Naples Redevelopment Agency	Debt Service	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash (Note 3.A.)	\$ 3,620,920	\$ 631,375	\$ 863,715	\$ 858,952	\$ 636,493	\$ 6,611,455
Sales taxes receivable	637,044					637,044
Property taxes receivable	61,705	170,000			6,000	237,705
Franchise taxes receivable	9,262					9,262
Due from other governments	55,121					55,121
Due from other funds	1,360					1,360
Other accounts receivable	900					900
Restricted assets:						
Restricted cash (Note 3.A.)	59,140			325,313	45,835	430,288
Special assessments receivable (Note 3.B.)					2,139	2,139
Long-term loans receivable (Note 3.C.)	28,947					28,947
<b>Total Assets</b>	<b>4,474,399</b>	<b>801,375</b>	<b>863,715</b>	<b>1,184,265</b>	<b>690,467</b>	<b>8,014,221</b>
<b>LIABILITIES</b>						
Accounts payable	27,782			19,577		47,359
Benefits payable	6,361					6,361
Deferred property taxes	97,574	170,000			6,000	273,574
Building permit bonds	59,140					59,140
Deferred special assessments					2,139	2,139
Deferred grant revenues	766			325,313		326,079
Due to other funds					1,360	1,360
<b>Total Liabilities</b>	<b>191,623</b>	<b>170,000</b>	<b>863,715</b>	<b>344,890</b>	<b>9,499</b>	<b>716,012</b>
<b>FUND EQUITY</b>						
Fund balance:						
Restricted for:						
Parks	168					168
Drainage Projects	23,640					23,640
Rehabilitation loans	97,057					97,057
Debt service			863,715			863,715
Equipment purchase/replacement					45,835	45,835
Redevelopment		631,375			31,021	662,396
Road construction & maintenance	3,560,736					3,560,736
Committed for:						
Equipment replacement					193,497	193,497
Parks					411,975	411,975
Roads				839,375		839,375
Unassigned	601,175				(1,360)	599,815
<b>Total fund equity</b>	<b>4,282,776</b>	<b>631,375</b>	<b>863,715</b>	<b>839,375</b>	<b>680,968</b>	<b>7,298,209</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 4,474,399</b>	<b>\$ 801,375</b>	<b>\$ 863,715</b>	<b>\$ 1,184,265</b>	<b>\$ 690,467</b>	<b>\$ 8,014,221</b>

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, 2012**

**Total fund balances for governmental funds** \$ 7,298,209

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. 3,531

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

Land purchased for self-help housing with grant funds was recorded as an expenditure in the governmental funds. However, in the government-wide financial statements the property is recorded as a restricted asset pending transfer to qualified individuals. 169,770

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

Land	\$	430,840	
Construction in progress		55,378	
Streets & Bridges \$20,556,883, net of depreciation of \$5,555,051		15,001,832	
Equipment \$2,265,593, net of depreciation of \$1,558,126		707,467	
Improvements \$1,150,710, less depreciation of \$514,110		636,600	
Buildings \$1,400,332 less depreciation of \$380,974		1,019,358	
			17,851,475

Interest on long-term debt (capital lease) is not accrued in governmental funds, but rather is recognized as an expenditure when due. (838)

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	\$	(2,147,000)	
Capital lease contract payable		(172,938)	
Compensated absences payable		(43,251)	(2,363,189)

**Total net assets of governmental activities** \$ 22,961,097

CITY OF NAPLES, UTAH  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	General	Redevelopment Agency #1	Debt Service	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Sales and use taxes	\$ 3,303,547					\$ 3,303,547
Franchise and telecommunication taxes	184,331					184,331
Property taxes	99,049	\$ 120,000			\$ 5,018	224,067
Fee in-lieu of taxes	10,472					10,472
Transient room taxes	13,668					13,668
Licenses and permits	128,047					128,047
Intergovernmental revenue	407,270		\$ 842,608			1,249,878
Fees and charges for services	1,490					1,490
Fines and forfeitures	69,208					69,208
Miscellaneous	36,007	4,016	\$ 5,632	10,803	3,874	60,332
<b>Total Revenues</b>	<b>4,253,089</b>	<b>124,016</b>	<b>5,632</b>	<b>853,411</b>	<b>8,892</b>	<b>5,245,040</b>
<b>EXPENDITURES</b>						
Current						
General government	677,780	48,080				725,860
Public safety						
Police	779,217					779,217
Fire	52,740					52,740
Other	28,078					28,078
Environment and housing	169,770					169,770
Highways and public improvements	416,979					416,979
Parks, recreation and public property	1,382					1,382
Capital Outlay						
General government	61,545					61,545
Public safety						
Police	226,150					226,150
Fire	20,740					20,740
Other						
Highways and public improvements	87,947			1,415,616	23,240	1,503,563
Parks, recreation and public property						23,240
Debt Service			277,588			277,588
Principal			3,829			3,829
Interest						
<b>Total Expenditures</b>	<b>2,522,328</b>	<b>48,080</b>	<b>281,417</b>	<b>1,415,616</b>	<b>23,240</b>	<b>4,290,681</b>
Excess revenues over (under) expenditures	1,730,761	75,936	(275,785)	(562,205)	(14,348)	954,359
Other financing sources (uses)						
Operating transfers in						
Operating transfers out	(719,475)		283,975	419,500	16,000	719,475
Long-term Debt Issuance	226,150					(719,475)
Sale of capital assets	98,205					226,150
<b>Total Other Financing Sources (Uses)</b>	<b>(395,120)</b>	<b>-</b>	<b>283,975</b>	<b>419,500</b>	<b>16,000</b>	<b>324,355</b>
Excess of revenues and other sources over (under) expenditures and other uses	1,335,641	75,936	8,190	(142,705)	1,652	1,278,714
<b>Fund Balance - Beginning of Year</b>	<b>2,947,135</b>	<b>555,439</b>	<b>855,525</b>	<b>982,080</b>	<b>679,316</b>	<b>6,019,495</b>
<b>Fund Balance - End of Year</b>	<b>\$ 4,282,776</b>	<b>\$ 631,375</b>	<b>\$ 863,715</b>	<b>\$ 839,375</b>	<b>\$ 680,968</b>	<b>\$ 7,298,209</b>

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, 2012**

**Net change in fund balances - total governmental funds** **\$ 1,278,714**

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. (876)

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.

Land purchased for self-help housing with grant funds was recorded as an expenditure in the governmental funds. However, in the government-wide financial statements the property is recorded as a restricted asset pending transfer to qualified individuals. 169,770

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	\$ 1,837,105	
Undepreciated cost of sold assets	(118,350)	
Depreciation expense	<u>(1,220,141)</u>	
		498,614

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:

Long-term debt issuance - capital lease	(226,150)	
Bond principal repaid	130,000	
Capital lease principal paid	147,588	
Interest expense - adjustment to accrual basis	<u>(83)</u>	
		51,355

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>(1,136)</u>
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**Change in net assets of governmental activities** **\$ 1,996,441**

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, 2012**

	<b>Agency Funds</b>
	<b>Justice Court</b>
<b>ASSETS</b>	
Cash	\$ 2,942
Total assets	2,942
<b>LIABILITIES</b>	
Due to other government agencies	1,780
Bail bonds	1,162
Total liabilities	\$ 2,942

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

**CITY OF NAPLES, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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, 2012**

**Blended Component Units**

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

<b>Component Unit</b>	<b>Brief Description/Inclusion Criteria</b>	<b>Reporting</b>
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, 2012**

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, 2012**

*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 and capital lease obligations 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:

<b>Fund</b>	<b>Brief Description</b>
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:

<b>Classification</b>	<b>Brief Description</b>
<b>Major:</b>	
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, 2012**

<b>Classification</b>	<b>Brief Description</b>
<b>Major:</b>	
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.
<b>Nonmajor:</b>	
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, 2012**

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, 2012**

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, self-help housing 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, 2012**

*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, 2012**

**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*

The City follows Statement No. 54 of the Governmental Accounting Standards Board – Fund Balance Reporting and Governmental Fund Type Definitions.

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.

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

**CITY OF NAPLES, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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.

Cities may accumulate fund balances in any fund. However, the unrestricted (committed, assigned, our 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

**CITY OF NAPLES, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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 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,

**CITY OF NAPLES, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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:

<b>Fund</b>	<b>Required By:</b>
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, 2012**

**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:

<b>Revenue Source</b>	<b>Legal Restrictions of Use</b>
“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
Federal HUD Community Development Block Grant	Self-help Housing

For the year ended June 30, 2012, 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, 2012**

**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, 2012 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, 2012 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, 2012**

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, 2012 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**  
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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, 2012 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**  
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- 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, 2012 expenditures in all departments of the general fund and in the other funds were within budget allotments except for the following:

- General Fund – Police Department expenditures exceeded budget appropriations by \$186,406.
- Debt Service Fund – expenditures exceeded budget appropriations by \$95,647.

**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.

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The City Council adopted a tax rate less than the certified rate for tax year 2012, and complied in all other respects with law.

## **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, 2012 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, 2012 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 10<sup>th</sup> 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, 2012 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, 2012**

**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, 2012 all of the City's bank balances totaling \$439,871 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.

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At June 30, 2012, the local government had investments of \$6,649,867 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

- **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	\$ 393,569
Cash on hand	1,250
Investments in external investment pool	<u>6,649,866</u>
total cash and investments	<u><u>\$7,044,685</u></u>
Cash and investments	\$6,611,455
Restricted cash	430,288
Agency fund cash (not included in government-wide statement)	<u>2,942</u>
Total	<u><u>\$7,044,685</u></u>

**Restricted Cash**

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

Restricted for:	
General Fund	
Building permit bonds	\$ 59,140
Capital Projects Roads	
Road construction	325,313
Other Governmental Funds	
Fire equipment	<u>45,835</u>
Total Restricted Cash	<u><u>\$430,288</u></u>

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**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 were to be paid from the proceeds of special assessments to property owners within the special improvement district. The City retired the bonds during the year ended June 30, 2010. Balances due from property owners at June 30, 2012 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 no or 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, 2012, loans receivable totaled \$28,947. Funds available for future loans at June 30, 2012 totaled \$68,110. 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, 2012, was as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Governmental activities:				
Land	\$ 384,600	\$ 46,240		\$ 430,840
Streets, sidewalks and bridges	16,443,611	4,113,272		20,556,883
Equipment	2,229,592	251,362	(215,361)	2,265,593
Improvements	1,117,551	33,159		1,150,710
Buildings	1,387,913	12,419		1,400,332
Construction in progress	2,663,464	(2,608,086)		55,378
Total	<u>\$ 24,226,731</u>	<u>\$ 1,848,366</u>	<u>\$ (215,361)</u>	<u>\$ 25,859,736</u>
Less accumulated depreciation:				
Streets, sidewalks and bridges	(4,631,830)	(923,221)		(5,555,051)
Equipment	(1,411,220)	(232,656)	85,750	(1,558,126)
Improvements	(489,219)	(24,891)		(514,110)
Buildings	(341,601)	(39,373)		(380,974)
Total	<u>(6,873,870)</u>	<u>(1,220,141)</u>	<u>85,750</u>	<u>(8,008,261)</u>
Governmental activities capital assets, net	<u>\$ 17,352,861</u>	<u>\$ 628,225</u>	<u>\$ (129,611)</u>	<u>\$ 17,851,475</u>

**CITY OF NAPLES, UTAH**  
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Depreciation expense was charged to governmental activities as follows:

General government	\$ 15,063
Public safety	
Police	80,456
Fire	69,932
Highways and public improvements	986,688
Parks, recreation and public property	<u>68,001</u>
Total depreciation	<u><u>\$ 1,220,140</u></u>

The gross amount of assets reported in the statement of net assets recorded under capitalized leases at June 30, 2012 is \$226,150, less accumulated amortization of \$7,311, or net capitalized leased assets of \$218,839. The capitalized leased assets are included with owned capital assets. Amortization expense totaling \$47,383 is included in depreciation and was all charged to the police function. During the year five police vehicles under a capital lease were retired and replaced with six police vehicles under a capital lease.

**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:

	Balance 6/30/2011	Borrowed	Retired	Balance 6/30/2012	Due Within One Year	Due in More Than One Year
Road Bonds 2008 B&C	\$ 295,000		\$ 43,000	\$ 252,000	\$ 43,000	\$ 209,000
Road Bonds 2009 Sales Tax	424,000			424,000		424,000
Road Bonds 2010 B&C	140,000		16,000	124,000	16,000	108,000
Road Bonds 2010 Sales Tax	1,418,000		71,000	1,347,000	71,000	1,276,000
Police Capital Lease 2010	94,376		94,376	-		-
Police Capital Lease 2012		\$ 226,150	53,212	172,938	47,937	125,001
Accrued Leave	<u>42,115</u>	<u>1,136</u>		<u>43,251</u>	<u>43,251</u>	<u>-</u>
Total	<u><u>\$ 2,413,491</u></u>	<u><u>\$ 227,286</u></u>	<u><u>\$ 277,588</u></u>	<u><u>\$ 2,363,189</u></u>	<u><u>\$ 221,188</u></u>	<u><u>\$ 2,142,001</u></u>

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.

**CITY OF NAPLES, UTAH**  
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The combined aggregate amount of debt service requirements (principal and interest) by year is as follows:

Due Fiscal Year Ended June 30	Road Bonds 2008 B&C	Road Bonds 2009 Sales Tax	Road Bonds 2010 B&C	Road Bonds 2010 Sales Tax	Police Car Capital Lease			Total Debt Service
	Principal	Principal	Principal	Principal	Principal	Interest	Total	
2013	43,000		16,000	71,000	47,937	5,275	53,212	183,212
2014	43,000		16,000	71,000	40,422	3,812	44,234	174,234
2015	43,000		16,000	71,000	41,654	2,580	44,234	174,234
2016	43,000		16,000	71,000	42,925	1,309	44,234	174,234
2017	43,000		16,000	71,000				130,000
2018-2022	37,000	172,000	44,000	355,000				608,000
2023-2027		215,000		355,000				570,000
2028-2032		37,000		282,000				319,000
Total	<u>\$ 252,000</u>	<u>\$ 424,000</u>	<u>\$ 124,000</u>	<u>\$ 1,347,000</u>	<u>\$ 172,938</u>	<u>\$ 12,976</u>	<u>\$ 185,914</u>	<u>\$ 2,332,914</u>

**3. F. INTERFUND TRANSFERS**

The City transferred \$283,975 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 \$419,500.

**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.

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

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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, 2012, 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 9.76% of annual covered salaries. In the Public Safety Division A Noncontributory System Naples City was required to contribute 27.07% 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, 2012, 2011, and 2010 were \$67,915, \$67,365, and \$58,020, respectively. For the Public Safety Noncontributory Retirement System the contributions for the years ending June 30, 2012, 2011, and 2010 were \$76,679, \$71,954, and \$66,916, respectively. The contributions were equal to the required contributions for each year.

**Defined Contribution System 401(k) Plan**

Naples City also contributed \$16,149, \$15,965, and \$16,439, to the State Retirement System's 401(k) defined contribution plan for the benefit of employees for the years ended June 30, 2012, 2011, and 2010 respectively. Employee contributions for the respective years were \$51,986, \$44,514, and \$41,446. 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.

**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 6/30/12 for each agency are as follows:

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*Naples Redevelopment Agency*

• The tax increment collected by the agency	\$120,000
• 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	\$ 0
(ii) site improvements or preparation costs	\$ 0
(iii) installation of public utilities or other public improvements	\$ 0
(iv) administrative costs of the agency	\$ 48,080

*Naples 1500 South Redevelopment Agency*

• The tax increment collected by the agency	\$5,018
• 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

**7. COMMITMENTS**

At June 30, 2012 the City had an outstanding commitment for construction services as follows:

Construction Services:

Storm Drain Project	
Contract estimate	\$ 151,285
Completed through 6/30/11	143,096
Balance of contract	<u>8,189</u>
Total	<u>\$ 8,189</u>

**CITY OF NAPLES, UTAH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**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

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**CITY OF NAPLES, UTAH**  
**Budgetary Comparison Schedule - General Fund**  
**For the year ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b>Revenues:</b>				
Sales and use taxes	\$ 1,929,766	\$ 2,129,766	\$ 3,303,547	\$ 1,173,781
Franchise and telecommunications taxes	172,700	172,700	184,331	11,631
Property taxes	82,600	82,600	99,049	16,449
Fee in-lieu of taxes	10,000	10,000	10,472	472
Transient room tax	7,312	7,312	13,668	6,356
Licenses and permits	32,150	32,150	128,047	95,897
Intergovernmental revenue	250,080	416,651	407,270	(9,381)
Fees and charges for services	850	850	1,490	640
Fines and forfeitures	93,538	93,538	69,208	(24,330)
Miscellaneous	37,100	37,100	36,007	(1,093)
Total revenues	<u>2,616,096</u>	<u>2,982,667</u>	<u>4,253,089</u>	<u>1,270,422</u>
<b>Expenditures:</b>				
General government				
Legislative	60,122	60,122	56,956	3,166
Justice Court	78,703	78,703	75,648	3,055
City Administrator	175,984	169,984	137,032	32,952
Treasurer	54,641	54,641	50,404	4,237
Recorder	84,010	84,010	74,090	9,920
Elections	2,600	2,600	24	2,576
City Attorney	63,645	63,645	61,878	1,767
Independent Auditor	19,100	19,100	18,785	315
Liability Insurance	37,800	37,800	34,780	3,020
General Government Buildings	198,838	241,856	130,912	110,944
Supplies/Equipment	30,025	30,025	15,386	14,639
Planning and Zoning	108,452	108,452	93,231	15,221
Boards and Commissions	200	200	100	100
Education and Promotion	24,041	24,041	10,839	13,202
Rehabilitation Loans	65,000	170,500	169,770	730
Public safety				
Police Department	779,141	783,655	970,061	(186,406)
Central Dispatch	34,000	35,310	35,306	4
Fire Protection	64,330	64,330	52,740	11,590
Building Inspector	22,268	28,268	28,056	212
Emergency Preparedness	57,000	57,000	(107)	57,107
School Crossing Guard	210	210	129	81
Highways and public improvements				
Highways	536,981	589,286	481,145	108,141
Street Lights	36,800	36,800	23,781	13,019
Parks, recreation and public property				
Parks	11,300	11,300	1,382	9,918
Total expenditures	<u>2,545,191</u>	<u>2,751,838</u>	<u>2,522,328</u>	<u>229,510</u>
Excess of revenues over (under) expenditures	70,905	230,829	1,730,761	1,499,932
<b>Other financing sources (uses):</b>				
Transfers to other funds	(621,270)	(621,270)	(719,475)	(98,205)
Sale of capital assets	1,000	1,000	98,205	97,205
Long-term debt issuance			226,150	226,150
Total other financing sources (uses)	<u>(620,270)</u>	<u>(620,270)</u>	<u>(395,120)</u>	<u>225,150</u>
Excess of revenues and other sources over (under) expenditures and other uses	(549,365)	(389,441)	1,335,641	1,725,082
<b>Fund Balance - Beginning</b>	<u>2,947,135</u>	<u>2,947,135</u>	<u>2,947,135</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 2,397,770</u>	<u>\$ 2,557,694</u>	<u>\$ 4,282,776</u>	<u>\$ 1,725,082</u>

**CITY OF NAPLES, UTAH**  
**Budgetary Comparison Schedule - Naples Redevelopment Agency**  
**For the year ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Intergovernmental revenue		-	-	-
Miscellaneous	2,000	2,000	4,016	2,016
Total revenues	<u>122,000</u>	<u>122,000</u>	<u>124,016</u>	<u>2,016</u>
<b>Expenditures:</b>				
Acquisition of property	100,000	100,000		100,000
Commercial Center			4,475	
Main Street Down Town			42,061	(42,061)
Promote economic development	22,000	22,000	995	21,005
Roadside Park expenses				-
Professional services			549	(549)
Total expenditures	<u>122,000</u>	<u>122,000</u>	<u>48,080</u>	<u>78,395</u>
Excess of revenues over (under) expenditures	-	-	75,936	80,411
<b>Fund Balance - Beginning</b>	<u>555,439</u>	<u>555,439</u>	<u>555,439</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 555,439</u>	<u>\$ 555,439</u>	<u>\$ 631,375</u>	<u>\$ 80,411</u>

CITY OF NAPLES, UTAH  
 COMBINING BALANCE SHEET -- OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Naples 1500 South Redevelopment Agency	Capital Projects Parks	Capital Projects Assets Acquisition	Special Assessment Improvement District No. 2000-1	Total Other Governmental Funds
<b>ASSETS</b>					
Cash (Note 4)	\$ 31,021	\$ 411,975	\$ 193,497	\$	636,493
Property taxes receivable	6,000				6,000
Restricted cash (Note 4)			45,835		45,835
Special assessments receivable (Note 3.B.)				\$ 2,139	2,139
<b>Total Assets</b>	<b>37,021</b>	<b>411,975</b>	<b>239,332</b>	<b>2,139</b>	<b>690,467</b>
<b>LIABILITIES</b>					
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
<b>Total Liabilities</b>	<b>6,000</b>	<b>-</b>	<b>-</b>	<b>3,499</b>	<b>9,499</b>
<b>FUND EQUITY</b>					
Fund balance:					
Restricted for:					
Equipment replacement Redevelopment	31,021		45,835		45,835
Committed for:					
Equipment replacement Parks		411,975	193,497		193,497
Unassigned				(1,360)	411,975
<b>Total fund equity</b>	<b>31,021</b>	<b>411,975</b>	<b>239,332</b>	<b>(1,360)</b>	<b>680,968</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 37,021</b>	<b>\$ 411,975</b>	<b>\$ 239,332</b>	<b>\$ 2,139</b>	<b>\$ 690,467</b>

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, 2012**

	Naples 1500 South Redevelopment Agency	Capital Projects Parks	Capital Projects Assets Acquisition	Special Improvement District No. 2000-1	Total Other Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 5,018			\$	5,018
Intergovernmental revenue	148	\$ 2,307	\$ 1,419		-
Miscellaneous					3,874
<b>Total Revenues</b>	<b>5,166</b>	<b>2,307</b>	<b>1,419</b>	<b>-</b>	<b>8,892</b>
<b>EXPENDITURES</b>					
Capital Outlay		23,240			23,240
Parks, Recreation and Public Property		23,240			23,240
<b>Total Expenditures</b>	<b>-</b>	<b>23,240</b>	<b>-</b>	<b>-</b>	<b>23,240</b>
<b>Excess revenues over (under) expenditures</b>	<b>5,166</b>	<b>(20,933)</b>	<b>1,419</b>	<b>-</b>	<b>(14,348)</b>
<b>Other financing sources (uses)</b>					
Operating transfers in			16,000		16,000
Operating transfers out					-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>16,000</b>	<b>-</b>	<b>16,000</b>
<b>Excess of revenues &amp; other sources over (under) expenditures &amp; other uses</b>	<b>5,166</b>	<b>(20,933)</b>	<b>17,419</b>	<b>-</b>	<b>1,652</b>
<b>Fund Balance - Beginning of Year</b>	<b>25,855</b>	<b>432,908</b>	<b>221,913</b>	<b>\$(1,360)</b>	<b>679,316</b>
<b>Fund Balance - End of Year</b>	<b>\$ 31,021</b>	<b>\$ 411,975</b>	<b>\$ 239,332</b>	<b>\$ (1,360)</b>	<b>\$ 680,968</b>

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2012. 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 2012-1.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. See finding 2012-2 and 2012-3.

### **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 2012-4 through 2012-9.

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 13, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
IN ACCORDANCE WITH THE STATE OF UTAH  
LEGAL COMPLIANCE AUDIT GUIDE**

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, 2012. The general compliance requirements applicable to the City are identified as follows:

Public Debt	Justice Court
Cash Management	B & C Road Funds
Purchasing Requirements	Other General Issues
Budgetary Compliance	Uniform Building Code Standards
Truth in Taxation & Property	Asset Forfeiture
Tax Limitations	Utah Retirement System Compliance
Alcoholic Beverage Enforcement & Treatment Restricted Account	Fund Balance

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

Community Impact Grants (Dept. of Community and Economic Development)

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, 2012. 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 2012-4, 2011-5, 2012-6, and 2012-9.

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 13, 2012

**CITY OF NAPLES, UTAH  
SCHEDULE OF FINDINGS and RESPONSES  
For The Year Ended June 30, 2012**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Significant Deficiencies and Material Weaknesses**

**2012-1 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.

## **2012-2. Authorization for Payroll Direct Deposits**

**Condition:** The recorder prepares payrolls and the related order for direct deposit of net payroll to employee accounts. The treasurer reviews the payroll and authorizes the bank to make the direct deposits. However, if the treasurer is not available the recorder authorizes the direct deposits.

**Criteria:** Appropriate controls should insure that no single individual controls an entire accounting cycle, in this case the preparation and payment of payrolls.

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

**Recommendation:** We recommend that procedures be implemented requiring a second person to review all payrolls and authorize direct deposits. The member of the city council who signs manual payroll checks could perform this function in the treasurer's absence.

**Response:** We will follow the recommendation.

## **2012-3. Timely Billing for Fire Suppression Expense Reimbursements**

**Condition:** The recorder bills the Uintah Fire Suppression Special Service District quarterly to request reimbursement for fire suppression expenses paid by the City. We noted that the billing for the quarter ended June 30, 2012 had not been billed.

**Criteria:** Appropriate controls should insure that reimbursements are requested timely.

**Effect:** Reimbursement for expenditures was delayed.

**Recommendation:** We recommend that procedures be implemented to remind responsible personnel when it is time to prepare reimbursement requests.

**Response:** The appropriate reimbursement request was completed and submitted to the Uintah Fire Suppression Special Service District as soon as we became aware of the omission. We will set up a reminder system.

## **COMPLIANCE AND OTHER MATTERS**

### **2012-4. Contractor Retainage Accounts (Repeated)**

**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 will immediately establish separate interest bearing accounts for each contractor or subcontractor and deposit the retained funds and calculated interest therein.

#### **2012-5. Form TC-693 Tax Rate Summary (Repeated)**

**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.

#### **2012-6. Deficit Fund Balance (Repeated)**

**Condition:** The Special Assessment Improvement District No. 2000-1 fund balance at June 30, 2012 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 2012/2013 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, 2013 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.

#### **2012-7. Business License Fees for Closed Businesses (Repeated)**

**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. Credit memos had been issued to clear several old balances as recommended in the previous year's audit. However, several old accounts remain on the aging list and several accounts have been added.

**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.

#### **2012-8. Bank Reconciliations – Preparer Signature or Initials**

**Condition:** We noted that the preparer of computer generated bank reconciliations does not sign or initial or otherwise identify themselves on the reconciliation.

**Recommendation:** We recommend that the preparer sign or initial the reconciliation reports. We also suggest that another person review the bank reconciliations and indicate their review on the form.

**Response:** We will follow the recommendations.

#### **2012-9. Expenditures in Excess of Budget Appropriation**

**Condition:** The police department and the debt service fund incurred expenditures in excess of budget appropriations. Certain police vehicles financed under a capital lease were sold to an automobile dealer who paid the balance due on the capital lease directly to the bank. New vehicles were purchased under a new capital lease and the automobile

dealer was paid directly by the bank. Because these transactions occurred outside the City's normal accounting procedures they were overlooked when final budget amendments were considered.

**Criteria:** *Utah Code 10-6* prohibits expenditures in excess of budget appropriations.

**Recommendation:** We recommend that finance personnel consider the accounting and budgetary ramifications of transactions that occur outside the City's normal accounting procedures.

**Response:** We will follow the recommendations

CITY OF NAPLES, UTAH  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2012

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 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.

**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

### 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.

**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.

**Current Status:** The recommendation was implemented.

### 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.

**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.

**Current Status:** The recommendation is repeated.

### 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.

**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.

**Current Status:** The recommendation is repeated.

**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.

**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.

**Current Status:** The recommendation is repeated.

**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:** The recommendation was implemented; but not every quarter.

**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.

**Current Status:** Partially implemented. The recommendation is repeated.

**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.

**Current Status:** Bank reconciliations were completed correctly.