FERRON CITY

FINANCIAL STATEMENTS

JUNE 30, 2005

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Kimball & Roberts
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A Professional Corporation
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ferron City as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ferron City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 August 18, 2005, on our consideration of Ferron City 's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, condition assessment of the City's infrastructure and budgetary comparison information on pages 4 through 15, 48 and 49 through 53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kimball & Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 18, 2005
Richfield, Utah

FERRON CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2005

This discussion of Ferron City's financial performance provided an overview of the City's financial activities for the year ending June 30, 2005. This report is in conjunction with the City's financial statements.

The purpose of the City is to provide general services to its residents which includes general government, public safety, highways and public improvements, parks and recreation, and cemetery.

Financial Highlights

* The assets of Ferron City exceeded its liabilities as of the close of the most recent year by $7,376,995 (net assets). Of this amount, $329,257 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

* The government's total net assets increased by $90,177. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts in the general fund.

* At the close of the current year, the Ferron City governmental funds reported combined ending fund balances of $288,573, a decrease of $166,542 in comparison with the prior year. Approximately 62 percent of this total amount, $178,723 is available for spending at the government's discretion (unreserved fund balance).

* At the end of the current year, unreserved fund balance for the general fund was $53,366, or 10 percent of total general fund expenditures.

* Ferron City's total debt increased by $76,958 during the current year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

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

Governmental Funds

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

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

Ferron City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, municipal building authority and golf course fund all of which are considered to be major funds. Data from the other governmental fund, the capital project fund, is presented as a non-major fund. Individual fund data for this non-major governmental fund is provided elsewhere in this report.

Ferron City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison statements have been provided for the general fund and major special revenue funds to demonstrate compliance with those budgets.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Ferron City maintains three types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. A combining statement for these three funds is shown elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer , and secondary water which are all considered to be a major funds of Ferron City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Ferron City.

The combining statements referred to earlier in connection with the non-major governmental fund and the major enterprise funds is presented immediately following the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Ferron City, assets exceeded liabilities by $7,376,995 at the close of the most recent fiscal year. By far the largest portion of Ferron City's net assets (94 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Ferron City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Ferron City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Ferron City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	308,292	440,094	190,798	193,533	499,090	633,627
Capital Assets	5,768,991	5,397,704	1,659,788	1,705,786	7,428,779	7,103,490
Total Assets	6,077,283	5,837,798	1,850,586	1,899,319	7,927,869	7,737,117
Long-Term Liabilities	483,364	401,271	47,528	51,504	530,892	452,775
Other Liabilities	19,719	25,886	263	12,545	19,982	38,431
Total Liabilities	503,083	427,157	47,791	64,049	550,874	491,206

Ferron City's Net Assets - continued.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Net Assets:						
Invested in Capital Assets Net of Related Debt	5,285,627	5,000,095	1,612,261	945,471	6,897,888	5,945,566
Restricted	109,850	233,342	40,000	40,000	149,850	273,342
Unrestricted	178,723	177,204	150,534	849,799	329,257	1,027,003
Total Net Assets	5,574,200	5,410,641	1,802,795	1,835,270	7,376,995	7,245,911

A portion of Ferron City's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($329,257) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental Activities

Governmental activities increased Ferron City's net assets by $122,652. Key elements of this increase follows:

Ferron City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	267,646	253,242	347,874	291,884	615,520	545,126
Operating Grants	67,905	94,740	-	-	67,905	94,740
Capital Grants	59,770	338,715	-	-	59,770	338,715
General Revenues:						
Property Taxes	55,828	56,771	-	-	55,828	56,771
Other Taxes	183,828	158,194	-	-	183,828	158,194
Bond Proceeds	109,500	-	-	-	109,500	-
Unrestricted Investment Earnings	9,782	6,102	-	-	9,782	6,102
Total Revenues	754,259	907,764	347,874	291,884	1,102,133	1,199,648

Ferron City's - Changes in Net Assets - Continued.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Expenses:						
General Government	231,658	212,638	-	-	231,658	212,638
Public Safety	53,289	23,044	-	-	53,289	23,044
Highways and Public Improvements	106,071	77,787	-	-	106,071	77,787
Parks and Recreation	260,401	291,794	-	-	260,401	291,794
Cemetery	12,312	13,360	-	-	12,312	13,360
Interest on Long-Term Debt	7,876	3,423	3,319	2,605	11,195	6,028
Water, Sewer & Secondary	-	-	337,030	308,642	337,030	308,642
Total Expenses	671,607	622,046	340,349	311,247	1,011,956	933,293
Increase in Net Assets Before Transfers	82,652	285,718	7,525	(19,363)	90,177	266,355
Transfers	40,000	-	(40,000)	-	-	-
Increase in Net Assets	122,652	285,718	(32,475)	(19,363)	90,177	266,355
Net Assets - Beginning	5,451,548	5,165,830	1,835,270	1,854,633	7,286,818	7,020,463
Ne Total Net Assets	5,574,200	5,451,548	1,802,795	1,835,270	7,376,995	7,286,818

* The City received a capital grant of $66,500 and a loan of $109,500 from CIB to be used for the construction of a new fire house and equipment.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Some noteworthy exceptions, however, were Ferron City's purchase of equipment in the road department for $49,200, land, equipment and construction of the firehouse for $382,900, a livestock building for $48,000, playground equipment at a cost of $16,500 and a greens mower for the golf course for $14,500.

Business-Type Activities

Business-type activities decreased Ferron City's net assets by -$32,475 accounting for 100 percent of the total decrease in the government's net assets. A key element of this decrease is as follows:

* A permanent transfer from the water fund to the general fund of $40,000 to be used for the new fire department building.

* The depreciation in the enterprise funds remained the same as the prior year.

Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of Ferron City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing Ferron City's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, Ferron City's governmental funds reported combined ending fund balances of $288,573 a decrease of $166,543 in comparison with the prior year. Approximately 62 percent of this amount ($178,723) constitutes *unreserved fund balance,* which is available for spending at the government's discretion. The remainder of fund bund is *reserved* to indicate that it is not available for new spending because it has already been committed; $55,000 to capital outlay, $10,000 to bond retirement and $44,850 to perpetual care.

The general fund is the chief operating fund of Ferron City. At the end of the current year, unreserved fund balance of the general fund was $53,366 while total fund balance reached $151,216. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10 percent of total general fund expenditures, while total fund balance represents 29 percent of that same amount.

Proprietary Funds

Ferron City's proprietary funds provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the water, sewer and secondary water funds at the end of the year were $150,534. Other factors concerning the finances of these funds has already been addressed in the discussion of Ferron City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of $38,246 reduction can be briefly summarized as foll

* $20,800 increase in general government.
* $188,650 decrease in public safety.
* $64,908 increase in highways and public improvements.
* $24,444 increase in culture and recreation.
* $40,252 increase in nondepartmental.

Of this decrease, the none was funded out of prior year unreserved fund balance. During the year, however, actual revenues were less than budgeted revenues by $60,728 and actual expenditures were less than budgeted expenditures by $40,341 resulting in a net increase in fund balance of $20,387.

Capital Asset and Debt Administration

Capital Assets

Ferron City's investment in capital assets for its governmental activities as of June 30, 2005, was $5,768,991 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads, highways, sidewalks, curb and gutter and bridges.

The total increase in Ferron City's investment in capital assets for the current year was $521,470. Major capital asset events during the current year included the following:

* Lawn mower for the golf course of $14,500.

* Road department truck, bobcat and mower $49,200.

* Construction of the fire house and purchase of land and equipment for the fire house of $382,900.

* In the parks department; playground equipment $16,300 and buildings $65,200.

Also, the City has elected to use the modified approach to account for its infrastructure assets, such as roads sidewalks and curb and gutter. That information can be found in the required supplemental information following the notes to the financial statements.

Ferron City's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	231,233	181,233	58,204	58,204	289,437	239,437
Water Shares			1,011,267	1,011,267	1,011,267	1,011,267
Infrastructure	3,688,546	3,688,546	-	-	3,688,546	3,688,546
Buildings	1,459,895	865,754	-	-	1,459,895	865,754
Improvements Other than Buildings	168,511	194,765	590,317	636,315	758,828	831,080
Equipment	220,806	142,676			220,806	142,676
Construction in Progress	-	324,730	-	-	-	324,730
Total	5,768,991	5,397,704	1,659,788	1,705,786	7,428,779	7,103,490

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

Long -Term Debt

At the end of the current year, Ferron City had total bonded debt outstanding of $407,385. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds) and lease obligations payable of $118,686.

Long-Term Debt - continued.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue Bonds	359,857	259,357	47,528	51,504	407,385	310,861
Lease Obligations	118,686	138,252	-	-	118,686	138,252
Total Long-Term Debt	478,543	397,609	47,528	51,504	526,071	449,113

State statutes limit the amount of general obligation debt a governmental entity may issue to 4 percent of its total fair market value of taxable property in the City. The City has no general obligation debt.

Additional information on Ferron City's long-term debt can be found in the notes of the financial statements.

Economic Factors and Next Year's Budgets and Rates

* The City raised the water and sewer rates $3 each beginning July 1, 2004. This increase was a pass-through from the Castle Valley Special Service District, who maintains the City's water and sewer facilities.

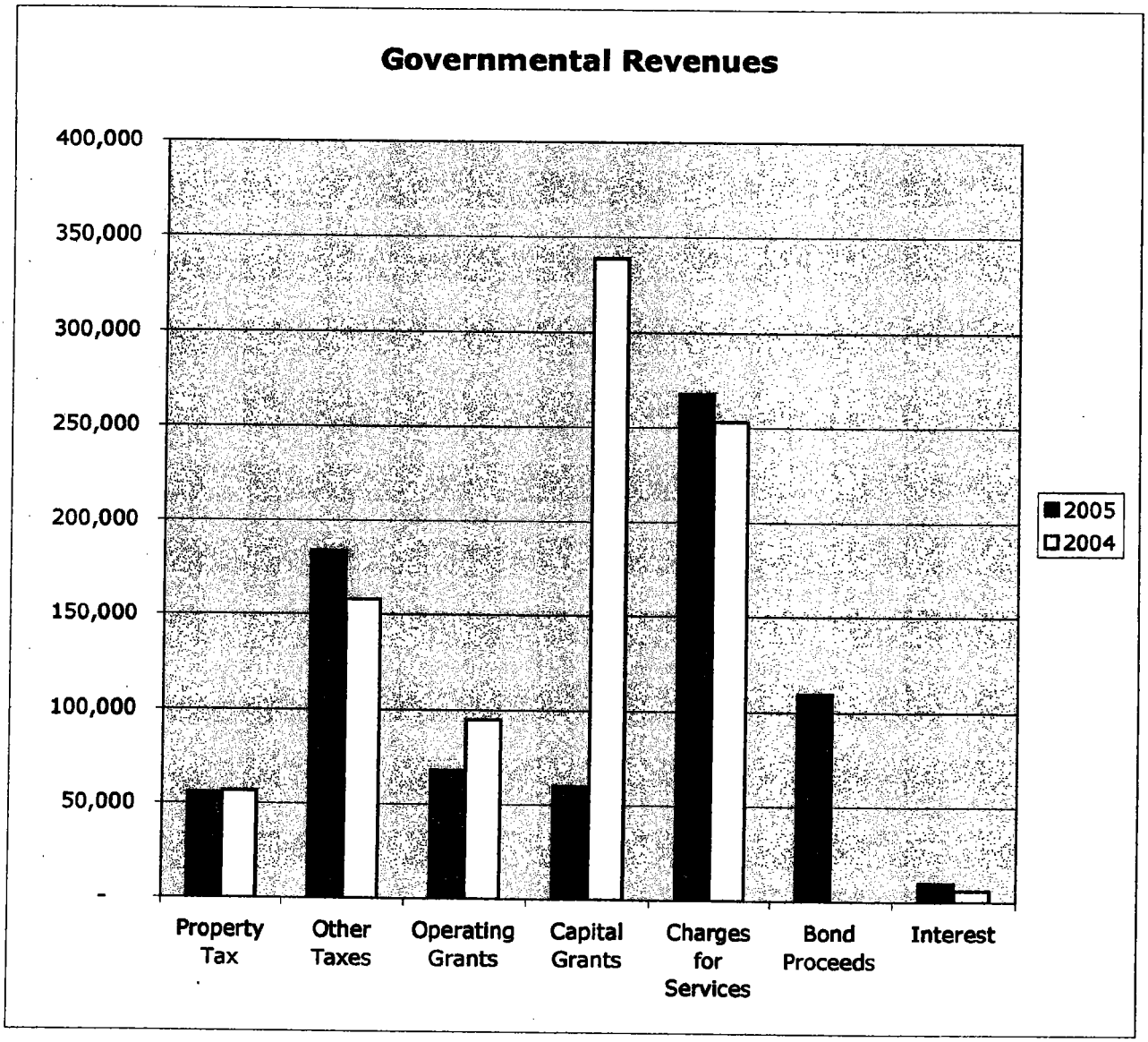
This factor was considered in preparing Ferron City's budget for the 2004-2005 fiscal year.

Request for Information

This financial report is designed to provide a general overview of Ferron City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ferron City Recorder, P.O. Box 820, Ferron, Utah, 84523.

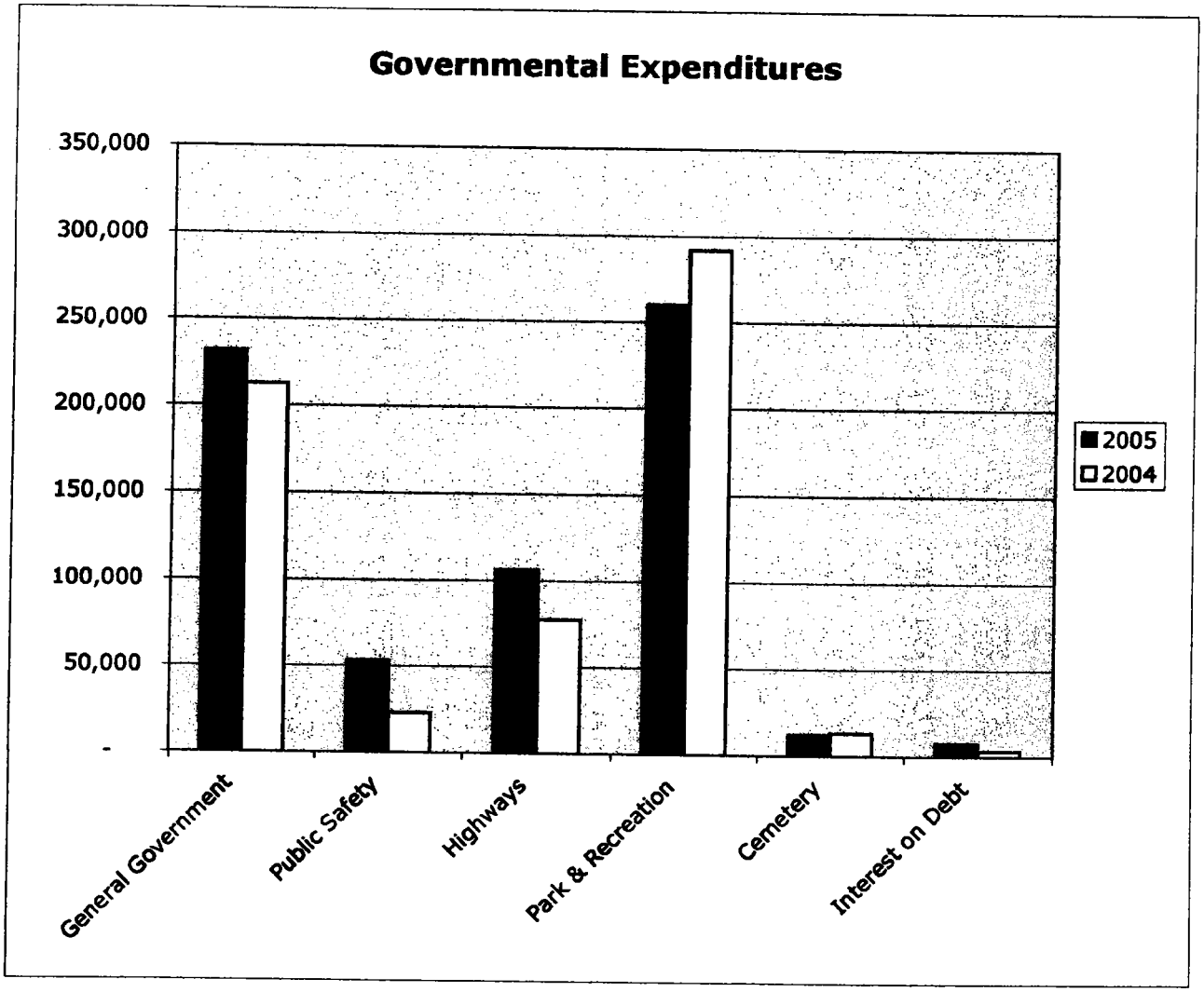
Ferron City
Governmental Revenues
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Property Tax	55,828	56,771
Other Taxes	183,828	158,194
Operating Grants	67,905	94,740
Capital Grants	59,770	338,715
Charges for Services	267,646	253,242
Bond Proceeds	109,500	
Interest	9,782	6,102
Total Revenues	754,259	907,764



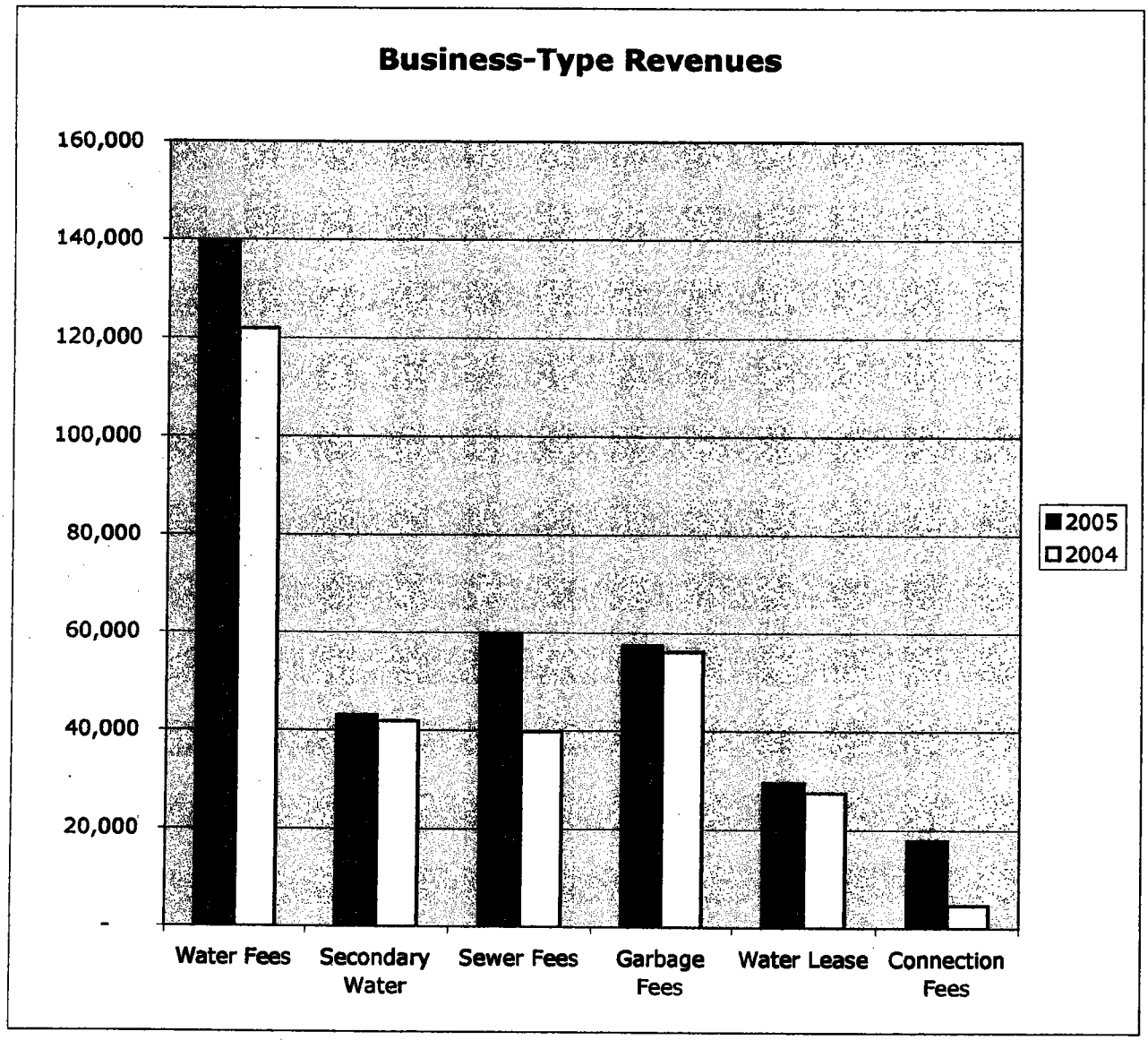
Ferron City
Governmental Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
General Government	231,658	212,638
Public Safety	53,289	23,044
Highways	106,071	77,787
Park & Recreation	260,401	291,794
Cemetery	12,312	13,360
Interest on Debt	7,876	3,423
Total Expenditures	671,607	622,046



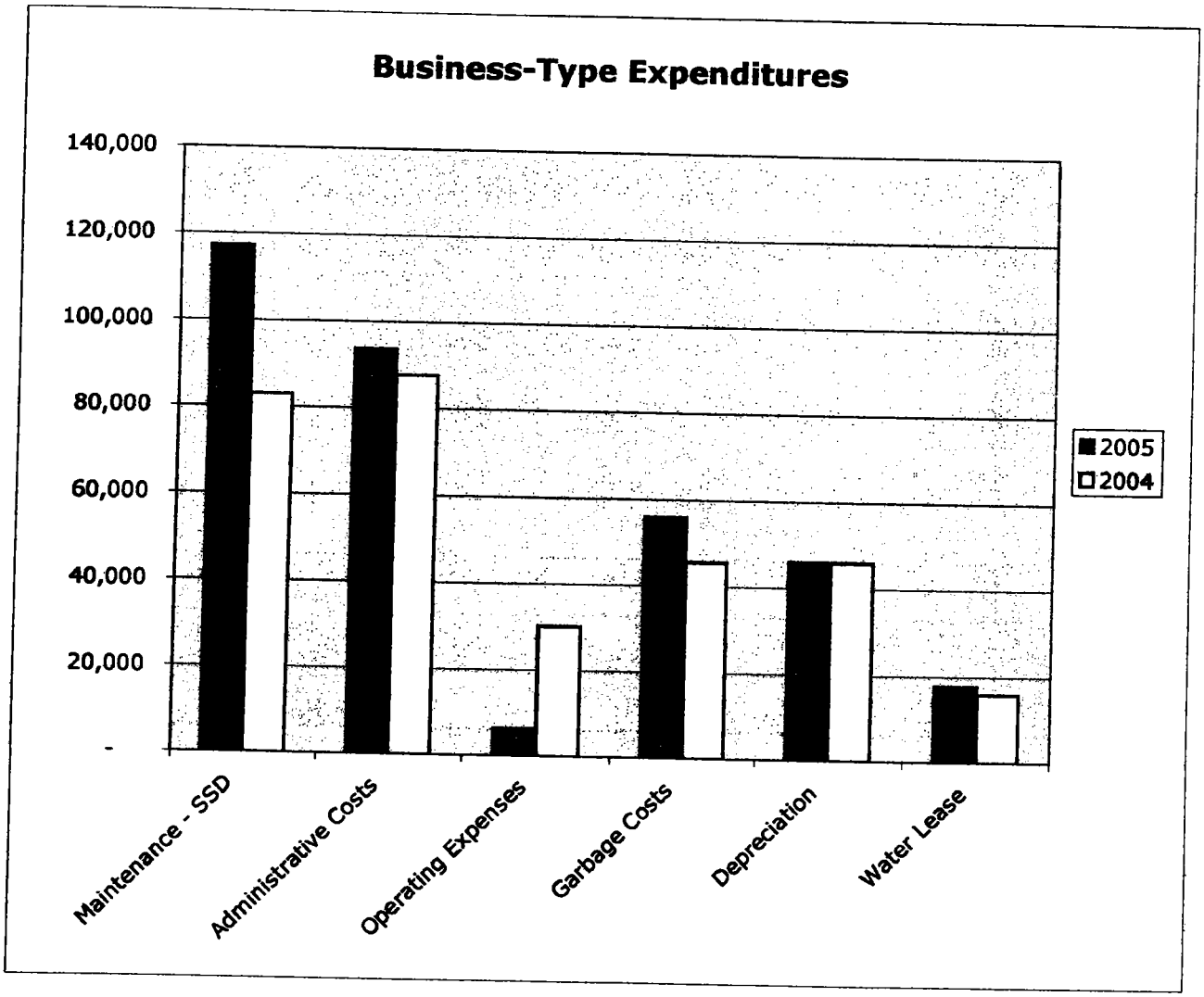
Ferron City
Business-Type Revenues
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Water Fees	139,832	121,831
Secondary Water	43,124	42,015
Sewer Fees	59,931	39,813
Garbage Fees	57,428	56,133
Water Lease	29,615	27,552
Connection Fees	17,944	4,540
Total Revenues	347,874	291,884



Ferron City
Business Type Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
Maintenance - SSD	117,268	83,024
Administrative Costs	93,770	87,788
Operating Expenses	6,336	30,255
Garbage Costs	55,910	45,598
Depreciation	46,000	46,000
Water Lease	17,746	15,977
Total Expenditures	337,030	308,642



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BASIC FINANCIAL STATEMENTS

FERRON CITY
STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	294,474	127,362	421,836
Accounts Receivable (Net)	-	23,436	23,436
Due From Other Government Units	13,818	-	13,818
Total Current Assets	308,292	150,798	459,090
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	40,000	40,000
Capital Assets (Net of Accumulated Depreciation):			
Land	231,233	58,204	289,437
Water Shares	-	1,011,267	1,011,267
Buildings	1,459,895	-	1,459,895
Improvements Other Than Buildings	168,511	590,317	758,828
Equipment	220,806	-	220,806
Infrastructure	3,688,546	-	3,688,546
Total Noncurrent Assets	5,768,991	1,699,788	7,468,779
TOTAL ASSETS	6,077,283	1,850,586	7,927,869
LIABILITIES			
Current Liabilities:			
Accounts Payable	19,719	213	19,932
Deposits Payable	-	50	50
Lease Obligations - Due Within One Year	19,757	-	19,757
Revenue Bonds Payable - Due Within One Year	16,857	4,958	21,815
Total Current Liabilities	56,333	5,221	61,554
Noncurrent Liabilities:			
Lease Obligations - Due More Than One Year	98,929	-	98,929
Revenue Bonds Payable - Due More Than One Year	343,000	42,570	385,570
Compensated Absences	4,821	-	4,821
Total Noncurrent Liabilities	446,750	42,570	489,320
TOTAL LIABILITIES	503,083	47,791	550,874
NET ASSETS			
Investment in Capital Assets, Net of Debt	5,285,627	1,612,261	6,897,888
Restricted For:			
Bond Retirement	10,000	40,000	50,000
Perpetual Care	42,850	-	42,850
Capital Outlay	55,000	-	55,000
Unrestricted	180,723	150,534	331,257
TOTAL NET ASSETS	5,574,200	1,802,795	7,376,995
TOTAL LIABILITIES AND NET ASSETS	6,077,283	1,850,586	7,927,869

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

FERRON CITY
STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

Function/Programs Primary Government:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants/ Contributions	Program Revenues: Capital Grants/ Contributions	Net (Expense) Revenues and Changes in Net Assets — Primary Government: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets — Primary Government: Business-Type Activities	Net (Expense) Revenues and Changes in Net Assets — Primary Government: Total
Governmental Activities:							
General Government	231,658	116,810	-	-	(114,848)	-	(114,848)
Public Safety	53,289	-	1,015	14,120	(38,154)	-	(38,154)
Highways and Public Improvements	106,071	-	66,890	31,200	(7,981)	-	(7,981)
Park and Recreation	260,401	145,942	-	14,450	(100,009)	-	(100,009)
Cemetery	12,312	4,894	-	-	(7,418)	-	(7,418)
Interest on Long-Term Debt	7,876	-	-	-	(7,876)	(3,319)	(11,195)
Total Governmental Activities	671,607	267,646	67,905	59,770	(276,286)	(3,319)	(279,605)
Business-Type Activities:							
Utility Systems	337,030	347,874	-	-	-	10,844	10,844
Total Primary Government	1,008,637	615,520	67,905	59,770	(276,286)	7,525	(268,761)
General Revenues:							
Property Taxes					55,828	-	55,828
Fee-In-Lieu of Property Taxes					21,327	-	21,327
Sales Taxes					151,025	-	151,025
Franchise Taxes					11,476	-	11,476
Bond Proceeds					109,500	-	109,500
Unrestricted Investment Earnings					9,782	-	9,782
Transfers					40,000	(40,000)	-
Total General Revenues and Transfers					398,938	(40,000)	358,938
Change in Net Assets					122,652	(32,475)	90,177
Net Assets - Beginning					5,451,548	1,835,270	7,286,818
Net Assets - Ending					5,574,200	1,802,795	7,376,995

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

FERRON CITY
BALANCE SHEET
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	General Fund	Building Authority	Golf Course	Capital Projects Fund	Non-Major Perpetual Care Permanent Fund	Total
ASSETS						
Cash and Cash Equivalents	108,540	48,556	41,686	52,842	42,850	294,474
Due From Other Government Units	13,818	-	-	-	-	13,818
TOTAL ASSETS	122,358	48,556	41,686	52,842	42,850	308,292
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	13,992	3,281	2,446	-	-	19,719
Total Liabilities	13,992	3,281	2,446	-	-	19,719
Fund Balances:						
Reserved For:						
Perpetual Care	-	-	-	-	42,850	42,850
Capital Outlay	55,000	-	-	-	-	55,000
Bond Reserve	-	-	10,000	-	-	10,000
Unreserved, Reported In:						
General Fund	53,366	-	-	-	-	53,366
Special Revenue Funds	-	45,275	29,240	-	-	74,515
Capital Project Fund	-	-	-	52,842	-	52,842
Total Fund Balance	108,366	45,275	39,240	52,842	42,850	288,573
TOTAL LIABILITIES AND FUND BALANCE	122,358	48,556	41,686	52,842	42,850	308,292

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

FERRON CITY
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Fund Types		288,573
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	231,233	
Buildings	1,459,895	
Improvements	168,511	
Equipment	220,806	
Infrastructure	3,688,546	
Total		5,768,991
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Lease Obligations Payable	(118,686)	
Revenue Bonds Payable	(359,857)	
Compensated Absences	(4,821)	
Total		(483,364)
Net Assets of Government Activities		5,574,200

FERRON CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	General Fund	Building Authority	Golf Course	Capital Projects Fund	Non-Major Perpetual Care Permanent Fund	Total
Revenues:						
Taxes	239,656	-	-	-	-	239,656
Licenses and Permits	4,516	-	-	-	-	4,516
Intergovernmental Revenue	170,674	-	-	-	-	170,674
Charges for Services	118,892	-	112,556	-	-	231,448
Perpetual Care	-	-	-	-	1,943	1,943
Interest	8,736	139	-	-	908	9,783
Miscellaneous Revenues	16,581	-	13,158	-	-	29,739
Total Revenues	559,055	139	125,714	-	2,851	687,759
Expenditures:						
Current:						
General Government	215,933	-	-	-	-	215,933
Public Safety	36,013	-	-	-	-	36,013
Highway and Public Improvements	102,612	-	-	-	-	102,612
Parks and Recreation	37,780	-	114,552	5,500	-	157,832
Capital Outlay	126,260	380,760	14,450	-	-	521,470
Debt Service:						
Principal	-	9,000	19,565	-	-	28,565
Interest	-	2,205	5,671	-	-	7,876
Total Expenditures	518,598	391,965	154,238	5,500	-	1,070,301
Excess Revenues Over (Under) Expenditures	40,457	(391,826)	(28,524)	(5,500)	2,851	(382,542)
Other Financing Sources (Uses):						
Grant Proceeds	-	66,500	-	-	-	66,500
Bond Proceeds	-	109,500	-	-	-	109,500
Transfers In	908	75,658	61,752	-	-	138,318
Transfers Out	(61,752)	-	(11,000)	(24,658)	(908)	(98,318)
Total Other Financing	(60,844)	251,658	50,752	(24,658)	(908)	216,000
Net Change In Fund Balance	(20,387)	(140,168)	22,228	(30,158)	1,943	(166,542)
Fund Balance - Beginning	128,753	185,443	17,012	83,000	40,907	455,115
Fund Balance - Ending	108,366	45,275	39,240	52,842	42,850	288,573

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

FERRON CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

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

Net Changes in Fund Balances - Total Governmental Funds		(166,542)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Capital Outlays	521,470	
Depreciation Expense	(150,183)	
Total		371,287
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Bond Proceeds	(109,500)	
Principal Payment on Bonds	28,566	
Compensated Absences	(1,159)	
Total		(82,093)
Changes In Net Assets of Governmental Activities		122,652

FERRON CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Fund			
	Water System	Sewer System	Secondary Water System	Total
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	56,764	6,903	63,695	127,362
Accounts Receivable	14,703	5,349	3,384	23,436
Total Current Assets	71,467	12,252	67,079	150,798
Noncurrent Assets:				
Investments - Restricted:				
Bond Reserves	-	40,000	-	40,000
Capital Assets: (Net of Accum. Depreciation)				
Land	20,000	38,204	-	58,204
Water Shares	1,011,267	-	-	1,011,267
Water and Sewer Systems	402,707	187,610	-	590,317
Total Noncurrent Assets	1,433,974	265,814	-	1,699,788
TOTAL ASSETS	1,505,441	278,066	67,079	1,850,586
LIABILITIES:				
Current Liabilities:				
Accounts Payable	213	-	-	213
Customer Deposits	50	-	-	50
Bonds Payable - Due Within One Year	-	4,958	-	4,958
Total Current Liabilities	263	4,958	-	5,221
Noncurrent Liabilities:				
Bonds Payable - Due In More Than One Year	-	42,570	-	42,570
TOTAL LIABILITIES	263	47,528	-	47,791
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	1,433,974	178,287	-	1,612,261
Restricted for Bond Retirement	-	40,000	-	40,000
Unrestricted	71,204	12,251	67,079	150,534
TOTAL NET ASSETS	1,505,178	230,538	67,079	1,802,795
TOTAL LIABILITIES AND NET ASSETS	1,505,441	278,066	67,079	1,850,586

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

FERRON CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Fund			
	Water System	Sewer System	Secondary Water System	Total
Operating Revenues:				
Charges for Sales and Services:				
Water Sales	139,832	-	-	139,832
Secondary Water Sales	-	-	43,124	43,124
Sewer Sales	-	59,931	-	59,931
Garbage Fees	57,428	-	-	57,428
Connection Fees	12,792	4,600	552	17,944
Water Lease Revenue	29,615	-	-	29,615
Total Operating Revenues	239,667	64,531	43,676	347,874
Operating Expenses:				
Special Service District	64,124	39,944	13,200	117,268
Administrative Costs to General Fund	67,102	13,163	13,505	93,770
Materials, Supplies and Services	6,336	-	-	6,336
Garbage Collections	55,910	-	-	55,910
Depreciation	33,000	13,000	-	46,000
Water Lease Costs	13,571	-	4,175	17,746
Total Operating Expenses	240,043	66,107	30,880	337,030
Operating Income	(376)	(1,576)	12,796	10,844
Nonoperating Revenues (Expenses):				
Interest on Revenue Bonds	-	(3,319)	-	(3,319)
Income Before Transfers	(376)	(4,895)	12,796	7,525
Transfers In (Out)	(40,000)	-	-	(40,000)
Change in Net Assets	(40,376)	(4,895)	12,796	(32,475)
Total Net Assets - Beginning	1,545,554	235,433	54,283	1,835,270
Total Net Assets - Ending	1,505,178	230,538	67,079	1,802,795

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

FERRON CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Fund			
	Water System	Sewer System	Secondary Water System	Total
Cash Flows From Operating Activities:				
Receipts From Customers	242,015	62,580	43,399	347,994
Payments to Suppliers	(216,083)	(55,103)	(32,130)	(303,316)
Net Cash Provided by Operating Activities	25,932	7,477	11,269	44,678
Cash Flows from Noncapital Financing Activities:				
Transfer From Other Funds	(40,000)	-	-	(40,000)
Net Cash Provided (Used) by Noncapital Financing Activities	(40,000)	-	-	(40,000)
Cash Flows From Capital and Related Financing Activities:				
Principal Paid on Capital Debt	-	(3,977)	-	(3,977)
Interest Paid on Capital Debt	-	(3,319)	-	(3,319)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(7,296)	-	(7,296)
Net Increase (Decrease) in Cash and Cash Equivalents	(14,068)	181	11,269	(2,618)
Cash and Cash Equivalents - Beginning	70,832	46,722	52,426	169,980
Cash and Cash Equivalents - Ending	56,764	46,903	63,695	167,362
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:				
Operating Income	(376)	(1,576)	12,796	10,844
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:				
Depreciation	33,000	13,000	-	46,000
Increase (Decrease) in Operating Assets:				
(Increase) Decrease in Accounts Receivable	2,348	(1,952)	(277)	119
Increase (Decrease) in Accrued Liabilities	(9,040)	(1,995)	(1,250)	(12,285)
Total Adjustments	26,308	9,053	(1,527)	33,834
Net Cash Provided (Used) by Operating Activities	25,932	7,477	11,269	44,678

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ferron City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

The following is a summary of the more significant policies:

A. Reporting Entity

Ferron City is a municipal corporation in Emery County, Utah. It is governed by an elected Mayor and a five member council. As required by generally accepted accounting principles, these financial statements are of the primary government, Ferron City, the reporting entity. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The Municipal Building Authority Fund which accounts for the construction of major fixed assets then leased to Ferron City for City purposes.

The Golf Course Fund accounts for monies received and expended for golf course activities.

Capital Projects Fund account for the acquisition of fixed assets or construction of major capital improvements not being financed by proprietary or nonexpendable trust funds.

The government also reports the following non-major governmental fund:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following Proprietary Funds:

The Utility Funds accounts for the activities of the City water and sewer operations. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Improvements Other Than Buildings	40 Years
Equipment	7 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting:

The governing body of the entity shall establish the time and place of the public hearing to consider the adoption of the budget and shall publish notice of the hearing at least seven days prior to the hearing (no time period given for towns) in at least one issue of the newspaper of general circulation published within the County in which the entity is located. If no such newspaper is published, the required notice may be posted in three public places within the entity's jurisdiction. The tentative budget must be made available to the public for inspection for a number of days, as provided by law, prior to the budget hearing.

1. On or before the first regularly scheduled meeting of the City Council in the month of May, the mayor prepares a tentative budget for the next budget year.

2. After a public notice has been published, a public hearing is then held on the adoption of the budget.

3. After the public hearing, the City Council makes final adjustments to the tentative budget.

4. On or before June 22, the City Council adopts the budget by resolution or ordinance and sets the tax rate for taxes.

5. The budget officer may transfer unexpended budgeted amounts within departments.

6. The City Council may transfer unexpended budgeted amounts from one department in a fund to another department in the same fund by resolution.

7. The total budget appropriation of any governmental fund may be increased only after a public hearing has been held and followed by resolution of the City Council.

8. Proprietary Fund budgets may be increased without a public hearing by resolution of the City Council.

9. Budgets for the General fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Fiscal Procedures Act for Utah Cities require local municipalities to restrict expenditures to authorized departmental budgets. The combined statement of revenues, expenditures and changes in fund balance - budget and actual identifies the departments and funds which have overexpended budgeted amounts if any and, therefore, do not comply with appropriate fiscal procedures.

F. Property Tax Calendar:

January 1	Lien Date - All property appraised based upon situs and status as of this date (real and personal).
March 1	Calendar year taxing entities must inform the County of the date, time and place of the budget hearing for the next fiscal year for inclusion with tax notice.
June 22	All taxing entities to adopt tentative budgets and proposed tax rates and report them to the county auditor.
July 22	County auditor to prepare and mail Notice of Valuation and Tax Changes to all real property owners, including centrally assessed property owners or in the event that Notices of Valuation and Tax Changes are not required, the county auditor is to compute taxes and the county treasurer is to mail tax notices.
September 1	State Tax Commission approves tax rates.
November 1	County auditor is to deliver the equalized assessment roll to the county treasurer with affidavit.
November 1	County auditor to charge the county treasurer to account for all taxes levied.
November 1	County treasurer to mail tax notices. Tax notices for calendar year entities include notice of budget hearings.
November 30	Taxes on real property become delinquent.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents:.

Deposits:

At year end, the carrying amount of the City's deposits was $(5,093) and the bank balances were $64,051. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council. Cash on hand was $200.

Investments:

Statutes authorize the City to invest in obligations of the U. S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standards & Poor's Corporation or P-1 by Moody's Commercial Paper Record, Bankers' acceptances, repurchase agreements and the state treasurer's investment pool. The City is also authorized to enter into reverse repurchase agreements. At year end the City had $456,387 invested with the Utah State Treasurer's Pool.

The City's investments are categorized below to give an indication of the risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City in the City's name, and includes deposits collateralized by securities held by the City in the City's name. Category 2 includes uninsured and unregistered investments for which the investments are held by a broker or dealer in the City's name, and includes deposits collateralized by securities held by the pledging institution in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer but not in the City's name, and includes deposits not insured or collateralized.

Ferron City's investments at year end are shown below:

	Category 1	Category 2	Category 3	Carrying Amount/ Fair Value
Investments	-	-	-	-
Other Items:				
Cash in Escrow Accounts				10,342
State Treasurer's Investment Pool				456,387
Total Investments				466,729

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The Utah Public Treasurer's Investment Fund is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

Cash is reflected in the financial statements as follows:

Governmental	294,474
Proprietary	167,362
Total	461,836

NOTE 3 - WATER SHARES

Ferron City owns stock in Ferron Canal and Reservoir Company. The change in water stock ownership during the year is summarized below:

	Number of Shares	Cost
Balance - Beginning of Year	1,504	1,011,267
Purchases	-	-
Contributed	-	-
Balance - End of Year	1,504	1,011,267

Ferron City maintains a policy of requiring one share of water stock for each culinary water connection granted. The estimated market value of the stock is $700.00 per share.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	181,233	50,000	-	231,233
Infrastructure	3,688,546	-	-	3,688,546
Construction In Progress	324,730	291,270	616,000	-
Total Capital Assets Not Being Depreciated	4,194,509	341,270	616,000	3,919,779
Capital Assets Being Depreciated:				
Buildings	2,032,369	664,700	-	2,697,069
Improvements Other Than Bldgs	879,589	16,500	-	896,089
Machinery and Equipment	324,109	115,000	-	439,109
Total Capital Assets Being Depreciated	3,236,067	796,200	-	4,032,267
Less Accumulated Depreciation For:				
Buildings	1,166,615	70,559	-	1,237,174
Improvements Other Than Bldgs	684,824	42,754	-	727,578
Machinery and Equipment	181,433	36,870	-	218,303
Total Accumulated Depreciation	2,032,872	150,183	-	2,183,055
Total Capital Assets Being Depreciated (Net)	1,203,195	646,017	-	1,849,212
Governmental Activities Capital Assets, Net	5,397,704	987,287	616,000	5,768,991

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Ending Balance
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	58,204	-	-	58,204
Water Stock	1,011,267	-	-	1,011,267
Total Capital Assets Not Being Depreciated	1,069,471	-	-	1,069,471
Capital Assets Being Depreciated:				
Equipment	43,457	-	-	43,457
Utility Systems	1,879,135	-	-	1,879,135
Total Capital Assets Being Depreciated	1,922,592	-	-	1,922,592
Less Accumulated Depreciation For:				
Equipment	43,457	-	-	43,457
Utility Systems	1,242,819	46,000	-	1,288,819
Total Accumulated Depreciation	1,286,276	46,000	-	1,332,276
Total Capital Assets Being Depreciated (Net)	636,316	(46,000)	-	590,316
Business Type Activities Capital Assets, Net	1,705,787	(46,000)	-	1,659,787
Total Capital Assets	7,103,491	941,287	616,000	7,428,778

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	Governmental Activities	Business Type Activities	Total
General Government	14,567	-	14,567
Public Safety	17,276	-	17,276
Public Health	-	46,000	46,000
Highways and Public Improvements	3,459	-	3,459
Parks and Recreation	114,881	-	114,881
Total Depreciation Expense	150,183	46,000	196,183

NOTE 5 - LONG-TERM DEBT

Compensated Absences:

Compensated absences of Ferron City represent accrued vacation pay owed at June 30, 2005, in the amount of $4,821. The following is a schedule of changes in compensated absences.

	Beginning Balance	Additions	Deletions	Ending Balance
Compensated Absences	3,663	1,158	-	4,821

Governmental

Lease-Purchase Agreements:

Ferron City has entered into a lease-purchase agreement. These agreements contain a fiscal funding or cancellation clause which permits the City to terminate the agreements on an annual basis to ensure compliance with debt restrictions set forth in Article XIV Section 3 of the State Constitution.

The following leases are accounted for in the General Long-Term Debt Account Group:

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Capital Lease - Golf Carts:

On March 1, 2003, the City entered into an operating lease with Yamaha Motor Corporation for 40 new golf carts replacing an existing lease executed in 2000. The terms of the lease call for six monthly payments of $3,034.80 from May through October for the five years beginning in 2003 and ending in 2008. The City has the option at the end of the lease to purchase the golf carts for an additional $48,000. The lease carries an interest rate of 5.6%. The cost of the carts was $140,000. The balance at year end was $100,913.

Terms of the repayment are as follows:

	Principal	Interest	Total
2005/2006	15,301	3,872	19,173
2006/2007	15,957	3,187	19,144
2007/2008	16,642	2,473	19,115
2008/2009	53,013	179	53,192
Total	100,913	9,711	110,624

Capital Lease - Fairway Mower:

During the year the city obtained financing in the amount of $23,730 for the purchase of a fairway mower for the golf course. The terms of the lease require monthly payments of $424.14 which includes interest at 4.4%. The balance at year end was $17,773.

The following is a schedule of debt service payments to maturity:

	Principal	Interest	Total
2005/2006	4,457	742	5,199
2006/2007	4,657	444	5,101
2007/2008	4,866	283	5,149
2008/2009	3,793	70	3,863
Total	17,773	1,539	19,312

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Lease-Revenue Bonds - Municipal Building Authority of Ferron City:

On February 22, 1993, the Ferron City Council created the Municipal Building Authority of Ferron City under section 11-29-3 of the Utah Code Annotated 1953. The purpose of the Building Authority is to finance the acquisition, construction of, and improvements to the municipal golf course, including a clubhouse, parking lot and sidewalks. The Building Authority has obtained leases with Ferron City for the lease of the golf course facilities when constructed. The proceeds of the leases will be used to retire the bonded indebtedness of the Building Authority. The Mayor and Ferron City Council are the trustees of the Building Authority.

On June 8, 1993, the Building Authority issued and sold lease-revenue bonds to the Community Impact Board of the State of Utah in the amount of $185,500 to help finance these improvements. The Building Authority has written leases with Ferron City to insure the repayment of their bonded indebtedness. The balance at year end was $81,000.

The terms of the repayment are as follows:

October 1,	Principal	Interest	Total
2005	9,000	-	9,000
2006	9,000	-	9,000
2007	9,000	-	9,000
2008	9,000	-	9,000
2009	9,000	-	9,000
2010	9,000	-	9,000
2011	9,000	-	9,000
2012	9,000	-	9,000
2013	9,000	-	9,000
Total	81,000	-	81,000

The bond instrument also requires a reserve fund to accumulate at $2,000 per year for five years, beginning October 1, 1994, reaching a maximum of $10,000. Balance at June 30, 2005, is $10,000 and fully funded.

NOTE 5 - LONG-TERM DEBT (CONTINUED)

CIB Revenue Bonds:

On August 7, 2003, the City obtained partial financing from the Permanent Community Impact Board by obtaining a $333,715 grant and a $169,357 loan to the Municipal Building Authority of Ferron City for the construction of a new fire station to service Ferron City. However, during 2004 the City obtained an additional loan for $33,500. The Community Impact Board approved the retirement of the old bond and the City issued a new bond in the amount of $202,857.

The bond requires 20 principal installments payable on January 1st of each year commencing on January 1, 2006. The bond carries the interest rate of 2.5%. The balance at year end was $202,857.

The following is a summary of debt service charges to maturity:

	Principal	Interest	Total
2005/2006	7,857	5,071	12,928
2006/2007	9,000	4,875	13,875
2007/2008	9,000	4,650	13,650
2008/2009	9,000	4,425	13,425
2009/2010	9,000	4,200	13,200
2011/2015	51,000	17,375	68,375
2016/2020	57,000	10,725	67,725
2021/2025	51,000	3,225	54,225
Total	202,857	54,546	257,403

The following sources of funding was available for the construction of the project:

Agency	Cost Sharing
PCIB Grant	338,715
PCIB Loan	169,357
Ferron City - Cash	50,480
Ferron City - In Kind	71,472
Total	630,024

The bond requires the City to place in a reserve fund $166.67 per month for 72 months to a maximum reserve of $12,000.

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Municipal Building Authority Bond:

On April 7, 2005 the Community Impact Board authorized a $76,000 loan to the Municipal Building Authority of Ferron City for the construction of a open metal shed at the Fairground Park. The loan was evidenced by a lease revenue bond to be issued by the City and purchased by the Board. The terms of the loan require yearly payments with no interest. The balance at year end was $76,000.

The following is a summary of debt service payments to maturity:

	Principal	Interest	Total
2006	-	-	-
2007	3,000	-	3,000
2008	3,000	-	3,000
2009	3,000	-	3,000
2010	3,000	-	3,000
2011/2015	20,000	-	20,000
2016/2019	20,000	-	20,000
2020/2025	20,000	-	20,000
2026	4,000	-	4,000
Total	76,000	-	76,000

The following is a summary of General Long-Term Debt to maturity:

	Principal	Interest	Total
2005/2006	36,614	9,684	46,298
2006/2007	38,614	8,506	47,120
2007/2008	42,508	7,406	49,914
2008/2009	77,807	4,674	82,481
2009/2010	21,000	4,200	25,200
2011/2015	106,000	17,375	123,375
2016/2019	77,000	10,725	87,725
2020/2025	71,000	3,225	74,225
2026	8,000	-	8,000
Total	478,543	65,795	544,338

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Proprietary

Sewer Revenue Bond:

Sewer Revenue Bond, payable to Farmers Home Administration, dated July 22, 1974; bearing interest rate of 5% per annum; payable in monthly installments of $608, including interest, through June 2014. The original amount of the bond was $125,000. The balance at year end was $47,527.

The following is a statement of debt service charges to maturity:

	Principal	Interest	Total
2005/2006	4,957	2,339	7,296
2006/2007	5,205	2,091	7,296
2007/2008	5,465	1,831	7,296
2008/2009	5,738	1,558	7,296
2009/2010	6,028	1,268	7,296
2011/2015	20,134	3,185	23,319
Total	47,527	12,272	59,799

The following is a summary of total Long-Term Debt to maturity:

	Principal	Interest	Total
2005/2006	41,571	12,023	53,594
2006/2007	43,819	10,597	54,416
2007/2008	47,973	9,237	57,210
2008/2009	83,545	6,232	89,777
2009/2010	27,028	5,468	32,496
2011/2015	126,134	20,560	146,694
2016/2019	77,000	10,725	87,725
2020/2025	71,000	3,225	74,225
2026	8,000	-	8,000
Total	526,070	78,067	604,137

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in long-term debt payable:

	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2004	Current Year Changes		Outstanding June 30, 2005
					Issued	Matured	
Governmental:							
Lease Purchase Agreements:							
Golf Carts	2003	5.6%	140,000	116,214	-	15,301	100,913
Fairway Mower	2004	4.4%	23,075	22,037	-	4,264	17,773
CIB Lease Revenue Bonds	1993	0%	185,500	90,000	-	9,000	81,000
CIB Revenue Bonds	2003	2.5%	169,357	169,357	-	169,357	-
CIB Revenue Bonds	2005	2.5%	202,857	-	202,857	-	202,857
CIB Revenue Bonds	2005	0%	76,000	-	76,000	-	76,000
Total Governmental			796,789	397,608	278,857	197,922	478,543
Proprietary:							
Sewer Revenue Bonds:							
FHA	1974	5%	125,000	51,505	-	3,977	47,528
Total Proprietary			125,000	51,505	-	3,977	47,528
Total Long-Term Debt			921,789	449,113	278,857	201,899	526,071

NOTE 6 - SPECIAL REVENUE FUND

Golf Course:

During 1991/92 Ferron City elected to account for the operations of the golf course in a special revenue fund. The following is a summary of the activity during the current fiscal year:

Revenues:	
Green Fees	78,849
Golf Cart Fees	33,707
Other Revenues	13,158
Total Revenues	125,714
Expenditures:	
Salaries and Wages	56,662
Benefits	26,612
Equipment Supplies and Maintenance	3,760
Fertilizer	2,415
Utilities	6,659
Telephone	2,356
Fuel	3,256
Water Expenses	1,988
Other	10,844
Capital Outlay	14,450
Lease Payments	25,236
Total Expenditures	154,238
Excess of Revenues Over (Under) Expenditures	(28,524)
Other Financing Sources (Uses):	
Transfer from General Fund	61,752
Transfer to Building Authority for Bond Payment	(11,000)
Total Other Financing Sources (Uses)	50,752
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	22,228
Fund Balance - Beginning of Year	17,012
Fund Balance - End of Year	39,240

NOTE 6 - SPECIAL REVENUE FUND (CONTINUED)

Municipal Building Authority of Ferron City:

The following is a statement of receipts and disbursements in Building Authority Special Revenue Fund:

Fund Balance - Beginning of Year		185,443
Receipts:		
CIB Grant	66,500	
CIB Loan	109,500	
Transfers In	75,658	
Interest Earned	139	
Total Receipts		251,797
Disbursements:		
Capital Outlay - Fire Station	(291,270)	
Capital Outlay - Livestock Building	(48,700)	
Capital Outlay - Equipment	(40,790)	
Capital Outlay - Golf Course:		
Debt Service Principal	(9,000)	
Other Costs	(2,205)	
Total Disbursements		(391,965)
Fund Balance - End of Year		45,275

NOTE 7 - CLASS C ROAD - RESERVED FUND BALANCE

The following is a statement of receipts and disbursements in Class C Roads:

Reserved Fund Balance - Beginning of Year		40,000
Receipts:		
State of Utah Allotments	66,890	
Interest	1,110	
Total Receipts		68,000
Disbursements:		
Construction and Maintenance		(108,000)
Reserved Fund Balance - End of Year		-

NOTE 8 - PERPETUAL CARE FUND

The following is a statement of receipts and disbursements in the Perpetual Care Fund:

Fund Balance - Beginning of Year		40,907
Receipts:		
Perpetual Care Payments	1,943	
Interest Earnings	908	
Total Receipts		2,851
Disbursements:		
Transfer to General Fund	(908)	
Total Disbursements		(908)
Fund Balance - End of Year		42,850

NOTE 9 - TRANSFERS

Description	Transfers In	Transfers Out
General	-	61,752
Capital Improvement Fund	-	24,658
Golf Course	61,752	11,000
Building Authority	75,658	-
Water Fund	-	40,000
	137,410	137,410

Transfers were made for the following purposes:

* The General Fund transferred $61,752 to the golf course for operating capital.
* The Golf Course Fund transferred $11,000 to the Building Authority for debt service payments.
* The Capital Improvement Fund transferred $24,658 to the Building Authority for capital outlay.
* The Water Fund transferred $40,000 to the Building Authority for capital expenditures.

NOTE 10 - PENSION PLAN

Local Governmental - Cost Sharing:

Plan Description:

Ferron City contributes to the Local Governmental Noncontributory Retirement System which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs 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 included financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

Ferron City is required to contribute a percent of covered salary to the following system; 11.09% to the Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Ferron City contributions to the various systems for the years ending June 30, 2005, 2004 and 2003 respectively were; for the Noncontributory System, $16,844.46, $13,839.68 and $14,274.34. The contributions were equal to the required contributions for each year.

NOTE 11 - RISK MANAGEMENT

Ferron City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries and disasters. The City is insured through the Utah Local Governments Trust for general liability coverage. The limits of coverage is $2,000,000 with no deductible for each occurrence for both comprehensive general liability and automobile liability. Uninsured motorist has a $50,000 limit per each accident.

The City is also insured through the Utah local Governments Trust for property coverage. This policy provides All Risk coverage with a $1,000 deductible for buildings, contents and contractors equipment.

Claims have not exceeded coverage in any of the last three calendar years.

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is used to assist in formatting, for easier reading)

REQUIRED SUPPLEMENTARY INFORMATION "UNAUDITED"

FERRON CITY
CONDITION RATING OF THE CITY'S ROAD SYSTEM

For The Fiscal Year Ended June 30, 2005

Percentage of Lane-Miles in Good or Better Condition:

	2004	2005
Paved	95	92
Gravel	90	90
Dirt	100	88
Overall System	95	90
Curb and Gutter	90	85
Sidewalks	85	80
Bridges	95	90

Percentage of Lane-Miles in Substandard Condition:

	2004	2005
Paved	5	4
Gravel	10	8
Dirt	0	10
Overall System	5	7
Curb and Gutter	10	5
Sidewalks	15	5
Bridges	5	4

Comparison of Needed-to-Actual Maintenance/Preservation - Roads and Bridges:

	2004	2005
Estimated	100,000	70,000
Actual	77,000	66,000

The condition of road pavement is measured using the American...(AASHTO) pavement management system, which is based on stress factors found in pavement surfaces. The AASHTO pavement management system uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good condition (70-100), fair condition (50-69), and substandard condition (less than 50). It is the City's policy to maintain at least 60 percent of its road system at a good or better condition level. No more than 15 percent should be in substandard condition. Condition assessments are determined every year.

This schedule only presents the information for the last year. GASB standards require reporting the last three complete condition assessments and needed-to-actual information for 5 years. However, the City implemented these new standards in 2004, and did not collect this information for the prior years. The City will continue to collect and retain this information so that over a period of five years it will be able to report the required information.

The condition of the City's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to 7.0 (new). It is the City's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1 percent. All bridges are inspected every two years.

FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2004	128,753	128,753	128,753	-
Resources (Inflows):				
Taxes:				
General Property Taxes	58,204	53,304	52,406	(898)
Delinquent Prior Years Taxes	2,500	2,500	3,422	922
Fee-In-Lieu	16,500	21,400	21,327	(73)
General Sales and Use Taxes	121,496	121,496	151,025	29,529
Franchise Taxes	7,400	7,400	11,476	4,076
Total Taxes	206,100	206,100	239,656	33,556
Licenses and Permits:				
Business Licenses	2,300	2,300	2,844	544
Building Permits	300	500	850	350
Animal Control	700	500	822	322
Total Licenses and Permits	3,300	3,300	4,516	1,216
Intergovernmental Revenue:				
State Liquor Allotment	500	1,015	1,015	-
Federal Grants	243,567	45,650	45,650	-
State Grants	-	57,119	57,119	-
Class C Road	80,000	77,481	66,890	(10,591)
Total Intergovernmental Revenue	324,067	181,265	170,674	(10,591)
Charges for Services:				
Cemetery Fees	3,000	2,212	4,894	2,682
Utility Administrative Fees	93,770	93,770	93,770	-
Peach Days	25,600	17,778	20,228	2,450
Total Charges for Services	122,370	113,760	118,892	5,132
Other Revenue:				
Interest	3,100	8,389	9,644	1,255
Other Unclassified	-	18,516	16,581	(1,935)
Fund Balance	-	89,361	-	(89,361)
Total Miscellaneous Revenue	3,100	116,266	26,225	(90,041)
Amounts Available for Appropriation	787,690	749,444	688,716	(60,728)

Continued

FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
General Government:				
Mayor and Council	25,500	28,700	25,591	3,109
City Treasurer	39,000	43,200	40,686	2,514
Central Purchasing	39,100	32,400	27,597	4,803
City Recorder	58,200	61,000	60,693	307
Professional Fees	1,000	8,500	5,469	3,031
Non-Departmental	8,950	9,250	5,774	3,476
Building and Grounds	42,300	51,800	49,873	1,927
Planning and Zoning	300	300	250	50
Total General Government	214,350	235,150	215,933	19,217
Public Safety:				
Fire Department	259,917	70,152	69,541	611
Police Department	500	1,015	1,015	-
Animal Control	250	850	457	393
Total Public Safety	260,667	72,017	71,013	1,004
Highway and Public Improvements:				
Highways and Streets	87,470	-	-	-
Shop and Garage	2,200	-	-	-
Class C Road	10,000	164,578	151,812	12,766
Total Highways and Public Improvements	99,670	164,578	151,812	12,766
Culture and Recreation:				
Parks	35,050	21,550	20,399	1,151
Fairgrounds	13,200	30,200	26,214	3,986
Peach Days	-	20,944	20,916	28
Cemetery	14,500	14,500	12,311	2,189
Total Culture and Recreation	62,750	87,194	79,840	7,354
Nondepartmental:				
Transfers Out	21,500	61,752	61,752	-
Total Charges to Appropriations	658,937	620,691	580,350	40,341
Budgetary Fund Balance - June 30, 2005	128,753	128,753	108,366	(20,387)

FERRON CITY
BUDGETARY COMPARISON SCHEDULE
BUILDING AUTHORITY

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2004	185,443	185,443	185,443	-
Resources (Inflows):				
Intergovernmental	-	176,000	176,000	-
Interest	-	-	138	138
Transfers In	11,000	259,300	75,658	(183,642)
Amounts Available for Appropriation	196,443	620,743	437,239	(183,504)
Charges to Appropriations (Outflows):				
Capital Outlay	-	424,000	380,759	43,241
Debt service Payments	11,000	11,300	11,205	95
Total Charges to Appropriations	11,000	435,300	391,964	43,336
Budgetary Fund Balance - June 30, 2005	185,443	185,443	45,275	(140,168)

FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GOLF COURSE

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2004	17,012	17,012	17,012	-
Resources (Inflows):				
Golf Cart Revenue	7,800	30,000	33,707	3,707
Golf Fees	143,874	65,000	78,849	13,849
Miscellaneous	-	11,223	13,158	1,935
Transfers In	-	61,752	61,752	-
Amounts Available for Appropriation	168,686	184,987	204,478	19,491
Charges to Appropriations (Outflows):				
Salaries and Benefits	92,800	35,600	35,350	250
Materials and Supplies	24,150	81,325	79,201	2,124
Debt Service	-	25,300	25,237	63
Capital Outlay	23,724	14,450	14,450	-
Transfers Out	11,000	11,300	11,000	300
Total Charges to Appropriations	151,674	167,975	165,238	2,737
Budgetary Fund Balance - June 30, 2005	17,012	17,012	39,240	22,228

FERRON CITY
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

For The Fiscal Year Ended June 30, 2005

	General Fund	Golf Course	Building Authority
Sources/Inflows and Resources:			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.	688,716	204,478	437,239
Differences - Budget to GAAP:			
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(128,753)	(17,012)	(185,443)
Lease proceeds are other financing sources and are not revenues for financial reporting purposes.	-	-	(176,000)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(908)	(61,752)	(75,658)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	559,055	125,714	138
Uses/Outflows of Resources:			
Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.	580,350	165,238	391,965
Differences - Budget to GAAP:			
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting pruposes.	(61,752)	(11,000)	-
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	518,598	154,238	391,965

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COMPLIANCE SECTION

Kimball & Roberts
Certified Public Accountants
A Professional Corporation
Box 663
Richfield, Utah 84701
Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ferron City as and for the year ended June 30, 2005, which collectively comprise Ferron City's basic financial statements and have issued our report thereon dated August 18, 2005. 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 Ferron City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kimball + Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 18, 2005
Richfield, Utah

Kimball & Roberts
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AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the financial statements of Ferron City, for the fiscal year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. As part of our audit, we have audited Ferron City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Blanding City's financial statements.)

CIB Grant (Department of Community and Economic Development)
Fire Department Grant (Department of State Lands and Forestry)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

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

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures no instances of noncompliance with the requirements referred to above.

In our opinion, Ferron City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2004.

Kimball & Roberts

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 18, 2005
Richfield, Utah