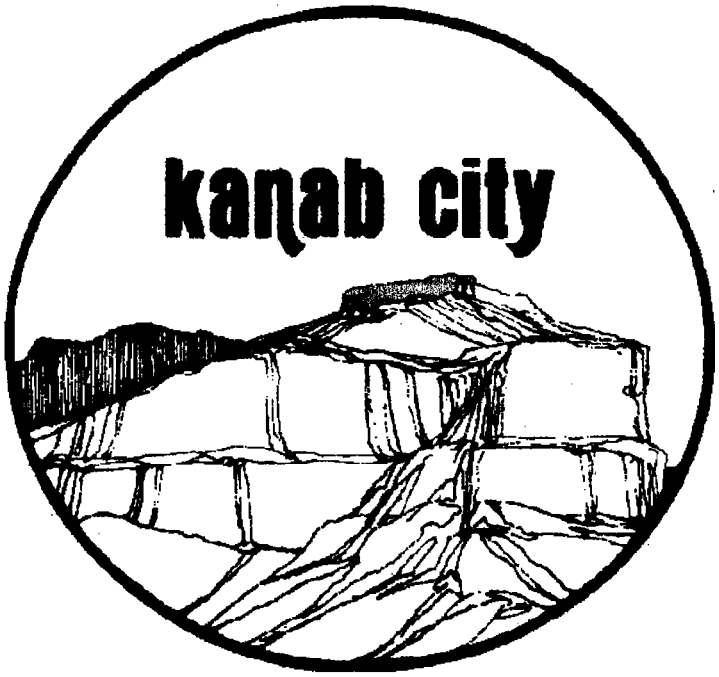

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

KEMPBURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

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FINANCIAL SECTION

KEMPBURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

Independent Auditors' Report

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

The Honorable Mayor and
Members of the City Council
Kanab, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah, 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 basic financial statements are the responsibility of Kanab City's management. Our responsibility is to express an opinion on these basic 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 governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Kanab City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, on our consideration of Kanab City's internal control structure over financial reporting and on our tests of its compliance with laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Kanab City, Utah. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
August 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kanab (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets increased by $952,295 which resulted in total assets in excess of total liabilities (net assets) of $11.78 million at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by $1.01 million.
- Total business-type expenses exceeded total business-type revenues by $65,460.
- Total revenues from all sources were $4.4 million.
- The total cost of all City programs was $3.46 million
- The General Fund reported excess revenues over expenditures of $627,226.
- Actual resources received in the General Fund were less than the final budget by $354,608 while actual expenditures were $657,925 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $1,125,768 or 48% of total General Fund expenditures, excluding transfers.
- Total reserved fund balance in the Recreation fund at the close of the year is $522,721.
- The City sold the Electric fund (see note 17) and used the proceeds to eliminate all fund payables and deficits.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. 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. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this 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. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, judicial, public works, culture and recreation, community support and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.

- Proprietary activities/Business type activities – The City charges a fee to customers to cover all of most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

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 bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.

- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, donations for a specific purpose and others. These fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by $11.78 million as of June 30, 2005 as shown in the following condensed statement of net assets. The City has chosen to account for its water, sewer and electric operations in enterprise funds which are shown as Business Activities.

Kanab City
Statement of Net Assets

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Current and other assets	$ 2,339,514	$ 1,681,064	$ 2,069,279	$ 1,882,861
Capital assets	5,128,827	4,755,172	4,088,991	6,053,012
Total assets	7,468,341	6,436,236	6,158,270	7,935,873
Long-term liabilities outstanding	463,622	374,081	1,168,366	2,616,682
Other liabilities	124,768	199,959	88,739	436,391
Total liabilities	588,390	574,040	1,257,105	3,053,073
Net assets:				
Invested in capital assets, net of related debt	4,683,082	4,410,582	3,151,954	3,105,381
Restricted	1,048,957	920,504	128,094	118,976
Unrestricted	1,147,912	531,110	1,621,117	1,658,443
Total net assets	$ 6,879,951	$ 5,862,196	$ 4,901,165	$ 4,882,800

Governmental Activities

The cost of all Governmental activities this year was $2,016,053. As shown on the statement of Changes in Net Assets on the following page, $386,158 of this cost was paid for by those who directly benefited from the programs, $545,626 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were $931,784. General taxes and investment earnings totaled $1,479,593.

The City's programs include: General Government, Public Safety, Public Works, Parks & Recreation and Community Development. Each programs' revenues and expenses are presented below.

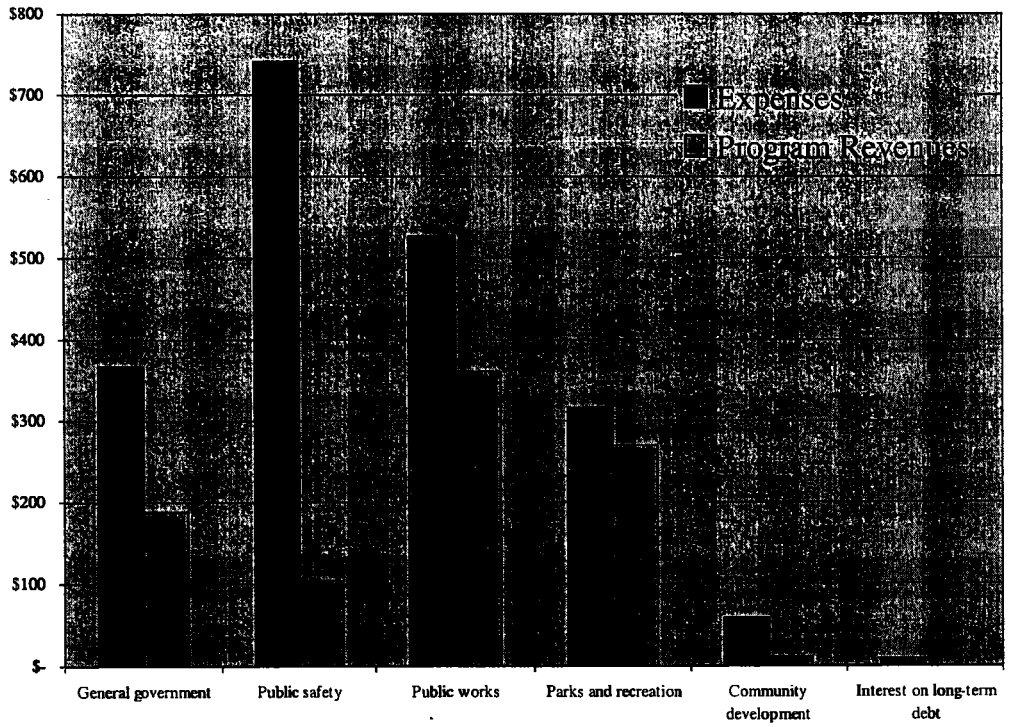
Kanab City
Changes in Net Assets

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Revenues:				
Program revenues:				
Charges for services	$ 386,158	$ 274,159	$ 1,427,657	$ 3,513,250
Operating grants and contributions	202,526	277,128	-	-
Capital grants and contributions	343,100	203,502	-	-
General revenues:				
Taxes	1,394,077	1,260,474	-	-
Impact fees	51,612	18,513	-	-
Grants and contributions not restricted to specific programs	-	-	-	-
Other	33,904	12,284	573,720	22,110
Total revenues	2,411,377	2,046,060	2,001,377	3,535,360
Expenses:				
General government	366,991	314,149	-	-
Public safety	741,038	809,780	-	-
Public works	526,163	519,514	-	-
Parks and recreation	314,663	337,252	-	-
Community development	58,164	60,715	-	-
Interest on long-term debt	9,034	25,575	-	-
Water & Sewer	-	-	803,350	678,385
Electric	-	-	641,056	2,444,150
Total expenses	2,016,053	2,066,985	1,444,406	3,122,535
(Decrease)/Increase in net assets before transfers	395,324	(20,925)	556,971	412,825
Transfers	622,431	7,542	(622,431)	(7,542)
(Decrease)/Increase in net assets	1,017,755	(13,383)	(65,460)	405,283
Net assets, beginning	5,862,196	5,875,579	4,882,800	4,477,517
Prior period adjustment	-	-	83,825	-
Net assets, ending	$ 6,879,951	$ 5,862,196	$ 4,901,165	$ 4,882,800

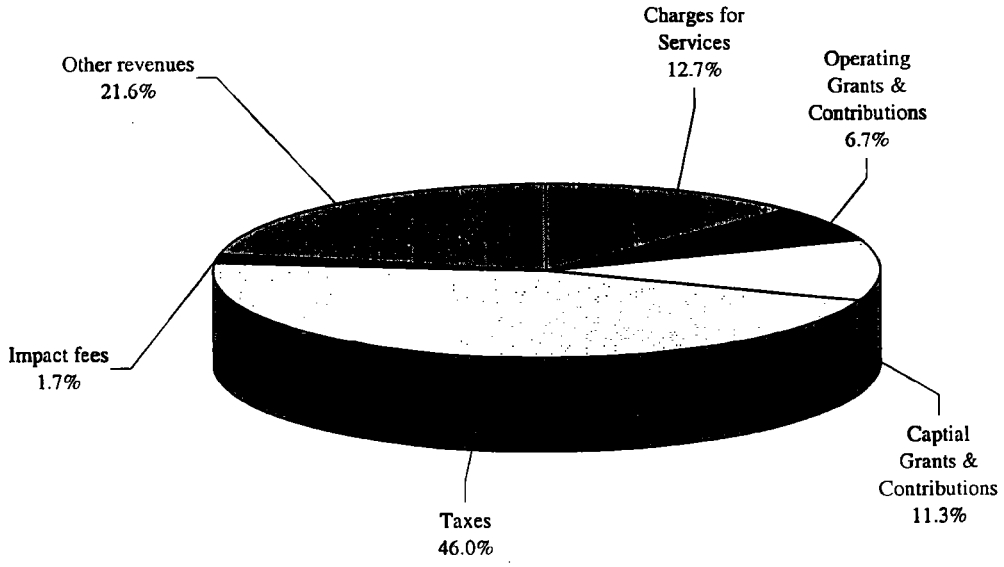
Total resources available during the year to finance governmental operations were $8.3 million consisting of Net assets at July 1, 2004 of $5.86 million, program revenues of $931,783 and General Revenues of $1.5 million. Total Governmental Activities during the year were $2 million; thus Governmental Net Assets were increased by $1.02 million to $6.88 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities
(in Thousands)



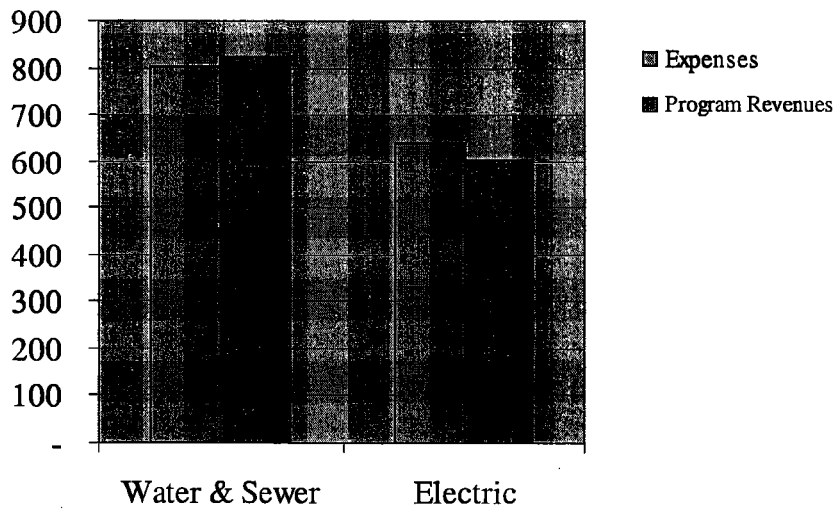
Revenue By Source - Governmental Activities



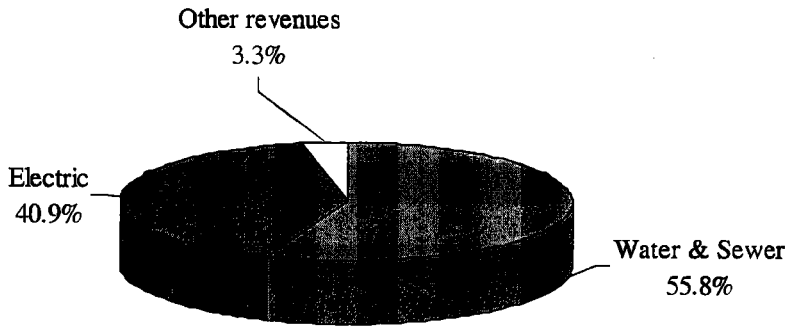
Business Type Activities

Net assets of the Business Type activities at June 30, 2005, as reflected in the Statement of Net Assets were $4.9 million. The cost of providing all Proprietary (Business Type) activities this year was $1.4 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were $1.4 million and there were no amounts subsidized by capital grants and contributions. Interest earnings were $42,888 and the sale of the power fund resulted in a $530,832 gain. The Net Assets decreased by $65,460.

Expenses and Program Revenues - Business- type Activities
(in Thousands)



Revenue By Source - Business-type Activities



General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were $302,687 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures by the Public Works department for road and other projects which carried over to the next fiscal year. Actual revenues were less than the final budget by $354,608. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2005, net capital assets of the government activities totaled $5.1 million and the net capital assets of the business-type activities totaled $4.1 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the City had $463,622 in governmental type debt, and $1.2 million in proprietary debt. The debt is a liability of the government and amounts to $532.11 per capita. During the current fiscal year, the City's total debt decreased by $1,343,965 net of additions of $187,520. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2005/2006, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2004/2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Kanab, 76 North Main, 84741.

BASIC FINANCIAL STATEMENTS

KANAB CITY, UTAH
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 1,193,748	$ 1,629,779	$ 2,823,527
Receivables (net of allowance)	135,481	96,711	232,192
Inventory	-	98,926	98,926
Internal balances	-	-	-
Deferred Charges	-	12,534	12,534
Temporarily restricted assets:			
Cash and cash equivalents	1,010,285	231,329	1,241,614
Capital assets (net of accumulated depreciation):			
Land	170,500	162,236	332,736
Buildings	957,300	265,289	1,222,589
Improvements	2,013,120	-	2,013,120
Golf course	607,787	-	607,787
Machinery & equipment	190,325	132,402	322,727
Library books	17,886	-	17,886
Automobiles and trucks	92,846	31,937	124,783
Swimming pool	9,478	-	9,478
Distribution system	-	3,407,347	3,407,347
Infrastructure	855,289	-	855,289
Construction in progress	214,296	89,780	304,076
Total assets	7,468,341	6,158,270	13,626,611
Liabilities			
Accounts payable and other current liabilities	69,553	72,186	141,739
Deferred revenue	47,323	-	47,323
Interest payable	7,892	16,553	24,445
Noncurrent liabilities:			
Due within one year	26,321	138,704	165,025
Due in more than one year	437,301	1,029,662	1,466,963
Total liabilities	588,390	1,257,105	1,845,495
Net Assets			
Invested in capital assets, net of related debt	4,683,082	3,151,954	7,835,036
Restricted for:			
Debt service	140,828	128,094	268,922
Capital projects	651,899	-	651,899
Perpetual care	206,444	-	206,444
Other purposes	49,786	-	49,786
Unrestricted	1,147,912	1,621,117	2,769,029
Total Net Assets	$ 6,879,951	$ 4,901,165	$ 11,781,116

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

KANAB CITY, UTAH
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Captial Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
General government	$ 366,991	$ 188,763	$ -	$ -	$ (178,228)	$ -	$ (178,228)
Public safety	741,038	65,223	10,046	27,583	(638,186)	-	(638,186)
Public works	526,163	101,459	169,103	89,194	(166,407)	-	(166,407)
Parks and recreation	314,663	30,118	13,357	226,323	(44,865)	-	(44,865)
Community development	58,164	595	10,020	-	(47,549)	-	(47,549)
Interest on long-term debt	9,034	-	-	-	(9,034)	-	(9,034)
Total governmental activities	2,016,053	386,158	202,526	343,100	(1,084,269)	-	(1,084,269)
Business-type activities:							
Water & Sewer	803,350	823,481	-	-	-	20,131	20,131
Electric	641,056	604,176	-	-	-	(36,880)	(36,880)
Total business-type activities	1,444,406	1,427,657	-	-	-	(16,749)	(16,749)
General Revenues:							
Taxes:							
Property taxes levied for general purposes					377,615	-	377,615
Sales and use taxes					951,329	-	951,329
Franchise taxes					65,133	-	65,133
Impact fees					51,612	-	51,612
Unrestricted investment earnings					33,904	42,888	76,792
Gain on sale of assets					-	530,832	530,832
Transfers					622,431	(622,431)	-
Total general revenues & transfers					2,102,024	(48,711)	2,053,313
Change in net assets					1,017,755	(65,460)	952,295
Net assets - beginning					5,862,196	4,882,800	10,744,996
Prior Period Adjustment					-	83,825	83,825
Net assets - ending					$ 6,879,951	$ 4,901,165	$ 11,781,116

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

KANAB CITY, UTAH
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Recreation Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 1,156,982	$ -	$ 36,766	$ 1,193,748
Receivables	18,107	-	52,165	70,272
Due from other governments	65,210	-	-	65,210
Due from other funds	14	-	-	14
Restricted cash and cash equivalents	6,794	522,721	480,770	1,010,285
Total assets	$ 1,247,107	$ 522,721	$ 569,701	$ 2,339,529
Liabilites and Fund Balances				
Liabilities:				
Accounts payable	$ 53,781	$ -	$ -	$ 53,781
Accrued liabilities	15,772	-	-	15,772
Due to other funds	-	-	14	14
Deferred revenue	2,000	-	45,323	47,323
Total liabilities	71,553	-	45,337	116,890
Fund Balances:				
Reserved for:				
Debt service	-	-	148,720	148,720
Capital outlay	-	522,721	129,178	651,899
Perpetual care	-	-	206,444	206,444
Other	49,786	-	-	49,786
Unreserved, reported in:				
General fund	598,230	-	-	598,230
General fund, designated	527,538	-	-	527,538
Debt service fund	-	-	40,022	40,022
Total fund balances	1,175,554	522,721	524,364	2,222,639
Total liabilities and fund balance	$ 1,247,107	$ 522,721	$ 569,701	

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.	5,128,826
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(471,514)
Net assets of governmental activities	$ 6,879,951

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

KANAB CITY, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General	Recreation Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 184,196	$ 103,111	$ 42,842	$ 330,149
Fees in lieu of property taxes	47,466	-	-	47,466
Sales and use taxes	951,329	-	-	951,329
Franchise taxes	65,133	-	-	65,133
Licenses, permits and fees	90,104	-	-	90,104
Intergovernmental revenue	477,583	-	240	477,823
Sanitation service revenues	6,226	-	-	6,226
Charges for services	-	-	9,100	9,100
Fines and forfeitures	101,939	-	-	101,939
Special assessments	-	-	49,202	49,202
Impact fees	-	-	51,612	51,612
Contributions and donations	181,715	-	-	181,715
Investment earnings	29,687	9,044	10,848	49,579
Total revenues	2,135,378	112,155	163,844	2,411,377
Expenditures				
Current:				
General government	353,680	-	-	353,680
Public safety	774,758	-	-	774,758
Public works	424,055	-	-	424,055
Parks and recreation	748,159	-	-	748,159
Community development	43,131	-	-	43,131
Debt service:				
Principal	-	-	128,337	128,337
Interest	-	-	21,010	21,010
Capital outlay:				
Capital outlay	-	-	19,011	19,011
Total expenditures	2,343,783	-	168,358	2,512,141
Excess (deficiency) of revenues over (under) expenditures	(208,405)	112,155	(4,514)	(100,764)
Other Financing Sources (Uses)				
Bond Issuance	200,000	-	-	200,000
Transfers in	647,051	-	-	647,051
Transfers out	(11,420)	-	(13,200)	(24,620)
Total other financing sources and uses	835,631	-	(13,200)	822,431
Net change in fund balances	627,226	112,155	(17,714)	721,667
Fund balances, beginning of year	548,328	410,566	542,078	1,500,972
Fund balances, end of year	$ 1,175,554	$ 522,721	$ 524,364	$ 2,222,639

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

KANAB CITY, UTAH
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities (page 11) are different because:		
Net change in fund balances - total governmental funds (page 13)	$	721,667
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs 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.		373,653
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		128,337
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.		(200,000)
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		(5,902)
Change in net assets of governmental activities	$	1,017,755

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

KANAB CITY, UTAH
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 185,051	$ 185,051	$ 184,196	$ (855)
Fees in lieu of property taxes	64,949	64,949	47,466	(17,483)
Sales and use taxes	901,500	901,500	951,329	49,829
Franchise taxes	22,000	22,000	65,133	43,133
Licenses, permits and fees	30,000	62,360	90,104	27,744
Intergovernmental revenue	715,914	934,526	477,583	(456,943)
Sanitation service revenue	7,200	7,200	6,226	(974)
Fines and forfeitures	111,245	111,450	101,939	(9,511)
Contributions and donations	140,840	173,840	181,715	7,875
Investment earnings	9,300	27,110	29,687	2,577
Total revenues	2,187,999	2,489,986	2,135,378	(354,608)
Expenditures				
Current:				
General government	346,150	378,110	353,680	24,430
Public safety	724,445	810,702	774,758	35,944
Public works	966,110	1,064,785	424,055	640,730
Parks and recreation	519,731	695,981	748,159	(52,178)
Community development	51,500	51,500	43,131	8,369
Total expenditures	2,607,936	3,001,078	2,343,783	657,295
Excess (deficiency) of revenues over (under) expenditures	(419,937)	(511,092)	(208,405)	302,687
Other Financing Sources (Uses)				
Bond Issuance	200,000	200,000	200,000	-
Transfers in	72,584	72,584	647,051	574,467
Transfers out	(12,458)	(12,458)	(11,420)	1,038
Total other financing sources and uses	260,126	260,126	835,631	575,505
Net change in fund balances	(159,811)	(250,966)	627,226	878,192
Fund balances, beginning of year	548,328	548,328	548,328	-
Fund balances, end of year	$ 388,517	$ 297,362	$ 1,175,554	$ 878,192

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

KANAB CITY, UTAH
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Water & Sewer Fund	Electric Fund	Totals 2005
Assets			
Current assets:			
Cash and cash equivalents	$ 1,629,779	$ -	$ 1,629,779
Receivables, net of allowance	96,711	-	96,711
Inventory	98,926	-	98,926
Bond discounts and issuance costs, net of accumulated amortization	12,534	-	12,534
Total current assets	1,837,950	-	1,837,950
Noncurrent assets:			
Restricted cash and cash equivalents	231,329	-	231,329
Capital assets:			
Land	162,236	-	162,236
Buildings	333,501	-	333,501
Machinery & equipment	375,302	-	375,302
Automobiles and trucks	186,628	-	186,628
Distribution system	6,459,870	-	6,459,870
Construction in progress	89,780	-	89,780
Less: Accumulated depreciation	(3,518,326)	-	(3,518,326)
Total noncurrent assets	4,320,320	-	4,320,320
Total assets	6,158,270	-	6,158,270
Liabilities			
Current liabilities:			
Accounts payable	39,601	-	39,601
Accrued liabilities	22,748	-	22,748
Customer deposits	9,837	-	9,837
Interest payable	16,553	-	16,553
Current portion of noncurrent liabilities	138,704	-	138,704
Total current liabilities	227,443	-	227,443
Noncurrent liabilites:			
Leases payable	97,181	-	97,181
Bonds payable	1,071,185	-	1,071,185
Less current portion of noncurrent liabilities	(138,704)	-	(138,704)
Total noncurrent liabilities	1,029,662	-	1,029,662
Total liabilities	1,257,105	-	1,257,105
Net Assets			
Invested in capital assets, net of related debt	3,151,954	-	3,151,954
Restricted for debt service	128,094	-	128,094
Unrestricted	1,621,117	-	1,621,117
Total net assets	$ 4,901,165	$ -	$ 4,901,165

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

KANAB CITY, UTAH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Water & Sewer Fund	Electric Fund	Totals 2005
Operating revenues:			
Charges for services	$ 759,679	$ 560,430	$ 1,320,109
Other revenues	9,013	43,106	52,119
Total operating revenues	768,692	603,536	1,372,228
Operating expenses:			
Purchased power	-	455,897	455,897
Salaries and wages	283,071	8,615	291,686
Employee benefits	120,243	3,424	123,667
Distribution system repairs and maintenance	60,259	38,871	99,130
Office expense	26,344	3,183	29,527
Insurance	10,062	2,975	13,037
Depreciation	196,590	21,018	217,608
Utilities	43,984	-	43,984
Professional services	2,383	4,000	6,383
Travel and training	2,470	237	2,707
Miscellaneous	6,154	-	6,154
Power tranmission	-	27,988	27,988
Power distribution	-	5,930	5,930
Contract services	10,000	-	10,000
Total operating expenses	761,560	572,138	1,333,698
Operating income	7,132	31,398	38,530
Nonoperating revenues (expenses):			
Connection and impact fees	54,789	640	55,429
Interest income	37,224	5,664	42,888
Interest expense and fiscal charges	(41,790)	(68,918)	(110,708)
Gain on sale of Electric Fund assets	-	530,832	530,832
Total nonoperating revenues (expenses)	50,223	468,218	518,441
Income before contributions and transfers	57,355	499,616	556,971
Transfers from other funds	19,723	4,660	24,383
Transfers to other funds	(10,887)	(635,927)	(646,814)
Change in net assets	66,191	(131,651)	(65,460)
Total net assets, beginning of year	4,834,974	47,826	4,882,800
Prior Period Adjustment	-	83,825	83,825
Total net assets, end of year	$ 4,901,165	$ -	$ 4,901,165

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

KANAB CITY, UTAH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Water & Sewer Fund	Electric Fund	Totals 2005
Cash flows from operating activities:			
Cash received from customers, service fees	$ 2,065,880	$ 726,881	$ 2,792,761
Cash received from customers, capacity fees and other	9,013	43,106	52,119
Cash paid to suppliers	(137,949)	(680,714)	(818,663)
Cash paid to employees	(402,370)	(121,981)	(524,351)
Cash flows from operating activities	1,534,574	(32,708)	1,501,866
Cash flows from noncapital financing activities:			
Payments to other funds	-	(1,567,859)	(1,567,859)
Transfers (to) from other funds	8,836	(631,267)	(622,431)
Cash flows from noncapital financing activities	8,836	(2,199,126)	(2,190,290)
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(138,316)	(1,310,000)	(1,448,316)
Interest paid	(40,892)	(67,719)	(108,611)
Purchase of fixed assets	(188,940)	-	(188,940)
Proceeds from the Sale of the Electric Fund	-	2,550,000	2,550,000
Connection and impact fees	54,789	640	55,429
Cash flows from capital and related financing activities:	(313,359)	1,172,921	859,562
Cash flows from investing activities:			
Interest on investments	37,224	5,664	42,888
Net change in cash and cash equivalents	1,267,275	(1,053,249)	214,026
Cash and cash equivalents, beginning of year	593,833	1,053,249	1,647,082
Cash and cash equivalents, end of year	$ 1,861,108	$ -	$ 1,861,108
Reconciliation of operating income to net cash flows from operating activities:			
Net operating income	$ 7,132	$ 31,398	$ 38,530
Adjustments to reconcile net income to net cash flows from operating activities			
Depreciation/amortization	196,590	21,018	217,608
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	1,306,201	166,451	1,472,652
(Increase) Decrease in inventory	-	42,943	42,943
Increase (Decrease) in accounts payable	23,707	(184,576)	(160,869)
Increase (Decrease) in accrued liabilities	944	(109,942)	(108,998)
Cash flows from operating activities	$ 1,534,574	$ (32,708)	$ 1,501,866

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

NOTE 1. Summary of Significant Accounting Policies

General

The financial statements of the Kanab City, Utah have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is whether or not the City exercises significant influence over the potential component unit. Significant influence or accountability is based primarily on operational or financial relationships with the City. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund 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 government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1. Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

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, the 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, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

> The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.
>
> The Recreation Capital Project Fund is used to account for the construction of recreation facilities for the City.

NOTE 1. Summary of Significant Accounting Policies, Continued

The City reports the following major proprietary funds:

The Water & Sewer Fund is used to account for the provision of water & sewer services to the residents of the City.

The Electric Utilities Fund is used to account for the provision of electricity to the residents of the City.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for the 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

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

NOTE 1. Summary of Significant Accounting Policies, Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds." All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

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

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 activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than $1,000 and an estimated useful life in excess of three 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 the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years
Infrastructure	20 years

NOTE 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and comp time in the proprietary funds are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Accumulated unpaid vacation pay and comp time are accrued based upon the City's expected legal obligation as of the statement date. No provision is made for accumulated sick leave because the City is not obligated to pay accumulated sick leave upon termination or retirement.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of nets assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	$	375,304
Compensated absences		88,318
Accrued interest payable		7,892
Net adjustment to reduce fund balance - total governemental funds to arrive at net assets - governmental activities	$	471,514

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital Outlay	$	723,049
Depreciation Expense		(349,396)
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	$	373,653

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

Another element of the reconciliation states that "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." The detail of this difference follows:

Compensated absences	(17,878)
Accrued interest	11,976
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	$ (5,902)

NOTE 3. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The City Council observes the following procedures in establishing the budgetary data reflected in the financial statements:

(1) Prior to the first meeting in May, the City Manager 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. Budgets are required for the General Fund, Debt Service Fund, Capital Projects funds, Permanent funds and the Enterprise Funds.

(2) Public hearings are conducted to obtain taxpayer comments.

(3) Prior to June 22, the budget is legally enacted through passage of an ordinance.

(4) The City Manager is authorized to transfer budgeted amounts within departments; however, to transfer budgeted amounts between departments requires City Council approval. Any revisions that alter the total expenditures of any fund must be approved through public hearing by the City Council and can be made at any time during the fiscal year.

Budgets for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds are prepared on the modified accrual method of accounting. Budgets for the Enterprise Funds are prepared on the accrual basis of accounting. Control is maintained at the function level. (i.e. Public Safety, Highways and Public Improvements, etc.) All appropriations lapse at year-end. Utah State law requires budgets to be prepared and reported on for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds. The General Fund budget was amended during the current fiscal year.

NOTE 3. Stewardship, Compliance, and Accountability, Continued

Taxes

Property taxes are collected by the Kane County Treasurer and remitted to the City in three installments: July, December, and March. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

NOTE 4. Deposits and Investments

Deposits and investments of the City at June 20, 2005 consist of the following

Deposits	
Cash on hand	$ 100
Cash in bank	116,689
Investments	
State treasurer's investment pool	3,948,353
Total deposits and investment	$ 4,065,142

A reconciliation of cash and investments as shown on the Statement of Net Assets as follows:

Cash and cash equivalents	$ 2,823,528
Restricted cash and cash equivalents	1,241,614
Total cash and cash equivalents	$ 4,065,142

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

NOTE 4. Deposits and Investments, Continued

The City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2005, $19,864 of the City's bank balance of $200,772 was exposed to custodial credit risk because it was uninsured and uncollateralized

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier' by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

NOTE 4. Deposits and Investments, Continued

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

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 participant's average daily balance. The fair vale of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005 the government had the following investments and maturities:

		Investments Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	$3,948,353	$3,948,353	$ -	$ -	$ -
Total Fair Value	$3,948,353	$3,948,353	$ -	$ -	$ -

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

NOTE 4. Deposits and Investments, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 the City had the following investments and quality ratings

		Quality Ratings			
Investment Type	Fair Value	AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	$3,948,353	$ -	$ -	$ -	$3,948,353
Total Fair Value	$3,948,353	$ -	$ -	$ -	$3,948,353

NOTE 5. Assessments Receivable

The City created the Kanab Creek Ranchos Special Improvement District (SID) to provide for the construction of street and general drainage improvements during fiscal year 1990. During fiscal year 1992 assessments associated with the SID were levied upon the real property within the City that were benefited by the SID. The assessments will be collected by the City during the 15 years following the levy. The total levied was $1,834,964 of which $45,323 is receivable at June 30, 2005.

NOTE 6. Capital Assets

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

Governmental Activities:	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital assets, not being depreciated:				
Land	$ 170,500	$ -	$ -	$ 170,500
Total capital assets, not being depreciated	170,500	-	-	170,500
Capital assets, being depreciated:				
Buildings	1,236,117	-	-	1,236,117
Improvements	1,933,581	280,497	-	2,214,078
Golf Course	845,470	-	-	845,470
Machinery & equipment	1,170,113	126,048	-	1,296,161
Library books	134,011	7,707	-	141,718
Automobiles and trucks	29,364	78,200	-	107,564
Swimming pool	14,385	-	-	14,385
Infrastructure	3,667,012	20,460	-	3,687,472
Construction in Progress	4,159	210,137	-	214,296
Total capital assets, being depreciated	9,034,212	723,049	-	9,757,261
Less accumulated depreciation for:				
Buildings	(247,913)	(30,903)		(278,816)
Improvements	(103,532)	(97,426)		(200,958)
Golf Course	(216,546)	(21,137)		(237,683)
Machinery & equipment	(1,050,353)	(55,483)		(1,105,836)
Library books	(121,187)	(2,645)		(123,832)
Automobiles and trucks	(168)	(14,550)		(14,718)
Swimming pool	(3,131)	(1,776)		(4,907)
Infrastructure	(2,706,708)	(125,476)		(2,832,184)
Total accumulated depreciation	(4,449,538)	(349,396)	-	(4,798,934)
Total capital assets, being depreciated, net	4,584,674	373,653	-	4,958,327
Governmental activities capital assets, net	$ 4,755,174	$ 373,653	$ -	$ 5,128,827

NOTE 6. Capital Assets, Continued

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

Governmental Activities:	
General government	$ 7,168
Public safety	46,680
Highways	230,702
Parks and recreation	42,318
Community development	22,528
Total depreciation expense - governmental activities	$ 349,396

Business Type Activities:	**Balance 6/30/2004**	**Additions**	**Deletions**	**Balance 6/30/2005**
Capital assets not being depreciated:				
Land	$ 12,081	$ 150,155	$ -	$ 162,236
Total capital assets, not being depreciated	12,081	150,155	-	162,236
Capital assets being depreciated:				
Buildings	333,501	-	-	333,501
Machinery and equipment	459,518	9,057	(93,273)	375,302
Autos and Trucks	186,628	-	-	186,628
Distribution system	10,026,418	29,727	(3,596,275)	6,459,870
Construction in Progress	89,780	-	-	89,780
Total capital assets, being depreciated	11,095,845	38,784	(3,689,548)	7,445,081
Less accumulated depreciation for:				
Buildings	(59,239)	(8,972)	-	(68,211)
Machinery and Equipment	(284,178)	(24,251)	65,529	(242,900)
Autos and Trucks	(139,404)	(15,287)	-	(154,691)
Distribution system	(4,572,095)	(148,089)	1,667,661	(3,052,523)
Total accumulated depreciation	(5,054,916)	(196,599)	1,733,190	(3,518,325)
Total capital assets, being depreciated, net	6,040,929	(157,815)	(1,956,358)	3,926,756
Business-type activities capital assets, net	$ 6,053,010	$ (7,660)	$(1,956,358)	$ 4,088,992

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2005.

	Balance 6/30/2004	Additions	Retirements	Balance 6/30/2005	Current Portion
Governmental Activities:					
Bonds payable:					
General obligation bonds	$ 185,483	$ 200,000	$ 13,939	$ 371,544	$ 22,561
Special assessment bonds	118,160	-	114,400	3,760	3,760
Total bonds payable	303,643	200,000	128,339	375,304	26,321
Accrued Compensated Absences	70,439	-	(17,879)	88,318	-
Governmental activity Long-term liabilities	$ 374,082	$ 200,000	$ 110,460	$ 463,622	$ 26,321
Business-type activities:					
Revenue bonds	$ 2,460,381	$ -	$ 1,389,196	$ 1,071,185	$ 84,306
Less deferred amounts:					
For issuance discounts	(14,322)		(14,322)	-	-
On refunding	(12,969)	-	(12,969)	-	-
Total bonds payable	2,433,090	-	1,361,905	1,071,185	84,306
Notes payable	-	-	-	-	-
Capital leases	156,301	-	59,120	97,181	54,398
Accrued Compensated Absences	30,814	(12,480)	-	18,334	-
Business type activity Long-term liabilities	$ 2,620,205	$ (12,480)	$ 1,421,025	$ 1,186,700	$ 138,704
Total long-term liabilites	$ 2,994,287	$ 187,520	$ 1,531,485	$ 1,650,322	$ 165,025

NOTE 7. Long-Term Debt, Continued

Bonds payable at June 30, 2005 are comprised of the following issues:

(1) General Obligation Bonds:	
General Fund:	
Fire Station General Obligation Bonds, Series 1991, due in annual principal and interest installments of $24,752, bearing interest at 5.75%, maturing January 1, 2014.	$ 171,544
Golf Course Improvement General Obligation Bonds, due in annual principal and interest installments ranging from $12,175 to $13,550, bearing interest at 2.5% maturing January 1, 2025.	200,000
(2) Special Assessment Bonds:	
Debt Service Fund:	
Special Assessment Bonds Series 1991 due in annual principal and interest installments ranging from $114, 400 to $192,192, bearing interest at 8.5% maturing January 1, 2008.	3,760
(3) Revenue Bonds:	
Water and Sewer Fund:	
Parity and Subordinated Water Revenue Bonds, Series 1987, due in annual principal and interest installments of $25,276, bearing interest at 5%, maturing January 1, 2007.	39,416
Water and Sewer Refunding Revenue Bonds, Series 1999, due in annual principal and interest installments ranging from $$30,360 to $31,496, bearing interest at 7.4%, maturing June 1, 2008.	81,000
Parity Water and Sewer Revenue Bonds, Series 1992, due in annual principal and interest installments ranging from $7,750 to $8,650, bearing interest at 5.0%, maturing January 1, 2013.	53,000
Parity Water and Sewer Revenue Bonds, Series 1998, due in annual principal and interest installments ranging from $21,400 to $91,180, bearing interest at 2.0%, maturing January 1, 2019.	897,769
Total Bonds Payable	$ 1,446,489

NOTE 7. Long-Term Debt, Continued

Other long-term debt at June 30, 2005 is comprised of the following:

Leases Payable:	
Lease payable in semi-annual installments of $31,146 through May 2008, at interest from 4.4 to 5.05 percent.	97,181
Total Leases Payable	97,181
Accrued Vacation and Comp Time Payable:	106,652
Less deferred amounts for issuance discounts on bond refunding	-
Total Long-Term Debt	1,650,322
Less Current Portion:	
Business-type Activities	(138,704)
Governmental-type Activities	(26,321)
Net Long-Term Debt	$ 1,485,297

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

The Governmental Accounting Standards Board requires special assessment debt to be recorded on the books when establishment and maintenance of a guarantee fund is required; however, the Assessment Bonds are not general obligations of the City, but are payable exclusively out of the Special Assessment Fund and the Guaranty Fund. The City shall not be held liable for the payment of the Assessment Bonds, except to the extent of the Special Assessment Fund and Guaranty Fund, but shall be held responsible for the lawful levy of all regular assessments, for the maintenance of the Guaranty Fund as provided by law, and for the faithful accounting, collection, settlement and payment of the assessments and the moneys in said Funds.

NOTE 7. Long-Term Debt, Continued

The annual requirements to amortize bonds payable at June 30, 2005 are as follows:

Fiscal Year Ended June 30	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	22,561	15,191	3,760	320
2007	23,421	14,131	-	-
2008	24,332	13,020	-	-
2009	26,296	11,856	-	-
2010	27,317	10,610	-	-
2011	28,398	9,304	-	-
2012	29,544	7,933	-	-
2013	30,756	6,496	-	-
2014	36,919	4,986	-	-
2015	10,000	3,050	-	-
2016	10,000	2,800	-	-
2017	11,000	2,550	-	-
2018	11,000	2,275	-	-
2019	11,000	2,000	-	-
2020	11,000	1,725	-	-
2021	11,000	1,450	-	-
2022	11,000	1,175	-	
2023	12,000	900	-	-
2024	12,000	600	-	-
2025	12,000	300	-	-
Total	$ 371,544	$ 112,352	$ 3,760	$ 320

Fiscal Year Ended June 30	Water and Sewer Revenue Bonds	
	Principal	Interest
2006	84,306	29,326
2007	79,110	25,377
2008	91,000	21,116
2009	63,000	17,490
2010	74,000	15,850
2011	76,000	14,120
2012	77,000	12,370
2013	80,000	10,580
2014	81,000	8,560
2015	82,000	6,920
2016	84,000	5,240
2017	86,000	3,520
2018	87,000	1,780
2019	26,769	-
Total	$ 1,071,185	$ 172,249

NOTE 8. Capital Leases

The City has entered into a lease purchase agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is shown on the Water and Sewer Fund balance sheet. The Lease proceeds were used to construct a maintenance shed which is utilized by the General Fund Public Works department and the Water and Sewer Utility Fund. The building is capitalized in the Water and Sewer Utility Fund at $301,346 with accumulated depreciation of $49,654 at June 30, 2005. The following is a schedule of future minimum lease payments with interest rates ranging from 4.4 percent to 5.05 percent for the capital lease, together with the present value of net minimum lease payments:

Year Ending June 30	
2006	62,291
2007	62,291
2008	62,291
Total remaining minimum lease payments	186,873
Less amount representing interest	(89,692)
Present value of net remaining minimum lease payments	$ 97,181

NOTE 9. Interfund Transactions and Balances

As of June 30, 2005, interfund receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	$ 14	$ -
Debt Service Fund	-	-
Capital Projects Funds	-	14
Water and Sewer Fund	-	-
Electric Fund	-	-
Total	$ 14	$ 14

NOTE 9. Interfund Transactions and Balances, Continued

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursed expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the fiscal year ended June 30, 2005 are as follows:

	Transfers in:					
Transfers out:	General	Recreation Fund	Nonmajor	Water	Electric	Total
General Fund	$ -	$ -	$ -	$ 11,420	$ -	$ 11,420
Recreation Capital Project Fund	-	-	-	-	-	-
Nonmajor Governmental Funds	13,200	-	-	-	-	13,200
Water Fund	-	-	-	6,227	4,660	10,887
Electric Fund	633,851	-	-	2,076	-	635,927
Total transfers out	$ 647,051	$ -	$ -	$ 19,723	$ 4,660	$ 671,434

Transfers are used to (1) move revenues from the fund that statute or budget requirements to collect them to the fund that statue or budget requires to expand them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

NOTE 10. Equity Classifications

Equity is classified in the government-wide financial statements as net assets and is 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.

NOTE 10. Equity Classifications, Continued

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.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2005, the City's reserved and designated fund balances are as follows:

General Fund:		
Reserved:		
Police Donation Fund	$	1,683
Historic Homes Book Fund		1,837
Alna Wikin memorial Fund		3,274
Class C Roads		42,992
	$	49,786
Designated:		
Fire Department Reserve	$	4,226
Equipment Replacement Fund		124,760
Land Requisition Fund		32,983
Old Library Fund		7,544
Sick Leave Reimbursement Fund		28,649
Appropriations for next years budget		329,377
	$	527,538

NOTE 10. Equity Classifications, Continued

Capital Projects Funds:	
Recreation/Golf Course Reserves	$ 522,721
Nonmajor capital project funds:	
Airport Improvements	(14)
Impact Fees	129,192
	$ 651,899
Debt Service Fund:	
KCR SID Guaranty Fund	$ 148,720
KCR SID Debt Service	-
	$ 148,720
Water and Sewer Fund:	
1992 Water and Sewer Bond Reserves	$ 12,599
1997 Water and Sewer Bond Reserves	115,495
	$ 128,094
Trust Fund:	
Cemetary Perpetual Care	$ 206,444

NOTE 11. Defined Benefit Pension Plan

All full-time employees of the City participate in the Utah State-Wide Local Government Retirement Systems (Systems).

Plan Description

Kanab City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits 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 State 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.

NOTE 11. Defined Benefit Pension Plan, Continued

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Kanab City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System, Kanab City is required to contribute 19.08% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The required contributions and amounts received for the 2005 fiscal year and the two previous years are as follows:

Year	Employee paid contributions	Employer paid for employee contributions	Employer contributions	Salary subject to retirement contributions
Noncontrubutory System:				
Local Governmental Division				
2005	N/A	N/A	$ 69,384.02	$ 625,646.87
2004	N/A	N/A	62,023.84	644,738.89
2003	N/A	N/A	56,181.12	646,500.51
Public Safety System:				
Other Division A Noncontributory				
2005	N/A	N/A	$ 41,355.98	$ 216,751.07
2004	N/A	N/A	34,434.13	212,031.69
2003	N/A	N/A	31,628.49	227,706.34
Defined Contribution System:				
457 Plan				
2005	$ -	$ -		
2004	-	-		
2003	-	-		
401 (k) Plan				
2005	$ 13,404.00	$ 5,495.07		
2004	13,862.00	5,779.43		
2003	15,384.00	6,858.47		

NOTE 11. Defined Benefit Pension Plan, Continued

Kanab City commenced participation in the Public Safety Noncontributory System July 1, 1994.

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

Kanab City participates in a 457 Deferred Compensation Plan.

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* This resulted in reporting the 457 Plans as a "Trust Fund" rather than previously as an "Agency Fund". Now all of the assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries rather than the assets of the employer. The assets are no longer assets of the employer and are not to be included in the employer financial statements.

NOTE 12. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk financing activities are accounted for in various operating funds, with unallocated or City-wide activities being accounted for in the general fund.

The City maintains insurance for general liability, auto liability, and employee dishonesty through Utah Local Government's Insurance Trust and Fred A. Moreton and Company. Worker's compensation coverage is carried through the State Worker's Compensation Fund.

NOTE 13. Individual Fund Disclosures

Segment Information

For information on the Enterprise funds, see the Proprietary Funds financial statements in the basic financial statements.

NOTE 14. Garbage Contract

The City has a solid waste collection and disposal contract with Kane County Special Service District (the District). The contract provides for the collection and disposal of residential and commercial solid waste within the City. In connection with the agreement, the City is responsible for the monthly billing, collection, and payment of residential collections to the District. The fess are accounted for in the General Fund; however, only the City's portion of the net fees are reported in the financial statement.

NOTE 15. Contingencies and Commitments

Pursuant to an agreement with Kane County dated May 10, 1982, the City is making monthly payments to the County for rent of the main City office. The term of the lease is forty years, at which point the portion of the building housing the City office becomes the property of the City. Currently, the monthly payment made by the City is $500, but the County has the right to increase that amount at the beginning of each five year period

NOTE 16. Prior Period Adjustment

Several years ago the City's Electric Fund incurred a liability payable to Utah Risk Management. The City had not accrued the liability and had been expensing payments on the loan each year. The City made a prior period adjustment in fiscal year 2004 to accrue the note payable, believing the amount was still due. However, the City subsequently learned the debt had been paid off. The adjustment of $83,825 is to reverse the prior period adjustment from 2004

NOTE 17. Sale of Power System

The City sold the Kanab City Electric Distribution System and related equipment and inventory on August 26, 2004 for $2,550,000 to Garkane Energy Cooperative, Inc. The sale resulted in the termination of all of the City's power contracts and the payoff of the Series 1994 Electric Revenue Bonds for $1.3 million and all other associated liabilities of the Electric Fund, including the $1,567,859 interfund payable. The remaining cash and equity in the Electric Fund was transferred to the general fund as shown in note 9.

SUPPLEMENTARY INFORMATION

MAJOR GOVERNMENTAL FUNDS

BUDGETARY COMPARISON SCHEDULES

Recreation Capital Project Fund

Recreation Capital Project Fund – This fund is used to account for the construction of recreation facilities for the city.

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

Debt Service Fund

The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

Capital Projects Fund

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

Airport Improvement Capital Project Fund – This fund is used to account for the construction and improvements to the City's airport.

Impact Fee Fund – This fund is used to account for the collection of impact fees and the expenditure of these fees on public facilities and infrastructure.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that support the reporting government's programs.

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

KANAB CITY, UTAH
Recreation Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues				
Taxes	$ 99,000	$ 99,000	$ 103,111	$ 4,111
Investment earnings	4,200	4,200	9,044	4,844
Total revenues	103,200	103,200	112,155	8,955
Expenditures				
Current:				
Parks and recreation	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	103,200	103,200	112,155	8,955
Net change in fund balances	103,200	103,200	112,155	8,955
Fund balances, beginning of year	410,566	410,566	410,566	-
Fund balances, end of year	$ 513,766	$ 513,766	$ 522,721	$ 8,955

KANAB CITY, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Debt Service	Capital Projects			Permanent Fund	
	Debt Service Fund	Airport Capital Improvement	Impact Fees	Total	Perpetual Care	Total Nonmajor Governmental Funds
Assets						
Cash and cash equivalents	$ 36,766	$ -	$ -	$ -	$ -	$ 36,766
Receivables	50,665	-	-	-	1,500	52,165
Restricted cash and cash equivalents	146,634	-	129,192	129,192	204,944	480,770
Total assets	$ 234,065	$ -	$ 129,192	$ 129,192	$ 206,444	$ 569,701
Liabilities and Fund Balances						
Liabilities:						
Due to other funds	$ -	$ 14	$ -	$ 14	$ -	$ 14
Deferred revenue	45,323	-	-	-	-	45,323
Total liabilities	45,323	14	-	14	-	45,337
Fund Balances:						
Reserved for:						
Debt service	148,720		-	-	-	148,720
Capital outlay		(14)	129,192	129,178		129,178
Perpetual Care		-	-	-	206,444	206,444
Unreserved, undesignated	40,022	-	-	-	-	40,022
Total fund balances	188,742	(14)	129,192	129,178	206,444	524,364
Total liabilities and fund balance	$ 234,065	$ -	$ 129,192	$ 129,192	$ 206,444	$ 569,701

KANAB CITY, UTAH
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ender June 30, 2005

	Debt Service	Capital Projects			Permanent Fund	
	Debt Service Fund	Airport Capital Improvement	Impact Fee Fund	Total	Perpetual Care	Total Nonmajor Governmental Funds
Revenues						
Taxes	$ 42,842	$ -	$ -	$ -	$ -	$ 42,842
Intergovernmental revenue	-	240	-	240	-	240
Charges for services	-	-	-	-	9,100	9,100
Special assessments	49,202	-	-	-	-	49,202
Impact fees	-	-	51,612	51,612	-	51,612
Contributions and donations	-	-	-	-	-	-
Investment earnings	4,200	-	2,295	2,295	4,353	10,848
Other revenues	-	-	-	-	-	-
Total revenues	96,244	240	53,907	54,147	13,453	163,844
Expenditures						
Current:						
Parks and recreation	-	-	-	-	-	-
Debt service:						-
Principal	128,337	-	-	-	-	128,337
Interest	21,010	-	-	-	-	21,010
Capital outlay:						-
Capital outlay	-	19,011	-	19,011	-	19,011
Total expenditures	149,347	19,011	-	19,011	-	168,358
Excess (deficiency) of revenues over (under) expenditures	(53,103)	(18,771)	53,907	35,136	13,453	(4,514)
Other Financing Sources (Uses)						
Transfers out	-	-	(7,200)	(7,200)	(6,000)	(13,200)
Total other financing sources and uses	-	-	(7,200)	(7,200)	(6,000)	(13,200)
Net change in fund balances	(53,103)	(18,771)	46,707	27,936	7,453	(17,714)
Fund balances, beginning of year	241,845	18,757	82,485	101,242	198,991	542,078
Fund balances, end of year	$ 188,742	$ (14)	$ 129,192	$ 129,178	$ 206,444	$ 524,364

KANAB CITY, UTAH
Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Taxes	$ 42,842	$ 42,842	$ 42,842	$ -
Special assessments	60,000	60,000	49,202	(10,798)
Investment earnings	3,200	3,200	4,200	1,000
Total revenues	106,042	106,042	96,244	(9,798)
Expenditures				
Debt service:				
Principal	156,994	156,994	128,337	28,657
Interest	63,283	63,283	21,010	42,273
Total expenditures	220,277	220,277	149,347	70,930
Excess (deficiency) of revenues over (under) expenditures	(114,235)	(114,235)	(53,103)	61,132
Other Financing Sources (Uses)				
Transfers in	61,377	61,377	-	(61,377)
Total other financing sources and use:	61,377	61,377	-	(61,377)
Net change in fund balances	(52,858)	(52,858)	(53,103)	(245)
Fund balances, beginning of year	241,845	241,845	241,845	-
Fund balances, end of year	$ 188,987	$ 188,987	$ 188,742	$ (245)

KANAB CITY, UTAH
Airport Improvement Capital Project Fund
Schedule of Revenues, Expenses, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Intergovernmental revenue	$ -	$ -	$ 240	$ 240
Total revenues	-	-	240	240
Expenditures				
Capital outlay:				
Capital outlay	-	-	19,011	(19,011)
Total expenditures	-	-	19,011	(19,011)
Excess (deficiency) of revenues over (under) expenditures	-	-	(18,771)	(18,771)
Net change in fund balances	-	-	(18,771)	(18,771)
Fund balances, beginning of year	18,757	18,757	18,757	-
Fund balances, end of year	$ 18,757	$ 18,757	$ (14)	$ (18,771)

KANAB CITY, UTAH
Impact Fee Fund
Schedule of Revenues, Expenses, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues				
Impact fees	$ 16,000	$ 16,000	$ 51,612	$ 35,612
Investment earnings	1,000	1,000	2,295	1,295
Total revenues	17,000	17,000	53,907	36,907
Expenditures				
Capital outlay:				
Capital outlay	12,750	12,750	-	12,750
Total expenditures	12,750	12,750	-	12,750
Excess (deficiency) of revenues over (under) expenditures	4,250	4,250	53,907	49,657
Other Financing Sources (Uses)				
Transfers out	(57,000)	(57,000)	(7,200)	49,800
Total other financing sources and uses	(57,000)	(57,000)	(7,200)	49,800
Net change in fund balances	(52,750)	(52,750)	46,707	99,457
Fund balances, beginning of year	82,485	82,485	82,485	-
Fund balances, end of year	$ 29,735	$ 29,735	$ 129,192	$ 99,457

KANAB CITY, UTAH
Perpetual Care Permanent Fund
Schedule of Revenues, Expenses, and Changes in Fund Balance
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Charges for services	$ 10,000	$ 10,000	$ 9,100	$ (900)
Investment earnings	3,250	3,250	4,353	$ 1,103
Total revenues	13,250	13,250	13,453	203
Expenditures				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	13,250	13,250	13,453	203
Other Financing Sources (Uses)				
Transfers out	(6,000)	(6,000)	(6,000)	-
Total other financing sources and uses	(6,000)	(6,000)	(6,000)	-
Net change in fund balances	7,250	7,250	7,453	203
Fund balances, beginning of year	198,991	198,991	198,991	-
Fund balances, end of year	$ 206,241	$ 206,241	$ 206,444	$ 203

SUPPLEMENTARY INFORMATION

KANAB CITY
Supplementary Information
June 30, 2005

The Water and Sewer System Revenue Bond Resolutions set forth certain covenants and restrictions. The City of Kanab is in compliance with all covenants and restrictions for the Water and Sewer Bonds.

Additional disclosures required by the Resolutions are:

		Water	Sewer
a.	Number of water and sewer connections within the boundaries of the City at June 30, 2005	1,692	948
b.	Total water and sewer billings for fiscal year ended June 30, 2005	$ 668,683	$ 90,999
c.	Average monthly billing per customer	$ 32.93	$ 7.99

d. Net water and sewer revenues were 4.23 times the aggregate water and sewer fund debt service for fiscal year ended June 30, 2005.

e. Water rates for fiscal year ended June 30, 2005 are as follows:

0 to 10,000 gallons	$ 25.00
10,001 gallons on up	$ .90 per 1,000

f. Reserve funds: See financial statement footnote 10.

g. Insurance coverage in effect at June 30, 2005:

Type	Policy Number	Expires	Limits
Coverage with Chubb/Federal Ins. through Fred A. Moreton & Companay:			
Commercial Package	35833430	07-01-05	$ 4,722,425
Auto Physical	74969966	07-01-05	$ 25,000
Off-Duty Vehicle	74969966	07-01-05	$ 1,000,000
Coverage with Hartford through Fred A. Moreton & Company:			
Treasurers Bonds	34BPEBK3534	12-09-05	$ 325,000
Fidelity Blanket Bonds	34BPEBN7393	03-01-08	$ 630,000
Employee Dishonesty	34BPEBW7430	12-09-05	$ 100,000
Bldg. Authority Bonds	34BPEDL0372	04-26-08	$ 25,650
Boiler and Machinery	FBP2226704	07-01-05	$ 50,000,000
Coverage with Old Republic through Fred A. Moreton & Company:			
Airport Liability	PR23011	12 -01-05	$ 5,000,000

FEDERAL AND STATE REPORTS

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KEMPBURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

The Honorable Mayor and
Members of the City Council
Kanab, Utah

We have audited the basic financial statements of the Kanab City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 12, 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.

Compliance

As part of obtaining reasonable assurance about whether Kanab City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance, which we have reported to management of Kanab City in a separate letter dated August 12, 2005.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kanab 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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A material weakness is a 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 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Kanab City in the accompanying management letter dated August 12, 2005.

This report is intended for the information of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
August 12, 2005

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KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

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MARK E. TICHENOR

Independent Auditors' Report on State Legal Compliance

The Honorable Mayor and
Members of the City Council
Kanab, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kanab City, Utah for the year ended June 30, 2005, and have issued our report thereon dated August 12, 2005. As part of our audit, we have audited the Kanab 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 Legal Compliance Audit Guide for the 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)
Community Impact Loans (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property tax Limitations
Liquor Law Enforcement
Justice Courts
B & C Road Funds
Other General Compliance Issues
Uniform Building Code
Impact Fees & Other Development Fees
Asset Forfeitures

The management of the Kanab 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.

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

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying schedule of findings and recommendations. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Kanab City, Utah, complied, in all material aspects, 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 each of its major State assistance programs for the year ended June 30, 2005.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
August 12, 2005

KEMPBURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

Findings and Recommendations
For the Year Ended June 30, 2005

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

The Honorable Mayor and
City Council
Kanab, Utah

Ladies & Gentlemen:

During our audit of the funds of Kanab City for the fiscal year ended June 30, 2005, we noted several improvements in the City's accounting and budgeting system and wish to commend the City for their achievements. We noted a few areas needing corrective action in order for the City to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

Compliance Findings and Recommendations:

04-01. Budgetary Compliance

Finding
The Fiscal Procedures Act for Utah Cities requires Cities to restrict expenditures to the authorized departmental budget. The "Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual" identifies over-expended budget amounts.

Recommendation
We recommend that the City operate within the confines of State law by limiting expenditures or following proper procedures to adjust the departmental budgets.

04-04. Impact Fee Fund Balances

Finding
It appears that the Police and possibly the Street impact fees have not been expended or encumbered within the six year period as per State law. Also, the Storm Drain impact fee fund balances are in a negative position.

Recommendation
We noted that the City has made efforts to monitor the impact fee fund balances and we noted that the prior year Parks impact fee fund deficit was eliminated during fiscal year 2004. We recommend that the City continue its efforts to maintain and review an impact fee ledger and that appropriate measures be taken to encumber the Police and Street impact fees and that transfers are budgeted to eliminate the deficit fund balance for Storm Drain impact fees.

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05-01. General Fund Balance

Finding

Utah Code 10-6-116(4) requires that 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 maximum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund (*Utah Code* 10-6-116(2)). Due to year-end entries to close out the Power fund, the City has exceeded the maximum of 18% in the general fund.

Recommendation

We recommend that the City make adjustments as necessary to the upcoming year's budget in order to reduce the excess fund balance.

are budgeted to eliminate the deficit fund balance for Storm Drain impact fees.

05-02. Debt Service Reserve Fund – Golf Course Improvement Bond

Finding

The new Golf Course Improvement Bond requires the establishment of a debt service reserve fund in accordance with the bond agreement. We noted that the debt service reserve fund has not yet been established.

Recommendation

We recommend that the City establish the debt service reserve fund for the new Golf Course Improvement Bond in accordance with the bond agreement.

General Findings and Recommendations:

04-01. Debt Reserves

Finding

The City reduced its unreserved fund balance in the Debt Service Fund during fiscal year 2005; however, there is $40,021 of unreserved fund balance as of June 30, 2005. This excess equity in the Debt Service Fund resulted from transfers and other revenues recorded in the Debt Service Fund after certain bonds and leases had been paid off.

Also, as of June 30, 2005, the City's KCR SID required reserve fund was under funded by $24,179 of the $148,720 requirement stated in the KCR SID bond documents. We noted that the City's restricted cash account for the KCR SID debt service fund had excess funds of $22,094 which would cover a only a portion of the reserve fund shortfall.

Also, the City's cash reserves held for all of the water/sewer bonds are $192,950 in excess of the amounts required by the bond resolutions.

Recommendation
We recommend that the City budget and transfer the unreserved Debt Service Fund equity back to the central treasury through the due to/from other funds account, increase the KCR SID reserve fund to a balance of $148,720 and decrease the KCR SID debt service fund as applicable.

We also recommend that the City verify the amounts that should be on hand for the water/sewer bonds and transfer cash from the reserve bank accounts to the central treasury as applicable.

05-01. Bank Accounts

Finding
The City opened a bank account sometime before 6/30/04 for the volunteer fire department. The bank account is in the name of Kanab City but it has not been recorded on the City's books. Also, there does not appear to be documentation of approval for bank accounts that the City opened and closed during the year.

Recommendation
We recommend that the City add the bank account to their general ledger and reconcile the bank statement on a monthly basis. We also recommend that the City Council document approval of all opening and closing of bank accounts in the Council minutes.

05-02. Cash Disbursement Procedures

Finding
The City has established various procedures for the control of cash disbursements. However, during our audit we noted a few instances where these procedures were not followed by staff members. One of these instances resulted in a duplicate payment of $20,000 to a vendor. This overpayment has since been corrected and the established procedures are now being followed.

Recommendation
We recommend that the City re-emphasize its cash disbursement procedures for better control of cash disbursements in the future.

Please respond to the above Findings and Recommendations in letter form for submission to the Utah State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, City Council and management and is not intended to be used and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
August 12, 2005

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KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

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MARK E. TICHENOR

KANAB CITY
Other Matters Communicated to Management
June 30, 2005

05-1. Unpaid Invoice Report

The unpaid invoice report for June 30, 2005 contained several July 2005 invoices. This overstated accounts payable and expenditures as of June 30, 2005.

Recommendation

We recommend that invoices be entered in the accounts payable system based on the date of the invoice or when services or goods are received.

05-2. Cash Disbursement Procedures

This finding is mentioned in the General findings but is listed again here to provide more detail: The City has established various procedures for the control of cash disbursements. We noted a few instances where these procedures were not followed during fiscal year 2005. For example: It appears that multiple invoices are being entered into Caselle under one invoice number. Most likely this is being done to alleviate data entry. However, this increases the potential for duplicated payments. The City occasionally made payments from vendor statements rather than vendor invoices. This also increases the potential for duplicated payments. Finally, Invoices are not always being stamped "Paid" after approval and payment and the warrant register or payment approval report is not always signed to document the approval process. Apparently there were changes in staff during the year and these procedures are now being followed. However, we did note one duplicate payment of $20,000 during the fiscal year.

Recommendation

We recommend that the City follow the various procedures as outlined above.

04-1. Inventory Counts / Inventory Management

While conducting our fieldwork on the Water and Sewer Fund inventories, we noted that no inventory count was performed on the Water & Sewer fund inventory at year end to verify its accuracy.

Recommendation

We recommend that management evaluate the current inventory tracking system and make the necessary changes to produce an accurate and complete listing of all inventory items for the Water and Sewer funds. We encourage management to select a tracking system that allows the user to print reports that show the inventory balances at a specific point in time. We also recommend that an inventory count of the Water & Sewer fund inventories be performed at year end to ensure the accuracy of assets stated on the financial statements and to provide more control over these assets.

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04-2. Subsidiary Ledger Reconciliations

The following subsidiary ledgers should be reconciled to the general ledger: Customer Deposit List by Name, Accounts Receivable by Service by Number, Unpaid Invoice Register, and Inventory Listings. Some of the listed subsidiary ledger balances did not agree to the balances in the general ledger as of June 30, 2005. Although, the differences were not material, these reports did not reconcile to the general ledger.

Recommendation

We recommend that the City continue its efforts to perform monthly reconciliations of these subsidiary ledgers to the general ledger. We also recommend that these ledgers be reconciled and that investigated differences be adjusted appropriately at year end to facilitate the ongoing monthly reconciliations.

04-3. Budgeted Transfers

We noted during our test work that budgeted inter-fund transfers did not balance.

Recommendation

We recommend that a schedule be prepared to ensure that transfers balance. Please see the attached schedule for an example of a worksheet that can be utilized to ensure that the budgeted inter-fund transfers zero out.

04-4. Franchise Taxes

According to management, there is not a method for verifying that Precis Communications (or other entities) remits the proper amount of franchise tax during each fiscal year.

Recommendation

We recommend that the City develop a formal method for verifying the franchise tax being collected and remitted to the City from Precis Communications and other entities remitting franchise tax. The City could also consider performing audits to determine that the entities collecting franchise taxes are assessing the proper amount of tax and remitting the taxes collected to the City.

04-5. Fixed Asset Accounting – Fixed Asset Inventory

We noted during our audit that there are still some areas of fixed asset accounting that could be improved. We recommend that the City consider the following:

- Update *Asset Keeper* during the year for additions and deletions to both the governmental funds and the utility funds. Or consider doing this once at year end.
- Establish a specific set of accounts in the general ledger to code all asset purchases with possibly one account for asset purchases less than the capitalizable limit and one account for those over the limit. This would serve as a record for identifying asset additions during the year. This would also preclude coding asset purchases to supplies or other such accounts.
- When assets are added to *Asset Keeper* the account code from which the asset was expensed/purchased should be documented. This will enable appropriate depreciation calculations by function and it will also provide an audit trail.
- Perform a year end physical inventory of fixed assets for both the governmental fund assets and the utility fund assets.

We would be happy to assist you in further refining your fixed asset accounting. We would also like to explain in more detail our recommendations and offer some illustrations for how they might be implemented. Please contact us at your convenience.

04-6. Correlation of TC-693 with Budgeted Revenue

During our test work, we noted that the property tax revenue for the general fund and capital project fund do not agree with the budgeted revenue on form TC-693. Differences are immaterial.

Recommendation

We recommend that the applicable tax revenue budgets are agreed to the TC-693 when established or that budgeted property tax revenues are amended to agree to the anticipated revenue reported on form TC-693.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
August 12, 2005

Mayor
Kim T. Lawson
City Manager
Keith L. McAllister
Treasurer
RaeLene Johnson
City Attorney
Van Mackelprang

KANAB
UTAH

City Council
James G. Sorenson
Carol N. Sullivan
Terril Honey
Steven R. Mower
Anthony Chatterley

January 10, 2006

Office of the Utah State Auditor
Mr. Auston G. Johnson, CPA
211 State Capital
Sale Lake City, Utah 84114

Dear Mr. Johnson:

The following is in response to the findings and recommendations of Kemp, Burdick, Hinton & Hall, fiscal year 2004/05 auditors for Kanab City.

State Compliance Findings and Recommendations:

04-01. Budgetary Compliance

Kanab City continues to strive to operate within the confines of the adopted fiscal year budget. During FY 2004/05 we had a park project that was funded through a large donation from a local company. Due to the late arrival of donated funds that particular budget was over budget at 6/30/05 but funds were received shortly after that date.

Kanab City will always work to operate within the adopted budgets for all funds.

04-04. Impact Fee Fund Balances

Kanab City has made a commitment to expend the necessary Impact Fee funds during fiscal year 2005/06. Some Impact Fee funds were budgeted to be expended during fiscal year 2004/05 but it was determined the expenditures were non-qualifying items. Those funds will be expended this fiscal year.

05-01. General Fund Balance

Kanab City has identified at least two projects that will require the expenditure of General Fund surplus funds. These expenditures should bring us into compliance with State requirements.

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05-02 Debt Service Reserve Fund - Golf Course Improvement

A debt service reserve fund will be established for the new Golf Course Improvement Bond will be established immediately. I appreciate the Auditors brining this our my attention.

General Findings and Recommendations:

04-01. Debt Reserves

Kanab City will budget the necessary transfers recommended by our auditors to bring the Debt Service Fund into compliance in fiscal year 2006/07.

Kanab City will review the required reserve amount for the Water & Sewer bonds and make the necessary adjustments.

05-01. Bank Accounts

The Fire Department bank account was opened some time ago by the department itself. Upon discovery of the account we have added the account to the general ledger and will continue to reconcile the account monthly.

05-02. Cash Disbursement Procedures

I have reviewed the cash disbursement procedures with the new Accounts Payable officer. We will make every effort to assure this mistake is not made again.

I appreciate the opportunity to respond to the findings and recommendations of the Kanab City Auditors. If you have any questions or comments, please feel free to contact me at your convenience.

Sincerely,

Keith L. McAllister

Keith L. McAllister
City Manager