COTTONWOOD HEIGHTS (A CITY), UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2005

COTTONWOOD HEIGHTS, UTAH
TABLE OF CONTENTS
PERIOD ENDED JUNE 30, 2005

	Pages
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYIS	MD&A-1 thru MD&A-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP) – General Fund	9
Notes to the Financial Statements	10-27

LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

September 2, 2005

Honorable Mayor
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights (the City), as of and for the period ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

SANDY OFFICE
9065 SOUTH 1300 EAST
SANDY, UTAH 84094
(801) 313-1900
FAX (801) 313-1912

SPANISH FORK OFFICE
765 NORTH MAIN
SPANISH FORK, UTAH 84660
(801) 798-3545
FAX (801) 798-3678

MOAB OFFICE
121 EAST 100 SOUTH SUITE 104
MOAB, UTAH 84532
(435) 259-9100
FAX (435) 259-9100

MEMBER OF THE INTERNATIONAL ACCOUNTING GROUP (TIAG) + WWW.LARSCO.COM

The Management's Discussion and Analysis on pages MD&A-1 through MD&A-9 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Larson & Company

Larson & Company
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the city of Cottonwood Heights (the City), we offer readers of the Cottonwood Heights' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. It is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues. These include identifying changes in the City's financial position (its ability to address the next and subsequent year's challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

To comply with Government Accounting Standards Board Statement No. 34, the City is implementing this reporting format for its' first fiscal year. In future years, comparisons will be meaningful and will help the reader's understanding of the City's financial position and results of operation.

FINANCIAL HIGHLIGHTS

- Total net assets of Cottonwood Heights are $45,090,661.
- Total net assets consist of: $44,315,013 in capital assets net of related debt, Restricted Accounts - $166,966 in Class "C" Roads, $4,661 in Impact Fees, and $604,021 in Unrestricted Assets ($197,101 in the General Fund and 406,920 in the Capital Projects Fund).
- The General Fund (the primary operating fund) had an increase in its fund balance of $368,728. The Capital Projects Fund also had an increase in its fund balance of $406,920.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cottonwood Heights' basic financial statements which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements (defined)

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

- ***The statement of net assets*** presents information on all of Cottonwood Heights' assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cottonwood Heights is improving or deteriorating. However, the reader will also need to consider other non-financial factors.

- ***The statement of activities*** presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Cottonwood Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions (business-type activities) that are intended to recover all or a significant portion of their costs through user fees and charges. ***Cottonwood Heights currently has no Business-type Activities.***

Fund financial statements (defined)

A statement of revenue, expenditures and changes in fund balance by fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cottonwood Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of a city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Cottonwood Heights' currently has only major governmental funds (as determined by generally accepted accounting principles), the General Fund and the Capital Projects Fund. ***Cottonwood Heights currently has no Proprietary or Fiduciary Funds.***

Governmental funds – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using a modified accrual accounting method, which measures cash and other financial assets that can be readily 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. Governmental fund information helps users determine 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 fund financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-27 of this report.

CITY'S GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cottonwood Heights, assets exceed liabilities by $45,090,661 at the close

of the most recent fiscal year. The City's government-wide financial statements can be found on pages 3-4 of this report.

Cottonwood Heights was incorporated on January 14, 2005 and has only five and one half months of activity as of June 30, 2005. There is no prior period with which to compare the current financial position and results of activities.

Cottonwood Heights'
Net Assets

	Governmental Activities
	FY 2005
Current and other assets	3,137,814
Capital assets	44,346,513
Total assets	47,484,327
Long-term liabilities outstanding	31,500
Other liabilities	2,362,166
Total liabilities	2,393,666
Net assets	
Invested in capital assets, net of related debt	44,315,013
Restricted	171,627
Unrestricted	604,021
Total net assets	45,090,661

By far the largest portion of Cottonwood Heights' net assets ($44,315,013) reflects investment in capital assets (e.g., land, roads and infrastructure assets). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets ($171,627) represents resources that are subject to external restrictions on how they may be used. Currently this restriction is Class C road funds and Impact Fees. The remaining balance of unrestricted net assets ($604,021) may be used to meet the city's ongoing obligations to citizens and creditors.

Governmental activities analysis

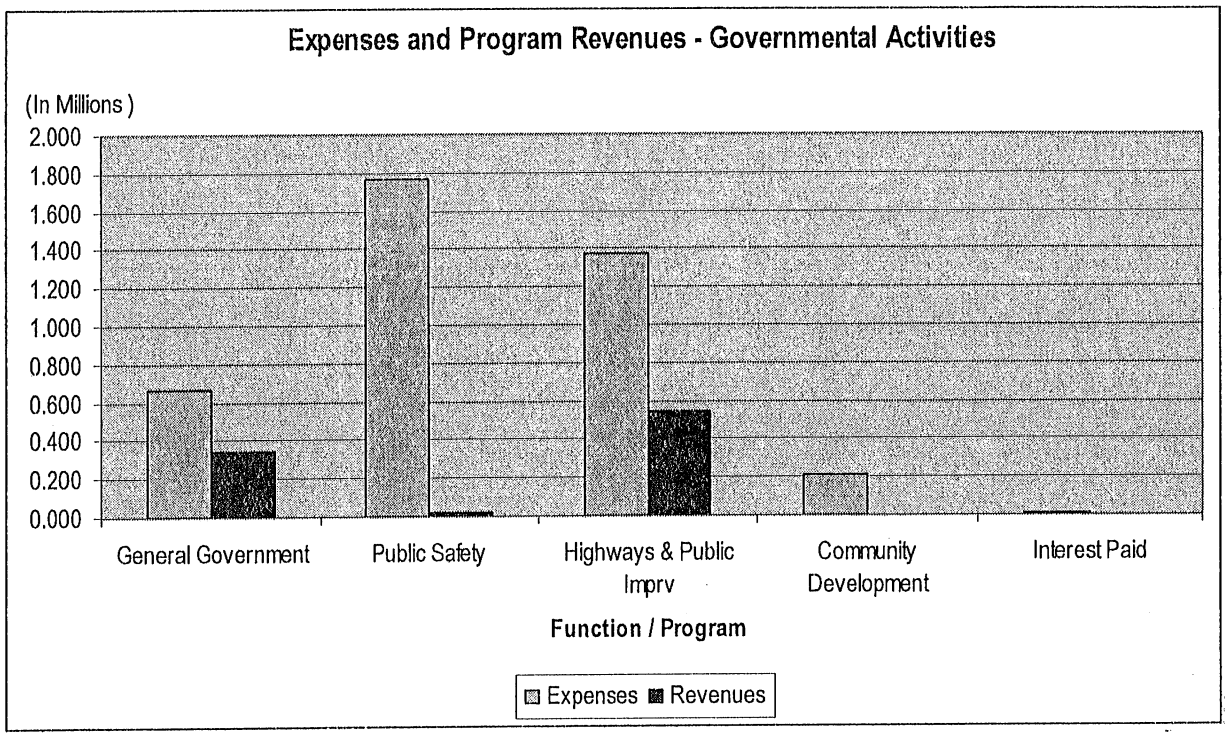
Governmental activities decreased the City's net assets by $152,893 resulting from excess costs (expenditures, current year capital purchases and current period depreciation expense) over current year revenues resulting in total net assets of $45,090,661. In the City's initial year, assets increased primarily by $45,243,555 from transferred infrastructure assets from Salt Lake County.

Significant revenues were from local option Sales Taxes (52%), Inter-local shared revenues (23%) (primarily County municipal services funds) and Operational Grants (16%) (Class C road funds and Community Development Block Grant).

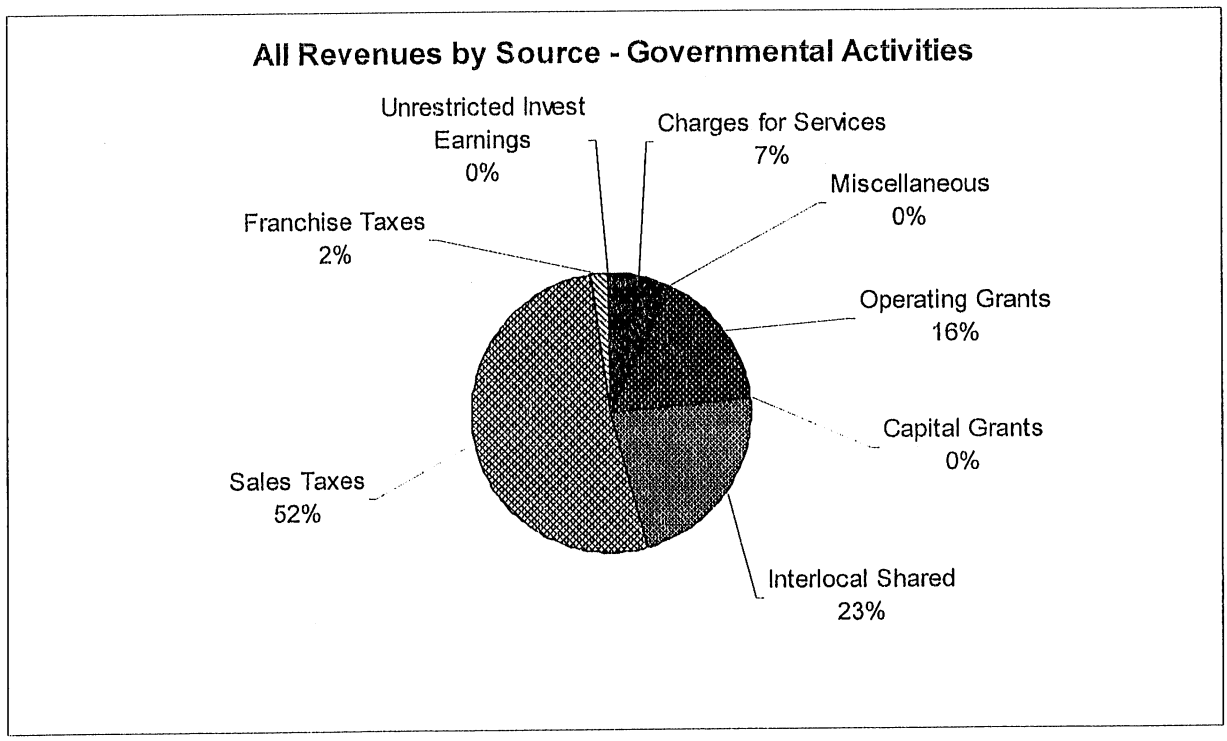
Cottonwood Heights'
Changes in Net Assets

	Governmental Activities
	2005
Revenues:	
Program revenues:	
Charges for services	273,390
Operating grants and contributions	627,685
Capital grants and contributions	4,661
Total Program Revenues	905,736
General revenues:	
Property taxes	874,799
Other taxes	2,087,086
Unrestricted investment earnings	8,131
Other - Transferred Infrastructure	45,243,555
Other - Miscellaneous	694
Total General Revenues	48,214,265
Total revenues	49,120,001
Expenses:	
General government	669,212
Public safety	1,763,029
Public health	
Highways and public improvements	1,377,478
Parks and recreation	212,593
Interest on long-term debt	7,028
Total expenses	4,029,340
Increase in net assets	45,090,661
Net assets - beginning	-
Net assets - ending	45,090,661

Below is a graphic presentation of the City's program revenues and corresponding expenditures. It should be noted that 72 percent of the expenses shown for Highways & Public Improvements is attributable to current period depreciation of the City's infrastructure assets. The revenue for the Highway & Public Improvements is primarily from Class C Road Funds. The General Government revenue is from charges for services and a Community Development Block Grant provided to help the City develop its' general development plan as required by law.



Below is a graphic of all revenue sources collected by the City during the fiscal 2005 year.



CITY'S FUND FINANCIAL STATEMENTS ANALYSIS

As noted earlier, Cottonwood Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's basic governmental funds financial statements can be found on pages 5-8 of this report.

Governmental Funds Analysis

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

At the end of this fiscal year, Cottonwood Heights governmental funds reported combined ending fund balances of $775,648 after only five and one half months of operations. Approximately 78 percent or $604,021 of this total constitutes *unreserved, undesignated fund balance*, which is available for spending at the City Council's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is only available for spending on the designated purpose for which the funds are committed (Class C roads and Storm Water impact fees).

The **General Fund** is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds, either by state or local ordinance are accounted for in this fund. There is only one other fund in the City's accounting systems which is the Capital Projects Fund.

- Taxes are the largest source of revenue in the General Fund and represent 53.9 percent of total general fund revenues. This fiscal year, this source is primarily Sales taxes. In future years, property taxes will also make a significant contribution in this category.
- Intergovernmental revenues are significant this fiscal year (38.8 percent) due to the transfer from Salt Lake County of property taxes levied and collected by the County during calendar year 2005. This type of transfer of property taxes will also occur in the first half of the next fiscal year.
- Licenses and permits revenues are the next significant revenue source for the City representing 6.5 percent of total revenues.

The City's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP) statement can be found on page 9 of this report.

GENERAL FUND 2005 BUDGETARY HIGHLIGHTS

During the year there was an overall decrease of $380,095 in budgeted appropriations for expenditures between the original adopted and final amended budget. Primarily due to a re-forecasting of revenues and an appropriate alignment of anticipated decreases in expenditures, also an increase of $396,920 in appropriated transfers to the Capital Projects Fund was made.

This first revenue year started very well. Because appropriate paperwork was filed timely with the Utah Department of Transportation on the first day of the City's incorporation, over $263,000 of Class C road funds were received by the City within just a few week that otherwise would have been distributed to other local entities and forever forgone by the City.

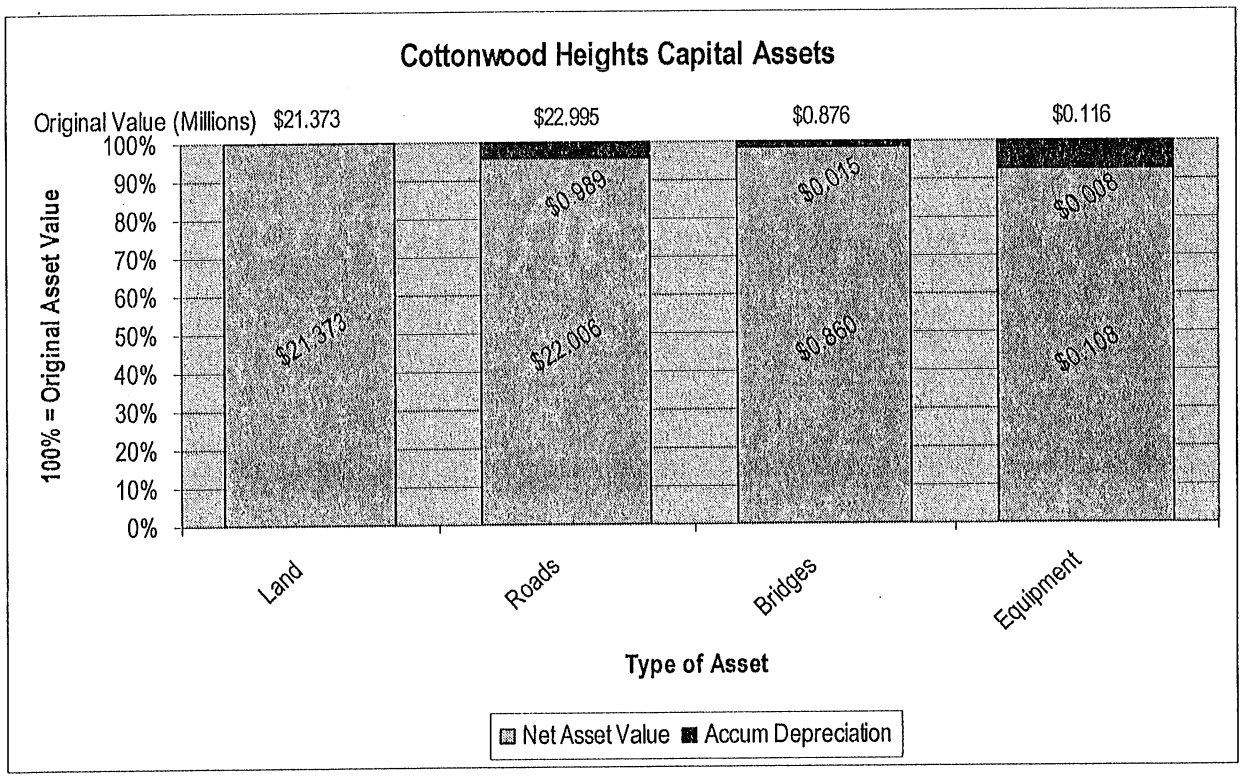
During the year revised budget revenues were less than anticipated in the original budget, yet the actual results showed an increase in tax collections ($21,086), an increase in Licenses & Permits ($29,087) and an increase in Intergovernmental revenues ($147,593).

With one small exception for a capital lease payment ($767), actual expenditures in the General Fund were equal to or less than the amended budget (including General Government, Public Safety, Highways and Public Improvements and Community and Economic Development) and netted to a total of $350,061 in excess funds as compared to the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

Cottonwood Heights' investment in capital assets for its governmental activities as of June 30, 2005 amounted to $44,346,513 (net of accumulated depreciation). This investment in capital assets includes land, improvements other than buildings, infrastructure (streets, sidewalks, curb and gutter, etc.), and equipment.



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

- $45,243,555 in transferred infrastructure from Salt Lake County (net of accumulated depreciation)
- $116,142 in new equipment capital asset purchases

Additional information on assets of the City can be found in the Notes 3.D. Capital Assets on page 24 of this report.

Long-term debt

At June 30, 2005 the City had $31,500 in governmental long-term debt. None of this debt is considered to be general obligation debt.

Additional information on the outstanding debt obligations of the City can be found in the Notes 3.F. Long-Term Debt starting on page 23 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The change in the National Consumer Price Index for the six months of FY 2005 was 2.21 percent increase. During the same period of time, the Western Urban Consumer Price Index increased by 1.96 percent. Both are unadjusted for seasonal variances.

- The unemployment rate in FY 2005 for Salt Lake County was 5.1 percent compared with a state unemployment rate of 5.0 percent and a national rate of 5.3 percent. Salt Lake County's rate in FY 2004 was 5.7 percent (Source: Dept of Labor website).

- As a newly created city Cottonwood Heights can not levy property taxes until fiscal year 2006-07. The City will receive an equivalent portion of the property taxes levied and collected by Salt Lake County Municipal Services Fund and the Salt Lake Valley Fire District in 2006. Therefore Cottonwood Heights has no adopted property tax rate for the 2005-06 budget year.

- Due to a shift from the County's calendar year budget cycle to a required municipal budget year of July through June, the period of January to June in 2006 will have no property taxes assessed or collected to cover this period. The property taxes levied, assessed and collected in November 2006 will be based on the city's adopted budget for the period beginning July 1, 2006 and ending June 30, 2007. This shortage of property tax revenue in 2006 significantly limits revenue resources for the 2005-06 budget year.

- Cottonwood Heights was allowed to withdraw from the Salt Lake Valley Fire Service District as of June 30, 2005. During this initial year (2005-06) of this withdrawal the contract costs are projected to exceed revenues gained from withdrawal by

approximately $510,560, yet in subsequent years there will be excess annual revenues of approximately $1,322,876.

- The 2005-06 budget has been constructed with a focus on efficient and effective use of the limited resources available. No new taxes or planned debt has been proposed to fund operations by the City Council. Service levels have been held in check in order to balance the budget during this year of transition (without diminishing service levels). No general wage or salary increases have been proposed for the new fiscal year.

- Capital improvements are budgeted at $747,807 for the 2005-06 budget:

  - Projects are being defined by a Capital Facilities Plan currently being developed.

- Currently there are no anticipated changes to the service areas or boundaries of the City which would impact both revenues and expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood Heights' finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or a request for additional financial information should be addressed to: Cottonwood Heights, attn: David Muir, Finance Director, 1265 Fort Union Blvd, #250, Cottonwood Heights, UT 84047.

BASIC FINANCIAL STATEMENTS

Cottonwood Heights, Utah
Statement of Net Assets
June 30, 2005

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	$ 802,099
Prepaid expenses	25,960
Accounts receivable	2,138,128
Restricted cash and cash equivalents	171,627
Capital assets (net of accumulated depreciation):	
Equipment	107,696
Infrastructure	22,865,723
Land related to infrastructure	21,373,094
Total assets	47,484,327
LIABILITIES	
Accounts payable	2,182,685
Accrued liabilities	179,181
Deferred revenue	300
Noncurrent liabilities:	
Due within one year	10,881
Due in more than one year	20,619
Total liabilities	2,393,666
NET ASSETS	
Invested in capital assets, net of related debt	44,315,013
Restricted:	
Class C road funds	166,966
Impact fees	4,661
Unrestricted	604,021
Total net assets	$ 45,090,661

The Notes to The Basic Financial Statements are an integral part of these statements.

Cottonwood Heights, Utah
Statement of Activities
For the Period Ended June 30, 2005

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Primary Government: Governmental Activities Total
Primary government:					
Governmental activities:					
General government	$ 669,212	$ 251,268	$ 87,979	$ -	$ (329,965)
Public safety	1,763,029	22,122	-	-	(1,740,907)
Highways and public improvements	1,377,478	-	539,706	4,661	(833,111)
Community and economic development	212,593	-	-	-	(212,593)
Interest on tax anticipation note	7,028	-	-	-	(7,028)
Total governmental activities	$ 4,029,340	$ 273,390	$ 627,685	$ 4,661	(3,123,604)

General revenues:	
Shared revenue - property taxes	874,799
Sales taxes	2,012,660
Franchise taxes	74,426
Unrestricted investment earnings	8,131
Transfer of infrastructure from SL County	45,243,555
Miscellaneous	694
	-
Total general revenues and transfers	48,214,265
Change in net assets	45,090,661
Net assets - beginning	-
Net assets - ending	$ 45,090,661

The Notes to The Basic Financial Statements are an integral part of these statements.

Cottonwood Heights, Utah
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 395,179	$ 406,920	$ 802,099
Prepaid expenses	25,960	-	25,960
Accounts receivables (net):	2,138,128	-	2,138,128
Restricted cash and cash equivalents	171,627		171,627
Total assets	$ 2,730,894	$ 406,920	$ 3,137,814
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 2,182,685	$ -	$ 2,182,685
Accrued liabilities	179,181	-	179,181
Deferred revenue	300	-	300
Total liabilities	2,362,166	-	2,362,166
Fund balances:			
Reserved:			
Class C road funds	166,966	-	166,966
Impact fees	4,661	-	4,661
Unreserved, reported in:			
General fund	197,101	-	197,101
Capital projects fund	-	406,920	406,920
Total fund balances	368,728	406,920	775,648
Total liabilities and fund balances	$ 2,730,894	$ 406,920	$ 3,137,814

The Notes to The Basic Financial Statements are an integral part of these statements.

Cottonwood Heights, Utah
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005

Total fund balances - governmental fund types:	$	775,648
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.		44,346,513
Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds.		(31,500)
Net assets of governmental activities	$	45,090,661

The Notes to The Basic Financial Statements are an integral part of these statements.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Period Ended June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes	$ 2,087,086	$ -	$ 2,087,086
Licenses and permits	251,268	-	251,268
Intergovernmental	1,502,484	-	1,502,484
Charges for services	1,992	-	1,992
Fines and forfeitures	20,130	-	20,130
Miscellaneous revenue	694	-	694
Investment earnings	8,131	-	8,131
Total revenues	3,871,785	-	3,871,785
EXPENDITURES			
Current:			
General government	776,908	-	776,908
Public safety	1,763,029	-	1,763,029
Highways and public improvements	372,740	-	372,740
Community and economic development	212,593	-	212,593
Debt service:			
Principal retirement	767	-	767
Interest	7,028	-	7,028
Total expenditures	3,133,065	-	3,133,065
Excess revenues over (under) expenditures	738,720	-	738,720
Other financing sources (uses)			
Proceeds from capital leases	32,267	-	32,267
Impact fees	4,661	-	4,661
Transfers in	-	406,920	406,920
Transfers out	(406,920)	-	(406,920)
Total other financing sources and uses	(369,992)	406,920	36,928
Excess of revenues and other sources over (under) expenditures and other uses	368,728	406,920	775,648
Fund balances - beginning of year	-	-	-
Fund balances - end of year	$ 368,728	$ 406,920	$ 775,648

The Notes to The Basic Financial Statements are an integral part of these statements.

Cottonwood Heights, Utah
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Period Ended June 30, 2005

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

Net changes in fund balances - total governmental funds	$ 775,648
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(897,042)
The transfer of infrastructure assets from Salt Lake County is recorded as a revenue and an addition to capital assets in the government-wide financial statements (at net book value), but is not shown in the fund financial statement	45,243,555
Proceeds from capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of capital lease principal are expenditures in the governmental fund, but reduce liabilities in the Statement of Net Assets:	
Proceeds from capital leases	(32,267)
Principal payments on capital leases	767
Change in net assets of governmental activities	$ 45,090,661

Cottonwood Heights, Utah
Statement of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual (Non-GAAP)
For the Period Ended June 30, 2005

	General Fund			
	Budgeted Amounts		Actual	
	Original Budget	Final Budget	(Budgetary Basis) (See Note 2F)	Variance with Final Budget
Revenues:				
Taxes	$ 1,873,575	$ 2,066,000	$ 2,087,086	$ 21,086
Licenses and Permits	264,094	169,500	199,367	29,867
Intergovernmental Revenue	1,477,443	1,354,891	1,502,484	147,593
Charges for Services	36,411	14,750	1,992	(12,758)
Fines and Forfeitures	68,750	41,754	20,130	(21,624)
Miscellaneous	15,000	5,000	8,825	3,825
Total Revenues	3,735,273	3,651,895	3,819,884	167,989
Expenditures:				
General Government	838,711	792,539	776,908	(15,631)
Public Safety	1,799,445	1,763,026	1,763,029	3
Highways and Public Improvements	823,730	539,706	372,740	(166,966)
Community development	171,445	160,937	160,692	(245)
Debt service	10,000	7,028	7,795	767
Total Expenditures	3,643,331	3,263,236	3,081,164	(182,072)
Excess Revenues Over (Under) Expenditures	91,942	388,659	738,720	350,061
Other Financing Sources (Uses):				
Impact fees	-	-	4,661	4,661
Proceeds from capital leases	-	18,261	32,267	14,006
Transfers (Out)	(10,000)	(406,920)	(406,920)	-
Total other financing sources (uses)	(10,000)	(388,659)	(369,992)	18,667
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	81,942	-	368,728	368,728
Fund Balance - Beginning of Year	-	-	-	-
Fund Balance - End of Year	$ 81,942	$ -	$ 368,728	$ 368,728

The Notes to The Basic Financial Statements are an integral part of these statements.

COTTONWOOD HEIGHTS, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2005

INDEX

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
A.	Financial Reporting Entity
B.	Basis of Presentation
C.	Measurement Focus and Basis of Accounting
D.	Assets, Liabilities, and Equity
E.	Revenues, Expenditures, and Expenses
NOTE 2.	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY
A.	Fund Accounting Requirements
B.	Deposits and Investments Laws and Regulations
C.	Revenue Restrictions
D.	Debt Restrictions and Covenants
E.	Fund Equity Restrictions
F.	Budgetary Basis of Accounting
NOTE 3.	DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS
A.	Cash and Investments
B.	Restricted Assets
C.	Accounts Receivable
D.	Capital Assets
E.	Accounts Payable
F.	Long-term Debt
G.	Interfund Transactions and Balances
H.	Fund Equity
NOTE 4.	OTHER NOTES
A.	Employee Pension and Other Benefit Plans
B.	Risk Management
C.	Extraordinary Item

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Cottonwood Heights (the City) is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of four council members. The financial statements of the City may include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Cottonwood Heights, Utah, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	Cottonwood Heights
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:
The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Fiduciary funds are agency or trust funds held in behalf of others. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements:
Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Major and Nonmajor Funds

The funds are further classified as major or non-major as follows:

Fund	Brief Description
Major:	
General	See above for description.
Capital Projects Fund	Accounts for revenues and expenditures on capital projects.
Nonmajor:	
None	

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus
On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. Proprietary funds utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets. The City has no Proprietary funds at this time.

c. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Fiduciary funds at this time.

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

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means

collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments
For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables
During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables and Payables
In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, property taxes, franchise taxes, grants, and court fines.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide

financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and considered both measurable and available.

Accounts payable consists principally of payables to Salt Lake County for public safety and public works expenditures.

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

Government-wide Statements
In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the infrastructure assets transferred from Salt Lake County during the period ending June 30, 2005. The City has chosen to capitalize fixed assets costing $10,000 or more.

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

Description	Governmental Activities Estimated Lives
Buildings and Improvements	45 years
Machinery and Equipment	5 to 15 years
Vehicles	5 years
Infrastructure	15-50 years

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

Restricted Assets
Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the State Law. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork.

Long-term Debt
The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements.

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

Compensated Absences
It is the City's policy to permit employees to accumulate earned but unused paid time off (PTO) benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds would report the liability as it is incurred. As employees do not vest until July 1, 2006 and without historical experience and the fact that the estimated amount would be immaterial during this initial year, for the period ended June 30, 2005 no entry was made. It is expected that with additional historical experience during the coming year, this calculation and accrual of liability will be made at the end of next fiscal year.

Equity Classifications

Government-wide Statements
Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Taxes

Property taxes, franchise taxes, licenses, shared revenue, and interest are susceptible to accrual. Sales taxes collected and held by the state and county at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Because Cottonwood Heights was not incorporated until after the "Property tax assessment date" of January 1, 2005, no property tax could be assessed in 2005. Cottonwood Heights cannot assess a property tax until it approves a budget and adopts a property tax rate for the 2006-07 fiscal year in June of 2006. *Section 10-2-121 (2) of the Utah Legal Code* requires the County to share with Cottonwood Heights property taxes the County has levied to pay for municipal services provided by Cottonwood Heights.

Sales taxes are collected by the Utah State Tax Commission and are remitted to the Salt Lake County monthly. The County then remits the City's portion to the City.

Expenditures/Expenses

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

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:
- Current (further classified by function)
- Debt Service
- Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

Fund	Required By
None	

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

The City maintains a cash and investment pool that is available for use by all funds. Deposits are not collateralized, nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Utah Money Management Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

The City's investments are categorized as follows to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealers trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency, but not in the City's name. The City currently has no investments that are required to be categorized.

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

2.C. REVENUE RESTRICTIONS

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

Revenue Source	Legal Restrictions of Use
B & C Road Funds	Eligible B & C Roads

For the period ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt
No long term debt in excess of total revenue for the current year shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt to an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2005, the City had no outstanding general obligation debt.

Other Long-term Debt
Cities may incur a larger indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the period ended June 30, 2005, the City had no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

General Fund Balance Restrictions
Utah Code 10-6-116(4) indicates only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund (10-6-116(2)). The City complied with both of these restrictions as of June 30, 2005.

2.F. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The following departments exceeded budgeted expenditures for the fiscal year ending June 30, 2005:

	Amount
Debt Service	$ 767

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

3.A. CASH AND INVESTMENTS

Deposits
As of June 30 2005, deposits with Zions Bank totaled $52,044. The carrying amount on the City's books was $8,740. These deposits were covered by Federal Depository Insurance up to $52,044 as of June 30, 2005.

Investments
The City has investments with the Utah Public Treasurers' Fund (PTIF) which are not subject to categorization. The carrying amount and market value of the investments at June 30, 2005 was $964,886.

The City's policies regarding deposits of cash are discussed in Note 1.D. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

The City currently has no investments that are required to be categorized. Investments not subject to categorization at June 30, 2005, were as follows:

Investments in Utah State Treasurers' Investment Fund	$	964,886

Reconciliation to Government-wide Statement of Net Assets:

Investments	$	964,886
Cash on Hand		100
Deposits		8,740
Total	$	973,726

Per Statement of Net Assets:

Unrestricted Cash	$	802,099
Restricted Cash		171,627
Total	$	973,726

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2005, are as follows:

Type of Restricted Asset	Cash/Time Deposits	Investments	Accrued Int.	Total
Governmental Activities:				
Class C Road Funds	$ 166,966	$ -	$ -	$ 166,966
Impact Fees	4,661	-	-	4,661
Total	$ 171,627	$ -	$ -	$ 171,627

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consist principally of sales tax, property tax, franchise tax receivable.

Receivables detail at June 30, 2005, is as follows:

	Governmental Activities
Accounts Receivable	$ 2,138,128
Allowance for Doubtful Accounts	-
Net Accounts Receivable	$ 2,138,128

3.D. CAPITAL ASSETS

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

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Governmental Activities:				
Equipment	$ -	$ 116,142	$ -	$ 116,142
Infrastructure - Roads	-	30,967,970	-	30,967,970
Infrastructure - Bridges	-	1,454,105	-	1,454,105
Land related Infrastructure	-	21,373,094	-	21,373,094
Totals at historical cost	-	53,911,311	-	53,911,311
Less Accum. Depreciation				
Equipment	-	(8,446)	-	(8,446)
Infrastructure - Roads	-	(8,962,327)	-	(8,962,327)
Infrastructure - Bridges	-	(594,025)	-	(594,025)
Total Accum. Depreciation	-	(9,564,798)	-	(9,564,798)
Governmental Activities capital assets, net	$ -	$ 44,346,513	$ -	$ 44,346,513

Depreciation expense was charged to governmental activities as follows:

General government:	
General government	$ 8,446
Highways & Streets	1,004,738
Total depreciation expense	$ 1,013,184

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of payments for public safety payables, public works payable and various payroll payables such as FICA Payable, Federal and State Withholdings and Workers Compensation Payable.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt consists of capital leases payable to be repaid from governmental activities.

Governmental Activities:
As of June 30, 2005, the City had long-term debt payable from governmental fund resources consisted of the following:

Capital Leases Payable:

Zions Bank - Code Enforcement Truck 4.09%, (original amount $18,461)	$ 18,461
Microsoft - Software Lease 0%, (Original amount $13,806)	13,039
Total governmental debt	$ 31,500

Changes in Long-term Debt
The following is a summary of changes in long-term debt for the period ended June 30, 2005:

Type of Debt	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Capital leases	$ -	$32,267	$ (767)	31,500
Total Enterprise Fund Debt	$ -	$32,267	$ (767)	$ 31,500

Annual Debt Service Requirements
The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

Year Ending June 30	Governmental Activities Capital Leases
2006	$ 11,453
2007	11,069
2008	9,919
2009	-
2010	-
Thereafter	-
Total commitment	32,441
Less interest portion	(941)
Net capital leases	$ 31,500

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	Transfer Out	Transfer In
General Fund	$ 406,920	
Capital Projects		$ 406,920

3.H. FUND EQUITY

Restricted Fund Equity

	Government Activities
Net Assets	
Invested in Capital Assets, Net of Related Debt	$ 44,315,013
Restricted for:	
Class "C" Roads	166,966
Impact Fees	4,661
Unrestricted (Deficit)	604,021
Total Net Assets	$ 45,090,661

NOTE 4. OTHER NOTES

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in the following employee pension systems:

Local Governmental - Cost Sharing Defined Benefits Pension Plans

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

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes

financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The City has elected to be exempt from the Federal Social Security System. The City contributes into various plans explained below in lieu of contributions to the Social Security System.

Funding Policy. The City is required to contribute a percentage, currently 11.09%, of covered salary to the respective systems. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the various systems for the period ending June 30, 2005 were; for the Noncontributory System $14,536. The contributions were equal to the required contributions for this period.

401(k) Plan

The employees of City may also participate in a 401(k) deferred compensation plan. The amount of the employer contributions that substitute for contributions to the Non-contributory pension for the period ended June 30, 2005 was $4,066. Employer contributions that substitute for medical coverage for the period ended June 30, 2005 is $1,140.

457 Plan

The City participates in a 457 Deferred Compensation Plan administered by the Utah State Retirement System. 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 the reporting of 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 and are not the assets of the employer. Plan assets are not included in the City's financial statements. Employer contributions to this plan for the period ended June 30, 2005 in the amount of $3,191 constitute the equivalent of otherwise required social security benefits of 6.2%.

The City also participates in a 457 Deferred Compensation Plan administered by the International City/County Management Association Retirement Corporation (ICMA-RC). Employer contributions that substitute for medical coverage for the period ended June 30, 2005 is $3,860. Employer contributions to this plan for the period ended June 30, 2005 in the amount of $9,085 constitute the equivalent of otherwise required social security benefits of 6.2%.

4.B. 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. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

4.C. EXTRAORDINARY ITEM

The City was incorporated on January 14th of 2005. The City was previously included in the unincorporated area of Salt Lake County. Part of the arrangement with the County was to transfer the infrastructure assets (roads, bridges and land) within the City's boundaries to the City. The net book value (estimated historical cost, less depreciation) of these assets amounted to $45,243,555. This amount is shown as a general revenue in the Statement of Activities. This transaction is not shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances.

4.D. SUBSEQUENT EVENT

A pending loan is to be obtained by the City from Salt Lake County as a result of completing the Law Enforcement Contract, effectively converting $2.5 million of Law Enforcement Payments (outstanding liabilities) to long-term debt ($1,685,973 from fiscal year 2005 and $814,027 from fiscal year 2006).