



HERRIMAN CITY

**Annual Financial Report
Fiscal Year Ended June 30, 2005
(With Accountants' Report Therein)**

HERRIMAN CITY

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
Herriman City
Herriman City, 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 Herriman City (the City), as of and for the year ended June 30, 2005, which collectively comprises the City's basic financial statements as listed in the foregoing 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, such basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Required Supplementary Budgetary Comparison Information listed in the foregoing table of contents are not a required part of the basic financial statements, but are supplementary information required by the GASB. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary combining and individual fund statements and schedules described in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

December 7, 2005



HERRIMAN CITY

Management's Discussion and Analysis June 30, 2005

Herriman City's management presents to the readers of its financial statements this narrative information. It contains an overview and analysis of the financial position and results of operations as of and for the twelve months ended June 30, 2005. As management of the City, we encourage readers to consider information contained in this discussion.

FINANCIAL HIGHLIGHTS

The assets of Herriman City exceeded its liabilities at the end of the current fiscal year by \$82,409,277 (net assets). Of this amount, \$6,183,246 (unrestricted assets) is available to meet ongoing obligations to citizens and creditors. Net assets increased by \$23,450,966.

The City's governmental funds reported a combined ending fund balance of \$10,162,496. Of the combined total fund balance, \$2,904,773 is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the general fund at June 30, 2005, totaled \$1,726,340 and is 19% of the general fund total revenues for the year. Total debt for Herriman City decreased approximately \$377,788. The City did not issue new bonds during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to Herriman City's basic financial statements: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains information in addition to the basic financial statements that will help the reader gain a more in-depth understanding of the City.

Government-wide Financial Statements give readers a broad overview of the entire City's financial position and changes in financial position, similar to consolidated financial statements in a private sector business. These statements consist of the statement of net assets and the statement of activities.

The statement of net assets shows Herriman City's entire assets and liabilities with the difference shown as net assets. Increases or decreases over time in net assets gives an indicator as to whether the financial condition of Herriman is improving or declining.

The statement of activities shows the changes to net assets that occurred during the most recent fiscal year. These changes are recorded on an accrual basis when the underlying event that causes the change occurs, regardless of when the cash transaction takes place.

Both of the government-wide financial statements distinguish between activities that are largely supported by taxes and intergovernmental revenues and those whose operations are entirely or largely financed by user charges and fees. The governmental activities for Herriman City include general government, administration, facilities, information technology, storm drain, public safety, community development, streets, cemetery, and other departments. The business-type activities include water and sewer.

The government-wide financial statements include Herriman City itself and the Municipal Building Authority which is a legally separate entity from the City, but for all practical purposes functions as a part of the City and is therefore blended as an integral part of the primary government. The government-wide financial statements are found immediately following this discussion and analysis.

Fund Financial Statements are a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. Herriman City, like other state and local governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. All of the City's funds can be categorized into one of two categories: governmental funds and proprietary fund.

Governmental funds account for essentially the same activities as the governmental activities in the government-wide financial statements, but with a narrower focus. Governmental funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short term financing requirements.

Comparing similar information presented in the government-wide statements for the governmental activities with that presented in governmental funds statements can provide useful information because of the different focus of the two approaches. With the long-term focus of the government-wide statements, a reader may be able to better understand the long-term effects of the near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance show reconciliation between the governmental funds statements to the governmental activities in the government-wide statements to aid in the comparison.

Herriman City uses five major government funds. Of this number, information is shown separately for the general fund, park special revenue fund, flood control special revenue fund, road special revenue fund, and water rights special revenue fund all of which are deemed major funds. Information from the other funds is presented in a single combined column. Individual presentations for these non-major funds are contained in individual information shown after the notes to the financial statements as listed in the table of contents. The City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

The enterprise fund consists of the water operations of the City, which is a major fund of Herriman City. The enterprise fund reports the same functions as the business-type activities in the government-wide financial statements. Proprietary funds present the same information as in the government-wide statements, except in more detail.

Notes to the Financial Statements contain additional information important to a complete understanding of the information contained in the government-wide and fund financial statements. Notes to the financial statements are located after the statements for major funds as listed in the table of contents.

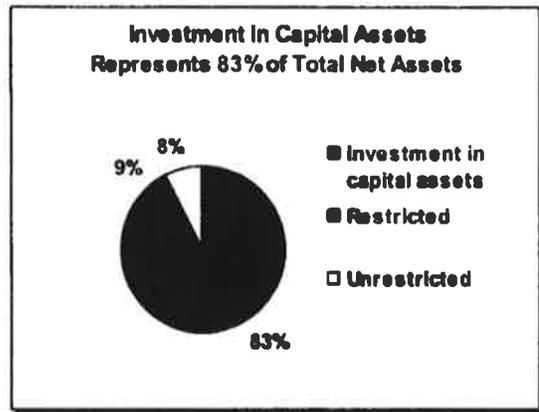
OTHER INFORMATION

The combining statements referred to earlier for non-major governmental funds are contained in this report immediately following the Notes to the Financial Statements and Required Supplementary Information as listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 12,361,210	\$ 8,955,567	\$ 1,068,636	\$ 952,423	\$ 13,429,846	\$ 9,907,990
Non-current assets	375,308	353,993	-	-	375,308	353,993
Capital assets	59,845,479	46,667,597	18,650,298	15,899,431	78,495,777	62,567,028
Other assets	-	-	2,669,672	1,268,299	2,669,672	1,268,299
Total assets	72,581,997	55,977,157	22,388,606	18,120,153	94,970,603	74,097,310
Current liabilities	2,398,339	1,911,127	2,661,027	1,090,284	5,059,366	3,001,411
Non-current liabilities	3,663,823	3,656,768	3,838,137	5,784,417	7,501,960	9,441,185
Total liabilities	6,062,162	5,567,895	6,499,164	6,874,701	12,561,326	12,442,596
Net assets						
Investment in capital assets, net of related debt	56,387,891	42,775,615	12,328,142	9,230,650	68,716,033	52,006,265
Restricted	7,509,998	5,431,134	-	146,677	7,509,998	5,577,811
Unrestricted	2,621,946	2,202,513	3,561,300	1,868,125	6,183,246	4,070,638
Total net assets	66,519,835	50,409,262	15,889,442	11,245,452	82,409,277	61,654,714
Total liabilities and net assets	\$ 72,581,997	\$ 55,977,157	\$ 22,388,606	\$ 18,120,153	\$ 94,970,603	\$ 74,097,310

By far, the largest component of Herriman City's net assets is its investment in capital assets. The 83% of total net assets represents the City's investment in land and land improvements, buildings, machinery and equipment, roads, street lights, and bridges, less any related outstanding debt that was used to acquire these assets. Herriman City uses these capital assets to provide services to citizens who live, work, pass through, or benefit in other ways from the City. By their nature, these assets are not available for future spending. Further, even though these capital assets are reported net of any related debt, resources needed to repay the debt must come from other sources, as the assets themselves cannot be used to satisfy the related obligations.



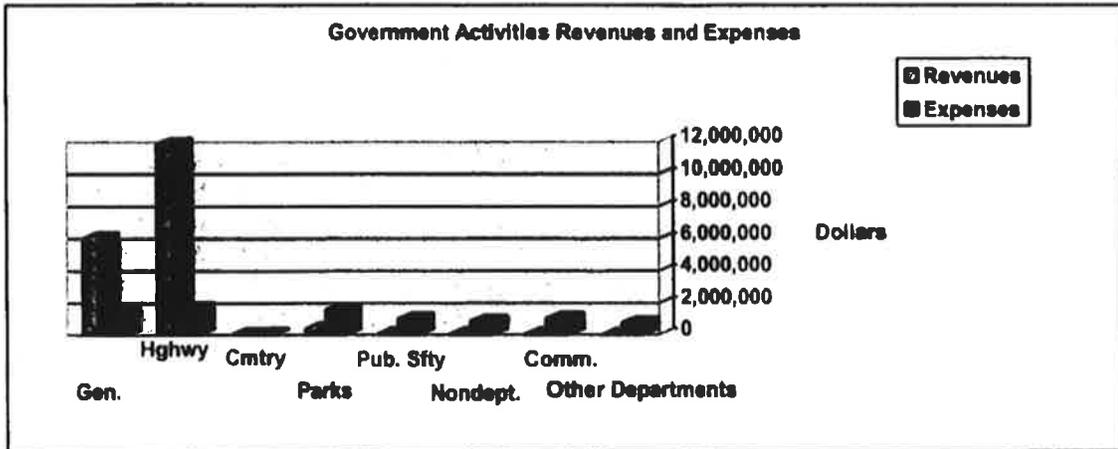
An additional part of net assets (9%) are assets that are subject to external restrictions on how they may be expended. The remaining 8% of net assets can be used to meet the City's ongoing obligations to its creditors and to citizens.

Herriman City's Changes in Net Assets

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
REVENUES				
Charges for services	\$ 7,981,529	\$ 6,552,105	\$ 1,425,024	\$ 1,004,400
Operating grants and contributions	306,529	415,309	-	-
Capital grants and contributions	10,170,218	11,416,577	2,507,644	6,013,499
General revenues:				
Property taxes, levied for general purposes	949,821	911,736	-	-
Franchise taxes	14,305	6,997	-	-
Impact fees	7,241,742	6,725,023	-	-
Sales taxes	541,262	383,228	-	-
Gain from sale of assets	497,125	-	-	-
Other revenues	73,603	26,133	-	839
Investment earnings	229,987	84,802	973	367
Total revenues	28,006,121	28,521,910	3,933,641	7,019,105
EXPENSES				
General government	1,391,809	3,010,155	-	-
Facilities	111,900	-	-	-
Information technology	162,772	-	-	-
Highway and streets	1,687,123	1,473,183	-	-
Storm Drain	294,797	-	-	-
Cemetery	43,615	32,304	-	-
Parks	1,584,294	858,622	-	-
Public safety	991,646	553,567	-	-
Nondepartmental	848,035	117,935	-	-
Community development	1,036,327	50,116	-	-
Interest on long-term debt	171,077	278,820	-	-
Water	-	-	2,095,781	1,303,483
Total expenses	8,323,395	6,374,902	2,095,781	1,303,483
Other sources				
Transfers in	-	-	2,806,128	784,499
Transfers out	(2,806,128)	(784,499)	-	-
Total other sources	(2,806,128)	-	2,806,128	-
CHANGES IN NET ASSETS	18,876,598	19,382,509	4,643,988	5,715,622
NET ASSETS, JULY 1, 2004	49,643,237	31,046,753	11,245,452	4,745,331
NET ASSETS, JUNE 30, 2005	\$ 66,519,835	\$ 50,409,262	\$ 15,889,440	\$ 10,460,953

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Governmental Activities net assets increased by \$16,876,598 for the year ended June 30, 2005. Governmental activities contributed to 72% of the increase in total City net assets during the year. The major reason for the increase is the contributions from developers for subdivisions and impact fees for new homes. The City also collected various other taxes and revenues above the amount needed for governmental activities.

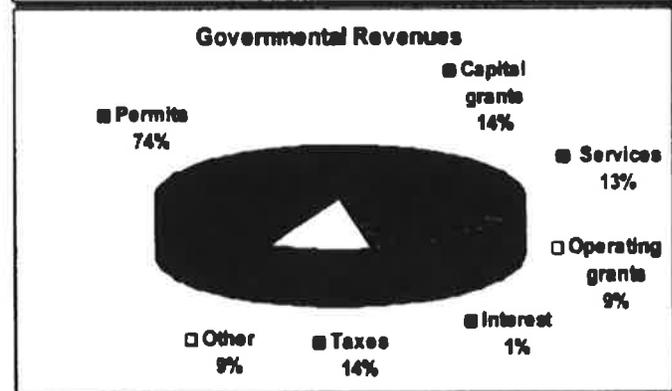
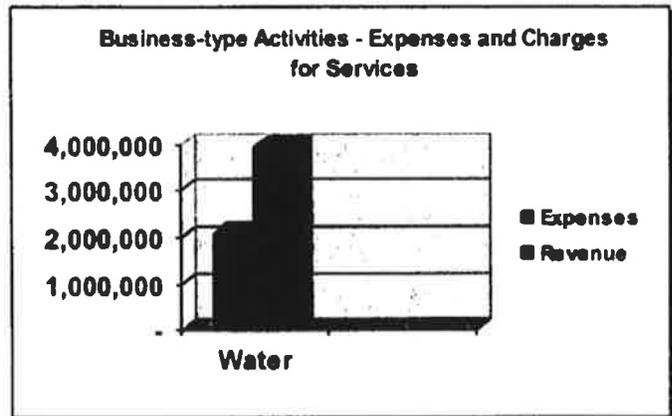


Business-type activities contributed an amount of \$4,643,988, or 28% of the total increase to net assets. The most significant reason for this increase in business-type activities is a capital contribution from developers.

FINANCIAL ANALYSIS OF HERRIMAN CITY'S FUNDS

Herriman City's governmental funds provide information on the short-term resource inflows and outflows, and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources. The unreserved portion of this total fund balance is a measure of the available spendable resources at June 30, 2005.

For the period ended June 30, 2005, the City's governmental funds reported combined net assets in the amount of \$10,162,496 with an increase of \$3,749,645, compared with the prior fiscal year. Of the total balance at year-end, \$2,904,773 is unreserved and undesignated. Of the remaining \$7,257,723 of combined net assets, \$355,690 is reserved for servicing the City's debt, with the remaining \$6,902,033 being reserved for capital projects of the City.



The general fund is the main operating fund for Herriman City. At June 30, 2005, the general fund's unreserved fund balance was \$1,726,340, while total fund balance equaled \$1,726,340. The total fund balance of the general fund for Herriman City increased by \$375,716. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year.

The special revenue funds account for impact fees which are restricted for special projects. The parks special revenue fund balance decreased by \$179,559. The fund balance in the flood control fund increased by \$1,156,815. The road special revenue fund balance increased by \$1,109,824 and the water rights special revenue fund increased by \$356,085.

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the City's major proprietary fund totaled \$3,561,300. Discussions about the finances of this fund are addressed in the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original and final amended budgets for the general fund amounted to a total increase in appropriations of \$828,500. Of the total increase in expenditure budgets, \$828,500 was funded from increases in revenue estimates.

The differences between the original and final amended budgets for the major special revenue funds amounted to a total increase in appropriations of \$1,813,573. All of the increases in appropriations were the result of impact fees from building activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Herriman City's investment in capital assets for its governmental and business type activities have a combined total of \$78,312,825 (net of \$4,072,677 accumulated depreciation) at June 30, 2005. Types of assets included in this category are land, buildings and related improvements, vehicles, machinery and equipment, roads (including curb and gutter), street lights, traffic signals, water and waste water distribution and collection systems, and construction in progress of \$510,338. The City's investment in net capital assets equals nearly 83% of total assets. Governmental activities net capital assets to governmental activities assets equaled 76% while business-type activities percentage was 24%.

Major capital asset activities that occurred during the past fiscal year include:

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Land	\$ 17,455,173	\$ 13,947,573	\$ 1,457,212	\$ 1,457,212
Infrastructure	33,074,887	23,420,458	-	-
Buildings	4,364,498	1,882,647	58,400	-
Improvements, other than buildings	5,599,273	1,963,229	17,474,670	8,988,612
Vehicles	871,084	377,478	210,100	86,808
Office furniture and equipment	1,121,883	808,525	187,984	78,091
Construction in progress	510,338	5,757,099	152,953	5,619,528
Accumulated depreciation	(3,151,657)	(1,489,412)	(891,021)	(330,820)
Net book value	<u>\$ 59,845,479</u>	<u>\$ 48,667,597</u>	<u>\$ 18,650,298</u>	<u>\$ 15,899,431</u>

At June 30, 2005, Herriman City's total debt amounted to \$9,444,489 of which \$6,310,531 was incurred by the City's business-type activities and the remaining \$3,098,000 was incurred by the City's governmental units. The bulk, 6,183,022, or 65%, of the City's debt is known as revenue bonds and is secured by specific revenue sources (i.e. property taxes, and water and sewer revenues). The remaining debt balance is secured by various general fixed assets owned by the City.

Additional information on Herriman City's capital assets and debt can be found in Note 6 in the Notes to the City's Basic Financial Statement.

**Herriman City's Outstanding Debt
General Obligation and Revenue**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue bonds	\$ -	\$ -	\$ 6,183,022	\$ 6,427,810	\$ 6,183,022	\$ 6,427,810
Bonds secured by general fixed assets	3,098,000	3,231,000	-	-	3,098,000	3,231,000
Capital leases	35,958	170,587	127,509	134,330	163,467	304,917
Total	\$ 3,133,958	\$ 3,401,587	\$ 6,310,531	\$ 6,562,140	\$ 9,444,489	\$ 9,963,727

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As of July 2005, the state unemployment rate was 5.1%, down from 6.2% the previous year. This is consistent with the nationwide decrease in unemployment rates as the economy continues to recover. Currently, Herriman City is experiencing a similar economic pickup consistent with the rest of the nation.

The City has experienced rapid growth with several subdivisions that will bring in more property taxes in future years. The rates and fees for most services remained constant for fiscal year end 2005 compared with the fiscal year just ended.

REQUEST FOR INFORMATION

This financial report is designed to give its readers a general overview of Herriman City's finances. Questions regarding any information contained in this report or requests for additional financial information should be addressed to Herriman City, 13011 S. Pioneer St. Herriman, Utah 84065.

HERRIMAN CITY

Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents			
Restricted	\$ 7,392,431	\$ -	\$ 7,392,431
Unrestricted	3,585,423	1,009,876	4,595,299
Receivables			
Property, and franchise and excise taxes	1,355,232	-	1,355,232
Other receivables, less allowance for doubtful accounts of \$0	28,124	-	28,124
Accounts, less allowance for doubtful accounts of \$0	-	58,760	58,760
Total current assets	<u>12,361,210</u>	<u>1,068,636</u>	<u>13,429,846</u>
NONCURRENT ASSETS			
Restricted cash and cash equivalents	<u>375,308</u>	<u>-</u>	<u>375,308</u>
Property and equipment, at cost			
Land and water rights	17,455,173	1,457,212	18,912,385
Infrastructure	33,074,887	-	33,074,887
Buildings	4,364,498	58,400	4,422,898
Improvements, other than buildings	5,599,273	17,474,670	23,073,943
Vehicles	871,084	210,100	1,081,184
Office furniture and equipment	1,121,883	187,984	1,309,867
Construction in progress	510,338	152,953	663,291
Accumulated depreciation	<u>(3,151,657)</u>	<u>(891,021)</u>	<u>(4,042,678)</u>
Net property and equipment	<u>59,845,479</u>	<u>18,650,298</u>	<u>78,495,777</u>
Other non-current assets			
Bond issue costs, less accumulated amortization of \$34,204	-	40,841	40,841
Water rights	-	2,628,831	2,628,831
Total other noncurrent assets	<u>-</u>	<u>2,669,672</u>	<u>2,669,672</u>
Total assets	<u>\$ 72,581,997</u>	<u>\$ 22,388,606</u>	<u>\$ 94,970,603</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Net Assets, Continued June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 987,940	\$ 112,082	\$ 1,100,022
Retainage payable			-
Current portion of long-term debt payable from restricted assets	140,000	2,451,000	2,591,000
Current portion of capital leases	158,106	45,530	201,636
Accrued liabilities	99,972	11,626	111,598
Deferred revenue	991,435	-	991,435
Accrued interest, payable from restricted assets	22,886	40,789	63,675
Total current liabilities	<u>2,398,339</u>	<u>2,661,027</u>	<u>5,059,366</u>
NONCURRENT LIABILITIES			
Long-term compensation liability	7,664	24,136	31,800
Bonds payable from restricted sources	2,958,000	3,732,022	6,690,022
Capital leases	203,483	81,979	285,462
Construction bonds	494,676	-	494,676
Total noncurrent liabilities	<u>3,663,823</u>	<u>3,838,137</u>	<u>7,501,960</u>
Total liabilities	<u>6,062,162</u>	<u>6,499,164</u>	<u>12,561,326</u>
NET ASSETS			
Investment in capital assets, net of related debt	56,387,891	12,328,142	68,716,033
Restricted for:			
Capital projects	7,154,308	-	7,154,308
Other restricted	355,690	-	355,690
Unrestricted	2,621,946	3,561,300	6,183,246
Total net assets	<u>66,519,835</u>	<u>15,889,442</u>	<u>82,409,277</u>
Total liabilities and net assets	<u>\$ 72,581,997</u>	<u>\$ 22,388,606</u>	<u>\$ 94,970,603</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Activities
Year Ended June 30, 2005

Functions and Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Government Activities	Business-Type Activities	
PRIMARY GOVERNMENT							
Government activities							
General government	\$ 1,391,809	\$ 5,998,704	\$ 18,500	\$ -	\$ 4,625,395	\$ -	\$ 4,625,395
Facilities	111,900	7,044	-	-	(104,856)	-	(104,856)
Information technology	162,772	837	-	-	(161,935)	-	(161,935)
Highway and streets	1,687,123	1,591,067	286,133	10,000,198	10,190,275	-	10,190,275
Storm Drain	294,797	-	-	-	(294,797)	-	(294,797)
Cemetery	43,615	16,184	-	-	(27,431)	-	(27,431)
Public safety	991,646	55,887	1,898	-	(933,853)	-	(933,853)
Parks	1,584,284	199,566	-	170,020	(1,214,708)	-	(1,214,708)
Non-departmental	848,035	72,430	-	-	(775,605)	-	(775,605)
Community development	1,036,327	39,800	-	-	(996,527)	-	(996,527)
Interest on long-term debt	171,077	-	-	-	(171,077)	-	(171,077)
Total government activities	8,323,395	7,981,529	306,529	10,170,218	10,134,881	-	10,134,881
Business-type activities							
Water and sewer	2,095,781	1,425,026	-	2,507,644	-	1,836,889	1,836,889
Total business-type activities	2,095,781	1,425,026	-	2,507,644	-	1,836,889	1,836,889
Total primary government	\$ 10,419,176	\$ 9,406,555	\$ 306,529	\$ 12,677,862	10,134,881	1,836,889	11,971,770
General revenues							
Taxes							
Property taxes, levied for general purposes					949,821	-	949,821
Franchise taxes					14,305	-	14,305
Sales taxes					541,262	-	541,262
Impact fees					7,241,742	-	7,241,742
Sale of assets					487,125	-	487,125
Other revenues					73,603	-	73,603
Transfers					(2,806,128)	2,806,128	-
Investment earnings					229,987	973	230,960
Total general revenues, special items, and transfers					6,741,717	2,807,101	9,548,818
Changes in net assets					16,876,598	4,643,990	21,520,588
Net assets, July 1, 2004					49,643,237	11,245,452	60,888,689
Net assets, June 30, 2005					\$ 66,519,835	\$ 15,889,442	\$ 82,409,277

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Balance Sheet Governmental Funds June 30, 2005

ASSETS

	General	Special Revenue Parks	Special Revenue Flood Control	Special Revenue Roads	Special Revenue Water Rights	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,420,534	\$ -	\$ -	\$ -	\$ -	\$ 1,165,027	\$ 3,585,561
Receivables	1,355,232	-	-	-	-	-	1,355,232
Property, franchise, and excise tax							
Other receivables, less allowance for doubtful loans of \$0	28,124	-	-	-	-	-	28,124
Restricted assets							
Cash and cash equivalents	-	144,674	2,936,028	1,518,639	1,402,418	1,765,843	7,767,602
Total assets	<u>\$ 3,803,890</u>	<u>\$ 144,674</u>	<u>\$ 2,936,028</u>	<u>\$ 1,518,639</u>	<u>\$ 1,402,418</u>	<u>\$ 2,930,870</u>	<u>\$ 12,736,519</u>

LIABILITIES AND FUND BALANCES

	General	Special Revenue Parks	Special Revenue Flood Control	Special Revenue Roads	Special Revenue Water Rights	Other Governmental Funds	Total Governmental Funds
LIABILITIES							
Accounts payable	\$ 491,467	\$ 141,708	\$ 15,407	\$ -	\$ 252,275	\$ 87,083	\$ 987,940
Accrued liabilities	99,972	-	-	-	-	-	99,972
Construction bonds	494,676	-	-	-	-	-	494,676
Deferred revenue	991,435	-	-	-	-	-	991,435
Total liabilities	<u>2,077,550</u>	<u>141,708</u>	<u>15,407</u>	<u>-</u>	<u>252,275</u>	<u>87,083</u>	<u>2,574,023</u>
FUND BALANCES							
Unreserved	1,726,340	-	-	-	-	1,178,433	2,904,773
Reserved for:							
Bond sinking funds	-	-	-	-	-	355,690	355,690
Other purposes	-	2,966	2,920,621	1,518,639	1,150,143	1,309,664	6,902,033
Total fund balances	<u>1,726,340</u>	<u>2,966</u>	<u>2,920,621</u>	<u>1,518,639</u>	<u>1,150,143</u>	<u>2,843,787</u>	<u>10,162,496</u>
Total liabilities and fund balances	<u>\$ 3,803,890</u>	<u>\$ 144,674</u>	<u>\$ 2,936,028</u>	<u>\$ 1,518,639</u>	<u>\$ 1,402,418</u>	<u>\$ 2,930,870</u>	<u>\$ 12,736,519</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets June 30, 2005

Total Fund Balance		\$ 10,162,496
Total net assets 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. Those assets consist of:		
Land	\$ 17,455,173	
Infrastructure	33,074,887	
Buildings	4,364,498	
Improvements, other than buildings	5,599,273	
Office equipment	871,084	
Construction in progress	1,121,883	
Vehicles	510,338	
Less accumulated depreciation	<u>(3,151,657)</u>	
Total capital assets		59,845,479
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather as an expenditure when due. All liabilities, both current and long-term are reported in the statements of net assets.		
Accrued liabilities:		
Obligation for compensation liabilities due after one year	(7,664)	
Accrued interest on bonds	(22,886)	
Bonds payable	(3,098,000)	
Capital leases	<u>(359,590)</u>	
Total liabilities		<u>(3,488,140)</u>
Total net assets of governmental activities		<u>\$ 66,519,835</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2005

	General	Special Revenue Parks	Special Revenue Flood Control	Special Revenue Roads	Special Revenue Water Rights	Other Governmental Funds	Totals
REVENUES							
General property taxes	\$ 949,821	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 949,821
Sales, use, and excise taxes	541,262	-	-	-	-	-	541,262
Franchise taxes	14,305	-	-	-	-	-	14,305
Licenses	24,149	-	-	-	-	-	24,149
Permits	6,162,473	-	-	-	-	-	6,162,473
Interest	190,492	3,226	18,925	265	4,115	12,965	229,988
Intergovernmental	288,029	-	-	-	-	-	288,029
Fines	55,896	-	-	-	-	-	55,896
Impact fees	-	1,135,234	1,401,229	2,173,064	1,777,081	2,156,364	8,642,972
Charges for services	232,913	-	-	-	-	-	232,913
Contributions	2,800	21,758	-	-	-	72,431	96,987
Grants	18,500	-	-	-	-	-	18,500
Sale of assets	497,125	-	-	-	-	-	497,125
Miscellaneous	81,485	-	-	-	-	-	81,485
Total revenues	9,056,250	1,160,218	1,420,154	2,173,329	1,781,196	2,241,780	17,835,905
EXPENDITURES							
Current							
Administration	856,636	-	-	-	-	-	856,636
Facilities	512,251	-	-	-	-	-	512,251
Information technology	169,573	-	-	-	-	-	169,573
Highway and streets	801,223	-	-	-	-	-	801,223
Street lights	227,487	-	-	-	-	-	227,487
Storm drain maintenance	484,828	-	-	-	-	-	484,828
Street signs	72,237	-	-	-	-	-	72,237
Cemetery	262,038	-	-	-	-	-	262,038
Public safety	991,930	-	-	-	-	-	991,930
Parks and recreations	1,304,221	-	-	-	-	-	1,304,221
Community affairs	156,331	-	-	-	-	-	156,331
Engineering	625,888	-	-	-	-	-	625,888
Fleet management	43,562	-	-	-	-	-	43,562
Community development	963,337	-	-	-	-	-	963,337
Capital outlay	-	1,430,996	263,339	1,063,504	1,425,111	1,861,974	6,044,924
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	133,000	133,000
Interest and other fiscal charges	-	-	-	-	-	149,568	149,568
Total expenditures	7,371,520	1,430,996	263,339	1,063,504	1,425,111	2,144,542	13,699,012
Revenues over (under) expenditures	1,687,730	(270,780)	1,156,815	1,109,825	356,085	97,218	4,136,893
OTHER FINANCING SOURCES (USES)							
Lease proceeds	431,698	-	-	-	-	-	431,698
Operating transfers in	-	272,922	-	-	-	1,148,616	1,421,537
Operating transfers out	(1,743,712)	(181,700)	-	-	-	(315,073)	(2,240,485)
Total other financing	(1,312,014)	91,222	-	-	-	833,542	(387,250)
Revenue and other sources over (under) expenditures and other uses	375,716	(179,558)	1,156,815	1,109,825	356,085	930,760	3,749,643
FUND BALANCE, JULY 1, 2004	1,390,624	182,524	1,763,806	408,814	794,058	1,913,027	6,412,853
FUND BALANCE, JUNE 30, 2005	\$ 1,726,340	\$ 2,966	\$ 2,920,621	\$ 1,518,639	\$ 1,150,143	\$ 2,843,787	\$ 10,162,496

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Reconciliation of the Statements of Revenues, Expenditures, and Changes in Funds Balances - Governmental Funds to the Statement of Activities For the Year Ended June 30, 2005

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 3,749,643
The change in net assets reported for governmental activities in the statement of activities is different because:		
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 outlay (\$4,737,330) is more than depreciation expense (\$1,684,696).		
		3,052,634
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		340,874
Loan and lease proceeds are recorded as income in the fund statement and as a liability in the government wide statement.		(431,696)
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. This adjustment is as follows:		
Compensated absences	\$ (6,352)	
Accrued interest	<u>1,277</u>	
		(5,075)
Contributions from the developer from assets contributed to the City are financial resources not reported as revenues in the funds.		<u>10,170,218</u>
Change in net assets of governmental activities		<u>\$ 16,876,598</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Net Assets Proprietary Funds June 30, 2005

	<u>Business-type Activities Water/Sewer</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	
Restricted	\$ -
Unrestricted	1,009,876
Receivables	
Accounts, less allowance for doubtful accounts of \$0	58,780
Total current assets	<u>1,068,636</u>
NONCURRENT ASSETS	
Restricted cash and cash equivalents	-
Property and equipment, at cost	
Land and easements	1,457,212
Buildings	58,400
Vehicles	210,100
Improvements, other than buildings	17,474,670
Office furniture and equipment	187,984
Work in process	152,953
Accumulated depreciation	(891,021)
Net property and equipment	<u>18,650,298</u>
Bond issue costs, less accumulated amortization of \$11,899	40,841
Water rights	2,628,831
Total noncurrent assets	<u>2,669,672</u>
Total assets	<u>\$ 22,388,606</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 112,082
Current portion of long-term debt payable from restricted assets	2,451,000
Current portion of capital leases	45,530
Accrued liabilities	11,626
Accrued interest	40,789
Total current liabilities	<u>2,661,027</u>
NONCURRENT LIABILITIES	
Long-term compensation liability	24,136
Capital leases	81,979
Bonds payable from restricted assets	3,732,022
Total noncurrent liabilities	<u>3,838,137</u>
Total liabilities	<u>6,499,164</u>
<u>NET ASSETS</u>	
Investment in capital assets, net of related debt	12,328,142
Restricted for:	
Capital projects	-
Debt service	-
Unrestricted	3,561,300
Total net assets	<u>15,889,442</u>
Total liabilities and net assets	<u>\$ 22,388,606</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds Year Ended June 30, 2005

	Business-type Activities Water/Sewer
OPERATING REVENUE	
Sales and charges for services	\$ 1,425,024
Total operating revenue	<u>1,425,024</u>
OPERATING EXPENSES	
Personal services	342,345
Supplies	616,581
Water purchases	309,442
Utilities	83,628
Depreciation and amortization	560,201
Total expenses	<u>1,912,197</u>
Operating income (loss)	<u>(487,173)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	973
Interest expense	(183,584)
Total nonoperating revenues (expenses)	<u>(182,611)</u>
CAPITAL CONTRIBUTIONS	
Grants and other contributions	4,494,826
Transfers	818,948
Total capital contributions	<u>5,313,774</u>
Increase in net assets	4,643,990
NET ASSETS, JULY 1, 2004	<u>11,245,452</u>
NET ASSETS, JUNE 30, 2005	<u>\$ 15,889,442</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

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

	Business- Activities Water/Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,477,489
Payments to suppliers	(1,158,548)
Payments to employees	(316,106)
Net cash provided by operating activities	<u>2,835</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond proceeds	-
Purchase of capital assets	(184,878)
Principal paid on bonds and leases	(301,082)
Capital transfers from other funds	818,948
Interest paid on bonds and leases	(168,119)
Net cash used in capital and related financing activities	<u>164,869</u>
Cash flows from investing activities	
Investment earnings	<u>973</u>
Net cash used in investing activities	<u>973</u>
Net increase in cash and cash equivalents	168,677
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>841,199</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,009,876</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (487,173)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	560,201
Increase (decrease) due to changes in:	
Accounts receivable	52,465
Accounts payable	(148,901)
Accrued liabilities affecting operating activities	26,243
Other liabilities	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 2,835</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Notes to the Financial Statements June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

Herriman City was incorporated May 17, 1999. The City operates under a mayor-council form of government and provides the following services authorized by its charter: facilities, information technology, public safety, highways and streets, public improvements, parks, recreation, planning and zoning, water, and general administrative.

Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds, agencies, and authorities for which the City holds corporate powers and all component units for which the City is financially accountable. The Governmental Accounting Standards Board (GASB) in its Statement No. 14, *The Financial Reporting Entity*, has established criteria to consider in determining financial accountability. The criteria are: appointment of a majority of the voting members of an organization's governing board, and either (1) the City has the ability to impose its will on the organization or (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

As required by Generally Accepted Accounting Principles (GAAP) these financial statements represent Herriman City, the primary government, and its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

The Herriman Municipal Building Authority is a legally separate entity from the City, but is part of the City, and is blended into the general fund. The sole purpose of the Municipal Building Authority is to serve the City as a financing agency for debt financed projects. The Herriman City Council serves as the Board of Directors of the Municipal Building authority.

Basis of Presentation – Government-Wide and Fund Financial Statements

Government-wide statements are comprised of the statement of net assets and the statement of activities. They contain information on all of the activities of the primary government and its component. Most effects of inter-fund activities have been eliminated from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues, while business-type activities receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenses. Direct expenses are those that can clearly be associated with a particular activity or program. Program revenues are: (1) charges to customers or others who purchase, use, or directly benefit from the services or goods provided by a given activity, or (2) grants or other contributions that are restricted to operations or capital needs of a specific activity. General revenues are those revenues like taxes and other items that are not properly reported as program revenues. Indirect expense allocated between departments is related to depreciation on assets. The depreciation expense is allocated based on the use of the asset by the departments.

Separate financial statements are included for governmental fund and proprietary funds. Major individual governmental funds are reported in separate columns in the governmental funds statements as are major individual proprietary funds in the proprietary funds statements.

Measurement Focus and Basis of Accounting

Measurement focus refers to the types of assets that appear on the statement of net assets and changes to those same assets that appear on the statement of activities. The flow of financial resources measurement focus shows current assets and liabilities on the statement of net assets, and changes to net current assets, in the statement of activities. The flow of economic resources measurement focus shows total assets and liabilities on the statement of net assets, and changes to net assets on the statement of activities. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Government-Wide and Proprietary Fund Statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of the timing of the related cash flows. Unbilled fees for proprietary funds are recorded as receivables at year end. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar other contributions are recognized as revenue as soon as the eligibility requirements of the provider have been met.

Herriman City's major enterprise fund is the water fund. The fund collects fresh water from springs and wells, treats it, and delivers potable water to nearly all residents and businesses located in the City.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are fees charged to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses, and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

Governmental Fund Statements use the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. "Available" means that amounts are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. As a practical matter, Herriman City uses 60 days as a cutoff for meeting the available criterion. Property taxes are considered "measurable" when levied and "available" when collected and held by the County. Any amounts not available are recorded as deferred revenue. Franchise taxes are considered "measurable" when collected and held by the utility company, and are recognized as revenue at that time. Other revenues that are determined to be susceptible to accrual include grants earned and other intergovernmental revenues, charges for services, and assessments. Property taxes and assessments are recorded as receivables when levied or assessed. However, they are reported as deferred revenue until the "available" criterion has been met. Sales and use taxes collected by the state and remitted to the City within the "available" time period are recognized as revenue. Revenues collected in advance are deferred and recognized in the period to which they apply.

Revenues that are determined to not be susceptible to accrual, because they are either not available soon enough to pay liabilities of the current period (60 days) or are not objectively measurable, include licenses, permits, and miscellaneous revenues. Revenue is recognized when cash is received.

Expenditures are recognized in the accounting period in which the fund liability is incurred, except for long-term obligations (debt service payments and long term compensated absences) and related interest which are recognized as expenditures when due. Inventories of supplies are expended when purchased.

Herriman City has five major governmental funds: (1) the general fund, (2) the parks special revenue fund, (3) the flood control special revenue fund, (4) the road special revenue fund, and (5) the water rights special revenue fund. The general fund is the main operating fund. It accounts for all financial resources of the general government except for those required to be accounted for in another fund. The special revenue funds account for impact fee revenue and the construction of projects financed with impact fees. These constructed or improved capital assets are for the benefit of any or all governmental funds. In addition to the listed major governmental funds, the City also has a total of four non-major governmental funds: (1) water impact special revenue fund - impact fees, (2) the street lights special revenue fund, (3) the capital improvements fund, and (4) the debt service fund.

Budgets and Budgetary Accounting

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 15 for the fiscal year commencing the following July 1, in accordance with Utah State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 15 a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Expenditures cannot exceed appropriations at the department level. Management can move budgeted amounts from one line item to another within a department or decrease appropriations. The City Council can increase appropriations after holding a public hearing.

The governmental funds budget is prepared using the modified accrual basis of accounting. Governmental appropriations lapse at year-end.

Cash, Cash Equivalents, and Investments

The City complies with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement requires certain investments to be reported at fair value and the change in fair value to be included in revenues or expenses. The City's policy is to report all investments at value and the change in fair value to be included in revenues or expenses. The City's investment in the State Treasurer's Pool has a fair value equivalent to the value of the pool shares. This pool is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. In all statements the City considers all highly liquid investments, (including restricted assets) that mature within ninety days or less when purchased, to be cash equivalents.

Depreciable Fixed Assets

Fixed assets are valued at historical cost or estimated historical cost for assets where actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The City has a capitalization threshold of \$2,000 for infrastructure in the public right of way and \$500 for all other assets. The City follows GAAP by capitalizing a portion of its interest costs (net of any interest earned on related interest bearing investments acquired with proceeds of related tax-exempt borrowings) as a cost of constructed property and equipment in enterprise funds. Depreciation of fixed assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Improvements, other than buildings	10-30
Machinery and equipment, including leased property under capital leases	5-15
Infrastructure in public way, including roads, signals, lights, and bridges	15-30
Water and sewer lines	30
Vehicles	5

Bond Insurance Costs and Amortization

Amortization of bond issue costs and bond discount are computed on the straight-line method over the life of the related bonds.

Property Taxes

Ad valorem (based on value) property taxes constitute a major source of general fund revenue. Taxes are levied through the passage of an ordinance in June of each year. The levy is applicable to only one year. All taxable property is required to be assessed and taxed at a uniform and equal rate on the basis of its fair market value. The County Assessor is required to assess all other taxable property and both entities are required to assess the respective types of property as of January 1, the assessment date. The County is then required to complete the tax rolls by May 15. By July 21 the County Treasurer is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. Approved changes in assessed value are made by the County Auditor by November 1, and on this same date, the Auditor is to deliver the completed assessment rolls to the County Treasurer. Tax notices are mailed with a due date of November 30 with delinquent taxes being subject to a penalty. Unless the delinquent taxes and penalties are paid before January 15 a lien is attached to the property and the amount of taxes and penalties bear interest from

January 1 until paid. If after five years, delinquent taxes have not been paid, the County sells the property at a tax sale. Tax collections are remitted to the City from the County on a monthly basis. With the July 1, 2000, adoption of Statement of Governmental Accounting Standards (SGAS) No. 33, more fully described below, Herriman City changed its accounting for property taxes.

SGAS No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), Herriman City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005. Since the government-wide statements use the accrual basis of accounting, the government activities records both the receivable and the property tax revenue as deferred income of January 1, 2005, even though most of them will not be received until the following fiscal year.

Inter-fund Transactions

In the normal course of its operations, the City has various transactions between funds. Transfers are recognized as operating transfers in and out, respectively, by the funds receiving and providing the transfer.

Long-term Liabilities

Long-term liabilities that will be financed from governmental funds are accounted for in the governmental activities portion of the government-wide statements, while those of proprietary funds are accounted for in their respective funds.

Use of Restricted Funds

The City has funds with various restrictions. When an expense is incurred which meets the requirements to release the restriction, such restricted funds are first used to satisfy the expense followed by any unrestricted funds needed to satisfy the expense.

Contributions

Certain proprietary fund types receive contribution for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue. With the adoption of GASB No. 34, amounts that were contributed in prior years, and were shown as contributed capital, have been reclassified to part of beginning net assets.

Compensated Absences

The City compensates employees for unused vacation and compensation time. Sick pay is not paid to employees upon termination. Accumulated unpaid amounts are accrued when incurred in the government wide funds. The proprietary fund includes accrued vacation pay in their financial statements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the general and capital projects funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimated amounts for contributed assets from sub-developers are considered a significant estimate and are subject to change, and the change could be material.

2. COST SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLAN

Herriman City contributes to the Local Governmental Contributory Retirement Systems and the Local Governmental Noncontributory Retirement Systems administered by the Utah Retirement 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 System is established and governed by the respective section 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 whose members are appointed by the Governor. The Systems issues a publicly available financial report that includes financial statements and required supplementary information from the Local Governmental Contributory Retirement Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102, or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Herriman City is required to contribute 9.62% of the annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Herriman City's contributions to the Local Governmental Contributory and Noncontributory Retirement Systems for the years ended June 30, 2005, 2004, and 2003, were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Noncontributory employer contributions			
Salary	\$ 1,133,458	\$ 673,836	\$ 205,182
Employer contributions	125,701	64,806	17,830
401(k) Plan			
Employee contributions	35,194	10,763	5,140
Employer contributions	33,689	6,779	-
457 Plan			
Employee contributions	7,906	3,329	-
Employer contributions	4,561	1,559	-

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

3. CAPITAL ASSETS

The following schedule summarizes the changes in capital assets for governmental and business type activities during the year ended June 30, 2005.

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Nondepreciated assets	\$ 13,947,573	\$ 3,049,300	\$ 458,300	\$ 17,455,173
Total nondepreciated assets	<u>13,947,573</u>	<u>3,049,300</u>	<u>458,300</u>	<u>17,455,173</u>
Depreciated assets				
Buildings	1,882,647	2,481,851	-	4,364,498
Improvements	1,963,229	3,636,044	-	5,599,273
Equipment	808,525	321,017	(7,659)	1,121,883
Infrastructure	23,420,458	9,654,429	-	33,074,887
Vehicles	377,478	546,966	(53,360)	871,084
Work in process	5,757,099	-	(5,246,761)	510,338
Total depreciated assets	<u>34,209,436</u>	<u>16,640,307</u>	<u>(5,307,780)</u>	<u>45,541,963</u>
Less accumulated depreciation	<u>(1,489,412)</u>	<u>(1,684,696)</u>	<u>22,451</u>	<u>(3,151,657)</u>
Net assets depreciated	<u>32,720,024</u>	<u>14,955,611</u>	<u>(5,285,329)</u>	<u>42,390,306</u>
Total governmental activities	<u>46,667,597</u>	<u>18,004,911</u>	<u>(4,827,029)</u>	<u>59,845,479</u>
BUSINESS-TYPE ACTIVITIES				
Nondepreciated assets				
Land	1,457,212	-	-	1,457,212
Total nondepreciated assets	<u>1,457,212</u>	<u>-</u>	<u>-</u>	<u>1,457,212</u>
Depreciated assets				
Vehicles	86,808	123,292	-	210,100
Buildings	-	58,400	-	58,400
Improvements	8,988,612	8,486,058	-	17,474,670
Equipment	78,091	109,893	-	187,984
Work in process	5,619,528	-	(5,466,575)	152,953
Total depreciated assets	<u>14,773,039</u>	<u>8,777,643</u>	<u>(5,466,575)</u>	<u>18,084,107</u>
Less accumulated depreciation	<u>(330,820)</u>	<u>(560,201)</u>	<u>-</u>	<u>(891,021)</u>
Net assets depreciated	<u>14,442,219</u>	<u>8,217,442</u>	<u>(5,466,575)</u>	<u>17,193,086</u>
Total business-type assets	<u>15,899,431</u>	<u>8,217,442</u>	<u>(5,466,575)</u>	<u>18,650,298</u>
Total combined assets	<u>\$ 62,567,028</u>	<u>\$ 26,222,353</u>	<u>\$ (10,293,604)</u>	<u>\$ 78,495,777</u>

	<u>Governmental Types</u>	<u>Business Types</u>	<u>Totals</u>
DEPRECIATION EXPENSE			
FUNCTION			
General government	\$ 139,271	\$ -	\$ 139,271
Highway and streets	869,562	-	869,562
Cemetery	11,634	-	11,634
Parks	447,234	-	447,234
Public safety	12,802	-	12,802
Water	-	560,201	560,201
Flood control	204,193	-	204,193
Totals	<u>\$ 1,684,696</u>	<u>\$ 560,201</u>	<u>\$ 2,244,897</u>

4. INTERFUND TRANSFERS

Interfund transfers are outlined as follows:

<u>Funds</u>	<u>In</u>	<u>Out</u>
General fund	\$ -	\$ 1,743,712
Parks special revenue fund	272,922	181,700
Water impact fee special revenue fund	-	315,073
Street light special revenue fund	325,000	-
Debt service fund	685,523	-
Capital projects fund	138,092	-
Utility fund	818,948	-
	<u>\$ 2,240,485</u>	<u>\$ 2,240,485</u>

The purpose of the transfers from the general fund was to fund capital projects. The parks special revenue fund transferred funds to the debt service fund for payment of debt. The water impact special revenue fund transferred to the water fund for water capital improvements.

5. RELATED PARTY TRANSACTIONS

The mayor serves on the board of the South Valley Sewer District. The City paid the district for a sewer hook-up for \$1,653. There are no amounts due to or from this entity at year end.

6. LONG TERM DEBT

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

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/05</u>	<u>Due Within One Year</u>
<u>BONDS PAYABLE</u>					
GOVERNMENTAL ACTIVITIES					
\$2,000,000 original issue building authority bonds, series 2002. Due in annual installments at a rate of 6.5%. The bonds mature in 2024 and are secured by a building.	\$ 1,950,000	\$ -	\$ 54,000	\$ 1,896,000	\$ 57,000
\$1,508,000 original issue building authority bond series 2001. Interest is at 4.5%. The bonds mature in 2016 and are secured by a building.	1,281,000	-	79,000	1,202,000	83,000
Total governmental long-term debt	<u>3,231,000</u>	<u>-</u>	<u>133,000</u>	<u>3,098,000</u>	<u>140,000</u>
BUSINESS-TYPE ACTIVITIES					
Water revenue bonds original issue was \$2,239,000 with an interest rate of 3.2%. The bonds mature in 2006 and are secured by water revenues.	2,239,000	-	-	2,239,000	2,239,000
Series 2003 water revenue bonds original issue was \$3,600,000 with interest at 1.9%. The bonds are secured by water revenues and mature in 2024.	3,600,000	-	150,000	3,450,000	153,000
Series Herriman pipeline bonds original issue was \$637,000 with interest at 0%. The bonds are secured by water revenues and will be refinanced in 2005	588,810	-	94,788	494,022	59,000
Total business-type long-term debt	<u>6,427,810</u>	<u>-</u>	<u>244,788</u>	<u>6,183,022</u>	<u>2,451,000</u>
Total bonds payable	<u>\$ 9,658,810</u>	<u>\$ -</u>	<u>\$ 377,788</u>	<u>\$ 9,281,022</u>	<u>\$ 2,591,000</u>
<u>OTHER LONG-TERM DEBT</u>					
GOVERNMENTAL					
Accrued annual leave	\$ 14,016	\$ -	\$ 6,352	\$ 7,664	\$ -
Capital leases	170,588	431,698	242,447	359,839	158,106
BUSINESS					
Accrued annual leave	-	24,136	-	24,136	-
Capital leases	134,430	44,638	51,559	127,509	45,530

The annual debt requirement to maturity, including principal and interest as of June 30, 2005, are listed in the following table:

Year Ending 30-Jun	Government Activities		Business Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 140,000	\$ 191,187	\$ 2,451,000	\$ 134,699	\$ 2,591,000	\$ 325,886
2007	149,000	183,065	220,000	61,324	369,000	244,389
2008	157,000	174,327	229,000	58,422	386,000	232,749
2009	167,000	165,017	233,000	55,465	400,000	220,482
2010	176,000	155,054	238,000	52,452	414,000	207,506
2011-2015	1,054,000	604,850	1,028,021	215,109	2,082,021	819,759
2016-2021	768,000	304,494	954,000	130,074	1,722,000	434,568
2022-2025	487,000	67,162	830,000	38,949	1,317,000	106,111
2026-2029	-	-	-	-	-	-
2030-2034	-	-	-	-	-	-
Totals	<u>\$ 3,098,000</u>	<u>\$ 1,844,956</u>	<u>\$ 6,183,021</u>	<u>\$ 746,494</u>	<u>\$ 9,281,021</u>	<u>\$ 2,591,450</u>

7. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City's funds. Cash and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Statement of net assets:
Cash and cash equivalents \$12,363,038

Cash investments and cash equivalents as of June 30, 2005, consist of the following:

Cash on hand	\$ 130
Deposits with financial institutions	850,745
Investments, state treasure	<u>11,512,163</u>
Total cash and cash equivalents	<u>\$ 12,363,038</u>

Investments Authorized by the Utah Government Code

The City follows the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution in whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

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

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements, or invested in securities representing direct obligations of, or obligations guaranteed by, the United States government, agencies of the United States government, any state within the territorial United States of America, or repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the money Management Act. The act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF, and details the type of authorized investments it makes.

Deposits in the PITF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in any realized gains or losses on investments.

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

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1, Less Than 10 Years</u>	<u>More Than 10 Years</u>
State of Utah Public Treasurer investment fund	\$ 11,512,163	\$ 11,512,163	\$ -	\$ -
Total Investments	\$ 11,512,163	\$ 11,512,163	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that occurs when changes in interest rates will adversely affect the fair value of an investment. The City policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. In accordance with that act, the remaining term to maturity of the investments above do not exceed the period of availability of these funds.

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 its exposure to credit risk is to comply with the State's Money Management Act. As of June 30, 2005, the Utah Public Treasurer's investment fund was unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial Credit Risk Deposits

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy of custodial credit risk. As of June 30, 2005, \$1,023,427 of the \$1,125,003 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer Investment Fund has no custodial credit risk.

8. RESERVED FUND BALANCES

The City records reserves to indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amounts of all reserves used by the City:

Description	Government Activities	Business Activities	Total
Special revenue, street lights	\$ 215,241	\$ -	\$ 215,241
Special revenue, park impact fee	2,966	-	2,966
Special revenue, water rights	1,402,418	-	1,402,418
Special revenue, water impact fees	1,094,423	-	1,094,423
Special revenue, flood control	2,920,621	-	2,920,621
Special revenue, road impact fees	1,518,639	-	1,518,639
Bond reserve funds	355,690	-	355,690
	<u>\$ 7,509,998</u>	<u>\$ -</u>	<u>\$ 7,509,998</u>

9. INTEREST EXPENSE

The proprietary fund incurred \$183,584 in interest expense of which \$183,584 was charged to expense and \$0 was capitalized.

10. RESTRICTED CASH

The City has restricted cash of \$7,392,431 for impact fees and the debt service fund has \$375,307 for bond reserve funds.

11. COMMITMENTS AND SUBSEQUENT EVENTS

The City has a legal action involving the shareholders in a nonprofit water corporation. The case was dismissed in district court after the year end June 30, 2004. It has been appealed to the Utah Supreme Court and arguments were presented in October 2005. The city is waiting for the decision of the court.

The City has several subdivision projects that are in process at year end. The City has experienced rapid growth over the last few years with several subdivisions planned after year end.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, property damage, errors, omissions, injuries, and natural disasters. The City has purchased comprehensive general liability insurance and pays premiums for general insurance coverage, automobile liability, and personal injury protection.

13. TOTAL COLUMNS

Total columns on the governmental fund statements are captioned "Total" and are presented to facilitate financial analysis. Data in these columns does not represent consolidated information since interfund eliminations have not been made.

14. COMPLIANCE

The City has overspent the flood control, roads, special revenue fund, park special revenue fund, water rights special revenue fund, and the street lights special revenue fund. The general fund balance is over the legal limit.

15. INTERLOCAL AGREEMENTS AND SERVICE DISTRICTS

The City participates in the following services agreements:

- South Jordan Special Service District
- Salt Lake County Fire and Emergency Services
- Salt Lake County Law Enforcement Contract
- Salt Lake County Animal Control
- Salt Lake County Public Works
- Jordan Valley Water Conservatory District

The City does not have total or final control over the fiscal or administrative activities of these entities. Payments for services to these entities are included as expenditures of the City's general fund.

16. NON-CASH TRANSACTIONS ENTERPRISE FUND

The City obtained assets from developers who built subdivisions in the City and conveyed the property to the City. The amount of contribution was \$2,507,644 and the City special revenue impact fees contributed assets to the fund for \$1,987,182. The City obtained assets from capital leases in the amount of \$44,638.

17. OBLIGATION UNDER CAPITAL LEASE

The city acquired certain enterprise assets financed with capital leases. The leased assets and related capital lease obligations are accounted for in the Enterprise Fund. The lease agreements contain fiscal funds in clauses which allow cancellation of leases if future funds for the leases are not budgeted by the City Council.

Capital lease for equipment during the year ended June 30, 2005, was \$315,186. The City has an option of paying off the lease before the lease expires.

The following is a schedule of yearly future lease payments for the capital lease together with the present rate of net minimum lease payments as of June 30, 2005.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
June 30, 2006	\$ 50,176
June 30, 2007	13,949
June 30, 2008	13,623
June 30, 2009	13,297
June 30, 2010	12,971
Thereafter	<u>37,352</u>
Totals	141,368
Less amounts representing interest	<u>(13,859)</u>
Present value	127,509
Less current portion	<u>(45,530)</u>
Long term	<u>\$ 81,979</u>

The depreciation expense from these assets was \$16,752 in 2005. The City has acquired certain general fixed assets financed with capital leases. The leased assets and related capital lease obligations are accounted for in the long-term debt group. These leases have fiscal funding in clauses which allow the cancellation of leases if future funds for the leases are not budgeted by the City Council.

Capital lease for equipment during the year ended June 30, 2005, was \$746,203. The City has an option of paying off the leases before the leases expire.

The following is a schedule of yearly future lease payments for the capital lease together with the present value of the net minimum lease payments as of June 30, 2005.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
June 30, 2006	\$ 173,530
June 30, 2007	89,793
June 30, 2008	66,258
June 30, 2009	66,258
June 30, 2010	-
Thereafter	-
Totals	<u>395,839</u>
Less amounts representing interest	<u>(36,251)</u>
Present value	359,588
Less current portion	<u>(156,105)</u>
Long term	<u>\$ 203,483</u>

18. FUND BALANCE ADJUSTMENT

The beginning fund balance was adjusted to \$766,025 for taxes recognized under GASB 33.

19. NEW ISSUED ACCOUNTING STANDARDS

The GASB has issued the following statements that will apply to government reporting in future years.

- GASB No. 44 Economic condition reporting
- GASB No. 45 Post employment obligations
- GASB No. 46 Net assets restricted by enabling legislation

None of these statements appear to have a material impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HERRIMAN CITY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2005

	Budgeted Amounts			Actual Amounts Budgetary Base	Favorable (Unfavorable) Variance with Final Budget
	Original	Changes	Final		
REVENUES					
General property taxes	\$ 815,675	\$ -	\$ 815,675	\$ 949,821	\$ 134,146
Sales, use, and excise taxes	360,000	-	360,000	541,262	181,262
Franchise taxes	-	-	-	14,305	14,305
Licenses	20,000	-	20,000	24,149	4,149
Permits	6,608,748	-	6,608,748	6,162,473	(446,275)
Interest	53,000	-	53,000	190,492	137,492
Intergovernmental	300,930	21,000	321,930	288,029	(33,901)
Fines	-	-	-	55,897	55,897
Charges for services	8,120	-	8,120	232,913	224,793
Contributions	-	-	-	2,800	2,800
Grants	21,000	(21,000)	-	18,500	18,500
Sale of assets	-	-	250,000	497,125	247,125
Miscellaneous	305,600	(246,400)	59,200	81,484	22,284
Total revenues	<u>8,493,073</u>	<u>(246,400)</u>	<u>8,496,673</u>	<u>9,059,250</u>	<u>562,577</u>
EXPENDITURES					
Administrative	1,269,100	(127,000)	1,142,100	856,636	285,464
Facilities	-	513,000	513,000	512,251	749
Information technology	-	170,500	170,500	169,573	927
Highways and streets	810,031	(8,500)	801,531	801,223	308
Street lights	249,200	120,000	369,200	227,467	141,733
Storm drain maintenance	349,770	136,000	485,770	484,826	944
Street Signs	89,400	-	89,400	72,237	17,163
Cemetery	251,640	11,000	262,640	262,038	602
Public safety	986,651	6,000	992,651	991,930	721
Parks and recreation	1,172,377	132,000	1,304,377	1,304,221	156
Community affairs	443,200	(286,200)	157,000	156,331	669
Engineering	-	526,200	526,200	525,888	312
Fleet management	-	44,500	44,500	43,562	938
Community development	2,072,610	(409,000)	1,663,610	963,337	700,273
Debt Service	509,872	(509,872)	-	-	-
Total expenditures	<u>8,203,851</u>	<u>828,500</u>	<u>8,522,479</u>	<u>7,371,520</u>	<u>1,150,959</u>
Excess of revenues over expenditures (usage of fund balance)	<u>289,222</u>	<u>(1,074,900)</u>	<u>(25,806)</u>	<u>1,687,730</u>	<u>1,713,536</u>
OTHER FINANCING SOURCES					
Transfers out	(415,500)	(1,008,761)	(1,424,261)	(1,743,712)	(319,451)
Transfers in	-	-	-	-	-
Lease proceeds	-	-	-	431,698	431,698
Total other financing sources	<u>(415,500)</u>	<u>(1,008,761)</u>	<u>(1,424,261)</u>	<u>(1,312,014)</u>	<u>112,247</u>
Net change in fund balance	(126,278)	(2,083,661)	(1,450,067)	375,716	1,825,783
FUND BALANCE, JULY 1, 2004	<u>1,350,624</u>		<u>1,350,624</u>	<u>1,350,624</u>	-
FUND BALANCE, JUNE 30, 2005	<u>\$ 1,224,346</u>	<u>\$ (2,083,661)</u>	<u>\$ (99,443)</u>	<u>\$ 1,726,340</u>	<u>\$ 1,825,783</u>

HERRIMAN CITY

Budgetary Comparison Schedule Flood Control Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Final		
REVENUES				
Impact fees	\$ 780,000	\$ 780,000	\$ 1,401,229	\$ 621,229
Interest	25,000	25,000	18,925	(6,075)
Total revenues	805,000	805,000	1,420,154	615,154
EXPENDITURES				
Capital outlay	1,665,000	1,665,000	263,339	1,401,661
Total expenditures	1,665,000	1,665,000	263,339	1,401,661
Excess revenues over expenditures	(860,000)	(860,000)	1,156,815	2,016,815
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Revenue and other sources over (under) expenditures and other uses	(860,000)	(860,000)	1,156,815	2,016,815
FUND BALANCE, JULY 1, 2004	1,763,806	1,763,806	1,763,806	-
FUND BALANCE, JUNE 30, 2005	\$ 903,806	\$ 903,806	\$ 2,920,621	\$ 2,016,815

HERRIMAN CITY

Budgetary Comparison Schedule Parks Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Final	Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes			
REVENUES					
Impact fees	\$ 1,037,400	\$ -	\$ 1,037,400	\$ 1,135,234	\$ 97,834
Interest	-	-	-	3,226	3,226
Contributions	-	-	-	21,757	21,757
Total revenues	<u>1,037,400</u>	<u>-</u>	<u>1,037,400</u>	<u>1,160,217</u>	<u>122,817</u>
EXPENDITURES					
Capital outlay	1,113,300	-	1,113,300	1,430,997	(317,697)
Total expenditures	<u>1,113,300</u>	<u>-</u>	<u>1,113,300</u>	<u>1,430,997</u>	<u>(317,697)</u>
Excess revenues over expenditures	(75,900)	-	(75,900)	(270,780)	(194,880)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	272,922	272,922
Transfers out	(181,700)	-	(181,700)	(181,700)	-
Revenue and other sources over (under) expenditures and other uses	(257,600)	-	(257,600)	(179,558)	78,042
FUND BALANCE, JULY 1, 2004	182,524	-	182,524	182,524	-
FUND BALANCE, JUNE 30, 2005	<u>\$ (75,076)</u>	<u>\$ -</u>	<u>\$ (75,076)</u>	<u>\$ 2,966</u>	<u>\$ 78,042</u>

HERRIMAN CITY

Budgetary Comparison Schedule Road Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget Changes		
REVENUES				
Interest	\$ 30,000	\$ -	\$ 30,000	\$ (29,735)
Impact fees	1,638,000	-	1,638,000	535,064
Total revenues	1,668,000	-	1,668,000	505,329
Expenditures				
Capital outlay	780,000	-	780,000	(283,504)
Total expenditures	780,000	-	780,000	(283,504)
Excess of revenues over expenditures	888,000	-	888,000	221,825
OTHER FINANCES SOURCES (USES)				
Transfers out	-	-	-	-
Net change in fund balance	888,000	-	888,000	221,825
FUND BALANCE, JULY 1, 2004	408,814		408,814	-
FUND BALANCE, JUNE 30, 2005	<u>\$ 1,296,814</u>	<u>\$ -</u>	<u>\$ 1,296,814</u>	<u>\$ 221,825</u>

HERRIMAN CITY

Budgetary Comparison Schedule Water Rights Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Final	Actual Amounts		Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes		Budgetary Basis		
REVENUES						
Impact fees	\$ 1,365,000	\$ -	\$ 1,365,000	\$ 1,777,081	\$ 412,081	
Interest	25,000	-	25,000	4,115	(20,885)	
Total revenues	<u>1,390,000</u>	<u>-</u>	<u>1,390,000</u>	<u>1,781,196</u>	<u>391,196</u>	
EXPENDITURES						
Capital outlay	1,265,000	-	1,265,000	1,425,111	(160,111)	
Total expenditures	<u>1,265,000</u>	<u>-</u>	<u>1,265,000</u>	<u>1,425,111</u>	<u>(160,111)</u>	
Excess revenues over expenditures	125,000	-	125,000	356,085	231,085	
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	-	-	-	
Revenue and other sources over (under) expenditures and other uses	125,000	-	125,000	356,085	231,085	
FUND BALANCE, JULY 1, 2004	794,098	-	794,058	794,058	-	
FUND BALANCE, JUNE 30, 2005	<u>\$ 919,098</u>	<u>\$ -</u>	<u>\$ 919,058</u>	<u>\$ 1,150,143</u>	<u>\$ 231,085</u>	

SUPPLEMENTARY INFORMATION

HERRIMAN CITY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Capital Improvements	Special Revenue Street Lights	Special Revenue Water Impact	Debt Service Fund	Totals
ASSETS					
Cash, unrestricted	\$ 219,235	\$ -	\$ -	\$ 945,792	\$ 1,165,027
Cash, restricted	-	215,916	1,174,757	375,170	1,765,843
Total assets	<u>219,235</u>	<u>215,916</u>	<u>1,174,757</u>	<u>1,320,962</u>	<u>2,930,870</u>
Liabilities					
Accounts payable	6,074	675	80,334	-	87,083
Fund balances					
Unrestricted	213,161	-	-	965,272	1,178,433
Restricted bond sinking fund	-	-	-	355,690	355,690
Restricted	-	215,241	1,094,423	-	1,309,664
Total fund balance	<u>213,161</u>	<u>215,241</u>	<u>1,094,423</u>	<u>1,320,962</u>	<u>2,843,787</u>
Total liabilities and fund balance	\$ 219,235	\$ 215,916	\$ 1,174,757	\$ 1,320,962	\$ 2,930,870

HERRIMAN CITY

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

	Capital Improvements	Special Revenue Street Lights	Special Revenue Water Impact Fees	Debt Service Fund	Totals
REVENUES					
Impact fees	\$ -	\$ 546,300	\$ 1,610,062	\$ -	\$ 2,156,362
Interest	-	-	4,712	8,252	12,964
Contributions	72,430	-	-	-	72,430
Total revenues	<u>72,430</u>	<u>546,300</u>	<u>1,614,774</u>	<u>8,252</u>	<u>2,241,756</u>
EXPENDITURES					
Capital outlay	-	656,059	1,205,911	-	1,861,970
Debt service	-	-	-	-	-
Principal	-	-	-	133,000	133,000
Interest	-	-	-	149,568	149,568
Total expenditures	-	<u>656,059</u>	<u>1,205,911</u>	<u>282,568</u>	<u>2,144,538</u>
Revenues over (under) expenditures	<u>72,430</u>	<u>(109,759)</u>	<u>408,863</u>	<u>(274,316)</u>	<u>97,218</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	138,092	325,000	-	685,523	1,148,615
Operating transfers out	-	-	(315,073)	-	(315,073)
Total other financing sources (uses)	<u>138,092</u>	<u>325,000</u>	<u>(315,073)</u>	<u>685,523</u>	<u>833,542</u>
Revenues and other sources over expenditures and other uses	210,522	215,241	93,790	411,207	930,760
FUND BALANCE, JULY 1, 2004	2,639	-	1,000,633	909,755	1,913,027
FUND BALANCE, JUNE 30, 2005	<u>\$ 213,161</u>	<u>\$ 215,241</u>	<u>\$ 1,094,423</u>	<u>\$ 1,320,962</u>	<u>\$ 2,843,787</u>

HERRIMAN CITY

Budgetary Comparison Schedule Water Impact Fees Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes		
REVENUES				
Impact fees	\$ 1,365,000	\$ -	\$ 1,610,062	\$ 245,062
Interest	25,000	-	4,712	(20,288)
Total revenues	<u>1,390,000</u>	<u>-</u>	<u>1,614,774</u>	<u>224,774</u>
EXPENDITURES				
Capital outlay	2,920,073	315,073	1,205,911	2,029,235
Total expenditures	<u>2,920,073</u>	<u>315,073</u>	<u>1,205,911</u>	<u>2,029,235</u>
Excess revenues over expenditures	(1,530,073)	(315,073)	408,863	2,254,009
OTHER FINANCING SOURCES (USES)				
Transfers out	(315,073)	-	(315,073)	-
Revenue and other sources over (under) expenditures and other uses	(1,845,146)	(315,073)	93,790	2,254,009
FUND BALANCE, JULY 1, 2004	<u>1,000,633</u>		<u>1,000,633</u>	
FUND BALANCE, JUNE 30, 2005	<u>\$ (844,513)</u>	<u>\$ (315,073)</u>	<u>\$ 1,094,423</u>	<u>\$ 2,254,009</u>

HERRIMAN CITY

Budgetary Comparison Schedule Debt Service Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Final	Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes			
REVENUES					
Charges for services	\$ -	-	\$ 8,252	\$ 8,252	\$ -
Total revenues	-	-	8,252	8,252	-
EXPENDITURES					
Debt service					
Principal	143,800	-	143,800	133,000	10,800
Interest	496,773	-	496,773	149,568	347,205
Total expenditures	640,573	-	640,573	282,568	358,005
Excess revenues over expenditures	(640,573)	-	(632,321)	(274,316)	358,005
OTHER FINANCING SOURCES (USES)					
Transfers in	1,006,646	(6,050)	1,000,596	685,523	(315,073)
Revenue and other sources over (under) expenditures and other uses	366,073	(6,050)	368,275	411,207	42,932
FUND BALANCE, JULY 1, 2004	909,755		909,755	909,755	-
FUND BALANCE, JUNE 30, 2005	<u>\$ 1,275,828</u>	<u>\$ (6,050)</u>	<u>\$ 1,278,030</u>	<u>\$ 1,320,962</u>	<u>\$ 42,932</u>

HERRIMAN CITY

Budgetary Comparison Schedule Capital Improvement Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget changes		
REVENUES				
Permits	\$ -	\$ -	\$ 72,430	\$ 72,430
Contributions	-	-	-	-
Total revenues	-	-	72,430	72,430
EXPENDITURES				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over expenditures (usage of fund balance)	-	-	72,430	72,430
OTHER FINANCES SOURCES (USES)				
Transfers in			138,092	138,092
Total other financing sources			138,092	138,092
Net change in fund balance	-	-	210,522	210,522
FUND BALANCE, JULY 1, 2004	2,639		2,639	-
FUND BALANCE, JUNE 30, 2005	\$ 2,639	\$ -	\$ 213,161	\$ 210,522

HERRIMAN CITY

Budgetary Comparison Schedule Street Lights Special Revenue Fund For the Year Ended June 30, 2005

	Budgeted Amounts		Final	Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget changes			
REVENUES					
Impact fees	\$ 1,400,000	\$ -	\$ 1,400,000	\$ 546,300	\$ (853,700)
Interest	1,400,000	-	1,400,000	546,300	(853,700)
Total revenues					
EXPENDITURES					
Capital outlay	1,300,000	-	1,300,000	656,059	643,941
Total expenditures	1,300,000	-	1,300,000	656,059	643,941
Excess of revenues over expenditures (usage of fund balance)	100,000	-	100,000	(109,759)	(209,759)
OTHER FINANCES SOURCES (USES)					
Transfers in	-	-	-	325,000	325,000
Total other financing sources	-	-	-	325,000	325,000
Net change in fund balance	100,000	-	100,000	215,241	115,241
FUND BALANCE, JULY 1, 2004	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	\$ 100,000	\$ -	\$ 100,000	\$ 215,241	\$ 115,241

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AUDITORS' OPINION ON STATE COMPLIANCE

We have audited the basic financial statements of Herriman City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated December 7, 2005. Our audit included test work on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Impact Fees

Truth in Taxation and Property Tax Limitations
Other Compliance Requirements
C Road Funds
Uniform Building Code Standards

The City did not receive any major or non-major state grants during the year ended June 30, 2005. The management of Herriman City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with 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 noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance as expressed in the following paragraph.

In our opinion, Herriman City complied, in all material respects, with the general compliance requirements identified above for year ended June 30, 2005.



December 7, 2005

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

To the City Council
Herriman City

We have audited the basic financial statements of Herriman City as of and for the year ended June 30, 2005, and have issued our report thereon dated December 7, 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.

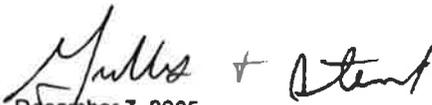
Compliance

As part of obtaining reasonable assurance about whether Herriman City's general purpose 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Herriman City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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. 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 general purpose 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 that we have reported to management of Herriman City in a separate letter dated December 7, 2005.

This report is intended solely for the information and use of the Mayor and City Council, management, others within the organization, and various federal and state funding and auditing 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.


December 7, 2005

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December 7, 2005

Mayor and City Council
Herriman City

In planning and performing our audit of the financial statements of Herriman City (the "City") for June 30, 2005, we have considered its internal control and accounting procedures. We have noted certain matters in the operations of the City that we feel could use some improvement in order for the City to accurately process or summarize financial data. Some of these observations are as follows:

05-1. Finding:

The City overspent the budgeted amounts in the special revenue impact funds.

Recommendation:

The City needs to review the budget and actual expenditures of these funds and make expenditure restrictions or budget modifications to keep the expenditures within the approved budget. The City can also budget the beginning fund balance in the budget process for increased budget expenditures.

Response:

The City will monitor the budget for these funds and use the beginning fund balance to help keep the expenditures within the budget.

05-2. Finding:

The City has significant donated infrastructure, land, and assets from land developers. The City does not have a process to evaluate or control the amount of the donated assets.

Recommendation:

The City needs to establish a systematic way to record and value the donated infrastructure and assets. One process could be an asset summary prepared in

conjunction with the City engineer and the developers that lists the assets at the close of the project and when the assets were conveyed to the City. The sheet could identify the assets conveyed to the City with the estimated values.

Response:

The City will discuss this with the City engineer and establish a system for recording and valuing the donated assets.

05-3. Finding

The City general fund balance is over the state legal limit.

Recommendation

We recommend the City transfer funds to the capital improvements fund for future capital projects planned by the City.

City Response

The City will make the necessary transfers during the budget process.

05-4. Finding

The City has vehicles that serve several functions within the City. The City does not have a system to allocate the costs of these vehicles to the various departments.

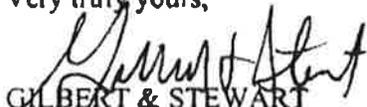
Recommendation

We recommend the City set up an internal service fund and record the cost of operating the vehicles in this fund, and charge the departments the proportional share of the actual costs involved.

City Response

The City will review the advantages of an internal service fund.

Very truly yours,


GILBERT & STEWART
Certified Public Accountants