

**SALT LAKE CITY WATER, SEWER, AND
STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)**

**INDEPENDENT AUDITORS' REPORT
AND
COMBINED FINANCIAL STATEMENTS**

June 30, 2010

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HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES

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INDEPENDENT AUDITORS' REPORT

Salt Lake City Public Utilities Advisory Committee
Salt Lake City Water, Sewer and Stormwater Utilities

We have audited the accompanying combined balance sheet of the Water Utility Fund, the Sewer Utility Fund, and the Stormwater Utility Fund (the "Salt Lake City Water, Sewer, and Stormwater Utilities" or the "Utilities"), enterprise funds of Salt Lake City Corporation (the City), as of June 30, 2010, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 presentations. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the combined financial statements, the combined financial statements referred to above present only three enterprise funds of the City – the Water Utility Fund, the Sewer Utility Fund, and the Stormwater Utility Fund and are not intended to present fairly the net assets, changes in financial position, and cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Utilities as of June 30, 2010, and the changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The combined financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' combined financial statements for the year ended June 30, 2009, from which the summarized information was derived.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Utilities'

management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplemental combining information is presented for the purpose of additional analysis of the basic combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual enterprise funds, and is not a required part of the basic combined financial statements. The additional supplemental information listed in the table of contents, which is also the responsibility of the Utilities' management, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole. The supplemental schedule of consumer information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
November 8, 2010

Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2010
(Unaudited)

The management for the Department of Public Utilities for Salt Lake City Corporation (referred hereafter as the Department, Public Utilities or the Utilities) offers readers of the Utilities' financial statements a narrative overview and analysis of the financial activities or results of operation for the twelve months ended June 30, 2010. Public Utilities encourages readers to consider the information presented here and use this also in conjunction with the overall Salt Lake City Corporation (the "City") financial report for this same period. As with the overall City financial statements, Public Utilities financial statements also follow Governmental Accounting Standards Board ("GASB") pronouncements. A requirement of GASB is to provide this discussion letter detailing activities of the reporting fiscal year with additional comparative year's information as a precursor and in-depth overview to the financial report for the same period. The Public Utilities financial statements are prepared on an accrual basis in accordance with generally accepted accounting standards set forth by GASB.

OUR MISSION

To serve our community and protect our environment by working to continuously improve water, wastewater and stormwater services in a sustainable manner.

OUR VISION

Salt Lake City Public Utilities strives to be a leader in water resources by:

- Valuing employees as our most important resource
- Valuing partnerships with customers, suppliers and other agencies
- Striving to continuously improve
- Implementing innovative solutions
- Acting as environmental stewards
- Working toward governmental transparency
- Improving our carbon footprint

Financial and Managerial Highlights

Public Utilities operate and manage three separate agencies under one managing Department. Water, Sewer and Stormwater functions are each enterprise funds where the financial activities are separately accounted for and presented in the financial statements. These funds are accounted for similarly to business type activities in the private sector and money earned from each service charge can only be used to provide the related services. Stormwater and Sewer serve the Salt Lake City's incorporated boundaries while Water serves both Salt Lake City and about 320,000 customers in Salt Lake County. The water system evolved since inception about 1876 to meet the water needs of citizens when City boundaries were few or non-existent. The water system in the County covers about 45 square miles of service area compared to 90 square miles within Salt Lake City.

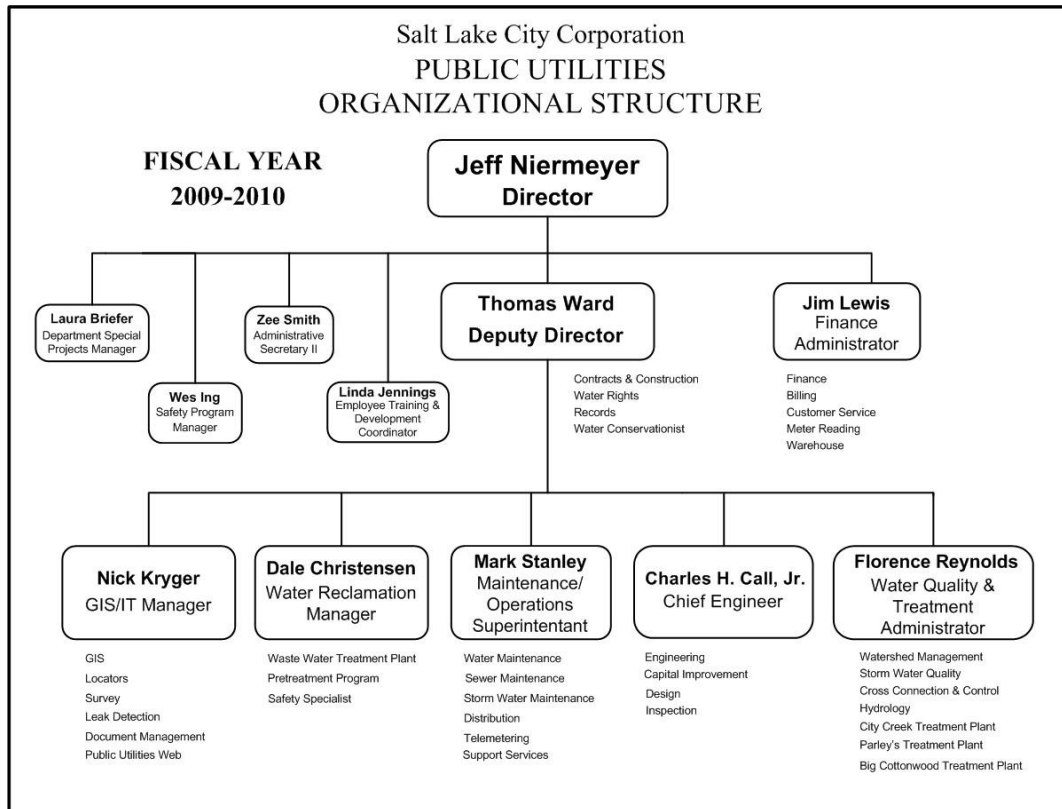
During the 2010 fiscal year, Water and Sewer rates did not increase as the struggles in the economy have continued. The Department was able to meet budgetary needs without looking at reductions in employees or scaling back needed capital improvements. Federal Stimulus money of \$6.3 million for improvements to the Reclamation Plant in the Sewer Fund was negotiated to be received from the State of Utah which administers these funds. The funds are being delivered as needed to pay the contractor on a pay as you go basis. These funds were received as revenue bonds at a zero interest rate. For more details, see notes to the financial statement. The Department continues working on the multi-million dollar fire protection upgrade for customers with Big Cottonwood Tanner Ditch Irrigation Company. Over the last 3 years, \$8.7 million has been expended to replace smaller lines with larger capacity lines to improve the fire flow needs of the customers in the Cottonwood Tanner Ditch area. The recent sewer master plan pinpointed the Orange Street sewer line for immediate replacement. This line will cost nearly \$10 million and require a \$12 million bond issue that was sold on Oct 5, 2010. Orange Street is one of three major trunk lines showing signs of failure that connects to the sewer treatment plant. In other highlights, the Riparian Corridor phase 1 was completed for Stormwater which was designed to look at environmental issues along streams, such as protecting vegetation, fish, other wildlife and minimizing erosion. The cost of phase 2 will be about \$100,000. The economic slowdown in the Country continues with the greatest impact on the Department's interest rates. Rates are below 1% for most invested money, thereby reducing our interest income by several million dollars each year for the last two years. Sales will need to increase or a rate increase is needed to help us make up this difference.

Capital Projects were bid out by the Department at a greater rate than past years to help assist the local economy and take advantage of reduced construction bids as much as possible. All of the projects were budgeted projects or planned projects but were hurried along at a faster pace which did increase spending. Management asked our engineers to design and build projects at a pace that was accelerated compared with most years. The available cash in the three funds still remains strong despite the greater than normal effort to design and construct as many projects as possible. Weather and the construction period available in Utah is still largely confined to the warmer 6 months of the year thereby limiting the number of projects that can be finished.

The Department continues to receive special local or national awards or recognition for water quality and for the Sewer Reclamation plant compliance to national standards. The Department continues to meet all of the requirements under the Safe Drinking and Clean Water Acts, including all of the standards that must be met in providing drinking water and complying with the City's National Pollutant Discharge Elimination System (NPDES) permits for wastewater and stormwater discharges into the State's receiving waters. The Sewer Reclamation Plant did receive its seventeenth EPA Platinum Award in January 2010 for continued perfect compliance.

The City Council approved, beginning in July 2010, the collection of franchise fees on stormwater revenue payable to the City General Fund. It is anticipated to generate approximately \$500,000 of new funding for the City. Total franchise fees payable to the General Fund from all three utility funds will generate over \$4 million in revenue for the City.

The Department's organization chart that follows illustrates the line of authority and how the Department is organized.



The purchase of the adjacent Wasatch Electric property and building provides a buffer zone between us and the residential area next to our operation and maintenance shop; in addition, it can be used subsequently for expansion of the current facility, if needed. The Department is upgrading the existing shops building by replacing the roof, plumbing, and the heating and air-conditioning system in fiscal 2011. The Wasatch Electric Building will likely be demolished as unusable in its present form.

- The overall assets for Public Utilities exceeded liabilities at June 30, 2010 by \$547,226,368. Of this amount, \$43,191,984 is unrestricted and may be used to meet the Utilities ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The Department has also designated a portion of the unrestricted equity for planned capital improvements budgeted for the next fiscal year in the amount of \$20,346,198 which is just over \$5 million less than last year when the department accelerated its capital projects plan.
- Public Utilities' aggregate change in net assets totaled \$19,583,667 for 2010. This is down from last year's overall total of \$4.5 million because of nearly a \$3 million decrease in revenues, a \$1 million decrease in interest income and \$2 million drop in contributed capital. This decrease is the most notable example of the impact the economy has had on the Department. Stormwater did

show an increase in revenues because of a 33% rate increase that was effective January 1, 2010. This was the first Stormwater rate increase in nearly 20 years.

Changes in net assets or income for the Utilities were:

Water	Sewer	Stormwater	Total
\$9,875,064	\$7,136,957	\$2,571,646	\$19,583,667

- Public Utilities continued to have a strong debt service coverage ratio at 4.49 which is a slight decrease but still very strong compared to similar utilities. The cause of this decrease occurred as debt increased along with a drop in income. Interest income took another large drop from an aggregate \$4.1 million in 2008 and \$1.6 million in 2009 to \$750,000 for the current year. Interest rates on state pooled investments are currently less than 1%.

Total individual net assets for each fund were as follows:

Water	Sewer	Stormwater	Total
\$282,450,668	\$167,678,612	\$97,097,088	\$547,226,368

Total liabilities increased \$2.9 million because of related long term obligations, while current liabilities dropped over \$200,000 from the prior year. Payables from restricted assets and long term debt increased about \$250,000 over last year. The long-term compensation liabilities jumped about \$800,000 from last year, while revenues collected in advance decreased \$1 million.

- The Water Fund for 2010 delayed a rate increase to assist customers affected by the poor economy. However, the budgeted capital improvement plan of \$27 million during this year remained as an aggressive plan. Cost of buying water is budgeted next year to be \$945,000 higher than this year. The 2008 bond issue in the Water Fund from previous years has funded the \$8 million fire system upgrade to the Big Cottonwood area water lines. Conservation continues to be a hot topic as the City finished a rate and conservation study which recommended both a rate hike and a creation of a 4th tier rate shown at the end of this report. The approved Water Utility 2011 fiscal budget is \$6 million lower than last year as spending needs drop back to more normal expectations.
- The Sewer Fund treatment plant upgrade was completed at a cost of \$29 million, upgrading the secondary treatment process and expanding the plant's ability to handle organic waste loads to meet future regulations. Another major project at the plant is replacing the three digester roofs and walls using a State bond for \$6.3 million. This project will increase the treatment capacity of the digester by increasing the height of the walls. With the capital needs identified by the new master plan, a \$12 million bond issue late in 2010 will assist with the replacement of the Orange Street line. The new \$29.6 million capital improvement budget for 2011 is \$12 million higher than the current 2010 budget. Replacing the Orange Street major trunk line is one of the highlights of the new budget and completion of the 1800 North trunk line.
- The Stormwater Fund received a half year of its first rate increase in 18 years of 33% and, beginning July of 2010, another 8% increase will be in effect. The Riparian Corridor phase 2

Study of our city streams is underway. The Oil Drain Project includes a budget of \$1 million next year to cover expected additional costs to clean the canal. Overall capital projects dips about \$2 million from the previous year allowing for a rate increase to help strengthen cash reserves as projects lined up for 2012 are expected to double the current capital budget.

Overall, the Public Utilities' operating income again decreased by \$2,242,183 from the prior year. This significant decrease is caused by nearly a \$3 million decrease in sales revenues. Both Sewer and Water sales were affected by the wet spring and continued conservation practices. Operating expenses actually decreased by \$667,000 through continued efficient use of resources. The Water fund accounts for 70% of the utility funds' operating revenue for fiscal 2010, a drop of 1% from last year. The Water Fund capital payment to the Metropolitan Water District of \$7,021,892 plus water purchases account for 26% of the Water Fund's operating costs or 18.4% in aggregate for all three funds. The Stormwater Fund was the only fund to have an increase in revenues of \$806,376 or 14.8% because of the 6 months of fee increase for the year. Since salaries did not increase this year, there was only a \$155,527 increase in the cost of salaries and benefits above 2009 because of changes in the employee benefits and new hires in existing positions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is presented as an introduction to both the financial statements and notes to the financial statements of the Salt Lake City Department of Public Utilities. This discussion report contains additional information to help the reader better understand this agency, its activities and financial performance.

The combined balance sheets show the Utilities' total assets and liabilities with the difference between them as net assets. In the past net assets was referred to as equity. Over time, increases or decrease in net assets may serve as an indicator as to whether the financial condition of the Utilities is improving or declining. The Utilities continues to show sustained steady growth but also reflects the impact from the economy, conservation and changes in sustainability.

The combined statements of activities, also referred to as the Statements of Revenues, Expenses, and Changes in Net Assets, show the changes to net assets through the activities of each fund and earnings. These changes are recorded when the underlying event that causes the change occurs, regardless of when the cash transaction takes place. Thus, some revenues and expenses are recorded in the statement of activities for some items even when the resulting cash flow may occur in a future period. Examples are water that has been used but remains unbilled at year end. The revenue is accrued or recorded although the actual billing for services does not occur until the next fiscal year. A similar effect occurs when expenses are incurred, but the actual invoices are not paid or received until the next fiscal year.

GASB Statement 45 accounting for retired employee benefits was a new schedule and cost that began in 2008. This is referred to in the accounting literature as OPEB or Other Post Employment Benefits. The objective of Statement 45 is to accurately reflect the financial effects of OPEB transactions, including the amounts paid and contributed by the Utilities, whatever those amounts may be. Public Utilities provide retired employees healthcare benefits at a reduced cost as part of the compensation package to attract and retain qualified employees. The annual expense for the Utilities is calculated based on an actuarially determined amount to arrive at the Utilities' yearly required contribution. For 2010 the annual required contribution dropped slightly to \$949,000 for the Utilities. The total unfunded accrued actuarial liability is

about \$10.7 million which is about \$1 million less than last year. See Note 9 in the financial statements for more detailed information.

Notes to the combined financial statements contain additional information important for a complete understanding of the information contained in the financial statements. Notes to the financial statement are located on pages 20 - 38 of the statements.

The following condensed financial information is expressed to help provide an easier understanding of the results and financial position of the Public Utilities Department. As shown, total assets continued to grow another \$22.4 million in capital as assets are added to the system reflecting the desired growth in a stable capital intensive organization that requires continued debt financing.

ASSETS	2010	2009
Current and other assets	\$ 106,944,119	\$ 107,559,423
Capital assets	527,459,995	504,403,937
Total assets	<u>\$ 634,404,114</u>	<u>\$ 611,963,360</u>
LIABILITIES		
Current portion of long-term debt outstanding	\$ 3,952,761	\$ 3,866,434
Long-term debt outstanding, net of current portion	51,197,462	48,121,421
Other liabilities	32,027,523	32,332,804
Total liabilities	<u>87,177,746</u>	<u>84,320,659</u>
NET ASSETS		
Invested in capital assets, net of debt	474,162,773	457,536,301
Restricted or reserved	3,525,413	10,552,829
Unrestricted-designated for capital improvements	20,346,198	26,452,620
Unrestricted	43,191,984	33,100,951
Total net assets	<u>541,226,368</u>	<u>527,642,701</u>
Total liabilities and net assets	<u>\$ 628,404,114</u>	<u>\$ 611,963,360</u>

As illustrated above, the net assets section of the balance sheet was once designated as retained earnings or equity of the organization. Of the amount earned over the years, the portion called invested in capital assets represents the extra earnings of the Utilities that has been applied to purchasing or building the required infrastructure over the many years in operation. Restricted or reserved represents the amount of cash restricted for specific purposes as shown later in the audited financial statements under restricted assets. The amount for capital improvements has been designated for next year's construction season. The unrestricted amount represents the accumulated earnings that are not restricted either by law or budget for specific uses or needs of the organization.

As shown below, the Summary of Changes in Net Assets reflects the activities of the organization during the fiscal year through earnings and operating expenses to determine what income or change in assets will occur for the year's activity. These activities include the cost of debt and capital contributed as either cash or infrastructure to the system as contractors provide impact fees or develop subdivisions, constructing the needed lines to connect to the existing water, sewer and stormwater systems.

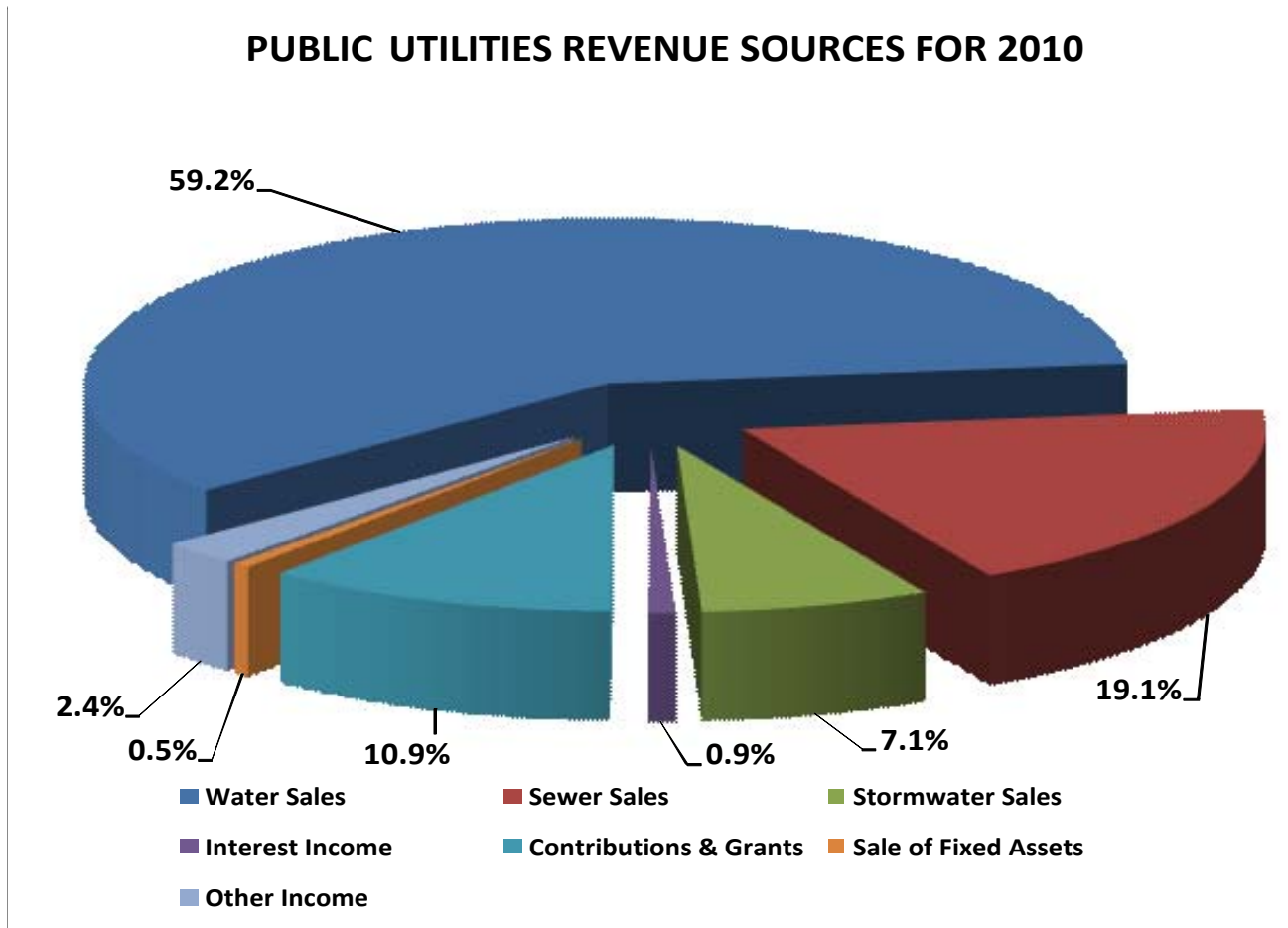
SUMMARY OF CHANGES IN NET ASSETS	2010	2009
Operating revenues	\$ 77,254,535	\$ 80,164,369
Operating expenses before depreciation	<u>54,933,303</u>	<u>55,979,840</u>
Operating income before depreciation	22,321,232	24,184,529
Depreciation	<u>(13,132,012)</u>	<u>(12,753,126)</u>
Operating income	9,189,220	11,431,403
Non-operating revenue (expense) and capital contributions		
Contributions and grants	9,556,221	11,582,751
Net bond interest expense	(385,170)	(756,696)
Interest income	749,739	1,661,807
Gain on disposition of property and equipment	<u>473,657</u>	<u>167,985</u>
	10,394,447	12,655,847
Change in net assets	<u><u>\$19,583,667</u></u>	<u><u>\$24,087,250</u></u>

A review of changes in net assets illustrates the decrease in operating income and a continued decline in interest income, which explains the downward change in net assets. However, the change in interest income is not a manageable income but is highly dependent on the rates set by economic conditions. Thus, the comparison financially between 2009 and 2010 does reflect the struggling economy as contributions, interest income and operating revenue all declined. A decrease in operating expenses, however, shows a sustained amount of efficiency to reduce variable costs, although some costs to produce water or treat sewer would naturally be less with reduced demand.

REVENUES

The chart on the following page gives a breakdown of major revenue sources and percentages for Public Utilities for the fiscal year ending June 30, 2010. Percentages of Utilities' revenue sources showed some changes that reflect the volatile economy, especially in interest income and contributions. Interest income, although a small percentage, changed 45% from last year and contributions dropped 1.5% as new construction remains slow. Percentages for Water and Sewer revenues did not change much but Stormwater revenue increased from 5.7% to 7.1% reflecting the rate increase for Stormwater. Water conservation practices continue to affect sales for both sewer and water without a rate increase to generate more income than the previous year. With the wet spring, demand for water did not increase until July and customers adhered to the plea to conserve and lower their bills. Sale of fixed assets increased as the

Department had held off for the last couple of years purchases of new assets. Sale of assets reflects the Department's need to replace aging equipment.



The schedule on the next page compares revenue changes for the current and prior year. Water sales decreased 6.2% as well as recorded a slight decrease as a percent of total revenue. Sewer charges correlates with water usage. With Water sales down, a rippling effect occurs for Sewer dropping sales by 1.4%. Stormwater revenue increased 15.7% due to the rate increase in January and over 1.3% increase compared to overall Utilities' revenue. This percentage increase is a big change for Stormwater. Interest income fell 50% over the prior year as the Federal Reserve rates and investment rates dipped lower than 1%. Grants and contributions fell another \$2 million as a reflection of the economic climate in Salt Lake City. Revenue overall fell \$5.5 million from prior year or a total of 6%. Some of the change in revenue is directly related to the wet spring and summer combined with the weak economy which resulted in one of the lower amounts of revenue Public Utilities has earned in 5 years especially since rates did increase during 4 out of the 5 years. The good news is that expenses have been contained well over the last 5 years and this year expenses dropped from last year's total.

	<u>2010</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>	<u>2009</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>
Operating				
Water Sales	\$ 52,121,963	59.21%	\$ 55,580,475	59.40%
Charges for sewer services	16,808,524	19.09%	17,056,970	18.23%
Stormwater fees	6,220,499	7.07%	5,377,785	5.74%
Other revenues	2,103,549	2.39%	2,149,139	2.30%
Total operating revenue	<u>77,254,535</u>	<u>87.76%</u>	<u>80,164,369</u>	<u>85.67%</u>
Non-operating revenue (expense) and capital contributions				
Contributions and grants	9,556,221	10.85%	11,582,751	12.37%
Interest income	749,739	0.85%	1,661,807	1.78%
Gain on disposition of property and equipment	473,657	0.54%	167,985	0.18%
Total non-operating revenue	<u>10,779,617</u>	<u>12.24%</u>	<u>13,412,543</u>	<u>14.33%</u>
Total revenue	<u>\$ 88,034,152</u>	<u>100.00%</u>	<u>\$ 93,576,912</u>	<u>100.00%</u>

EXPENSES

The following tables provide a summary of expenses for the year ended June 30, 2010. Comparisons are shown for changes between fiscal year 2010 and 2009 and comparison between budget and actual expenses excluding depreciation and capital expenditures.

	<u>FY 2010</u> <u>Amount</u>	<u>Percent of</u> <u>Total</u>	<u>FY 2009</u> <u>Amount</u>	<u>Percent of</u> <u>Total</u>
Operating Expense:				
Personnel services	\$ 24,257,412	35.44%	\$ 24,101,884	34.69%
Operating and Maintenance supply	3,818,987	5.58%	3,773,075	5.43%
Charges / services / fees	26,856,904	39.24%	28,104,881	40.44%
Total operating expense before depreciation	<u>54,933,303</u>	<u>80.26%</u>	<u>55,979,840</u>	<u>80.56%</u>
Depreciation	<u>13,132,012</u>	<u>19.18%</u>	<u>12,753,126</u>	<u>18.35%</u>
Total operating expense	68,065,315	99.44%	68,732,966	98.91%
Non-operating -bond interest expense	<u>385,170</u>	<u>0.56%</u>	<u>756,696</u>	<u>1.09%</u>
Total expense	<u>\$ 68,450,485</u>	<u>100.00%</u>	<u>\$ 69,489,662</u>	<u>100.00%</u>

As shown above, the operating expenses were \$1 million lower as water purchase costs and consulting costs dropped across the Department. The Department continued with a positive budget variance as anticipated costs were expected to rise but actual costs dropped, likely reflecting the weak economy. The Department kept expenses \$4.2 million or 6.5% less than budgeted which correlates with a decrease in revenue. Cost of services and employee costs remained consistent with last year with only a wet spring requiring less water used and reduced Utilities costs.

	<u>FY 2010</u>	<u>Budget</u>	<u>Budget</u>	<u>FY 2009</u>	<u>Budget</u>	<u>Budget</u>
	<u>Actual</u>	<u>2010</u>	<u>Positive +</u>	<u>Actual</u>	<u>2009</u>	<u>Positive +</u>
			<u>Budget</u>			<u>Budget</u>
			<u>Negative ()</u>			<u>Negative ()</u>
Operating Expense:						
Personnel services	\$ 24,257,412	\$ 24,855,469	\$ 598,057	\$ 24,101,884	\$ 24,896,265	\$ 794,381
Operating and maintenance supply	3,818,987	4,036,505	217,518	3,773,075	3,741,080	(31,995)
Charges / services / fees	26,856,904	29,931,214	3,074,310	28,104,881	29,323,616	1,218,735
Total operating expense excludes deprec.	54,933,303	58,823,188	3,889,885	55,979,840	57,960,961	1,981,121
Principal paid on debt service	2,930,000	2,940,000	10,000	2,820,000	2,910,400	90,400
Interest paid on debt service	2,047,864	2,345,000	297,136	2,301,572	3,204,600	903,028
Total expenditure	\$ 59,911,167	\$ 64,108,188	\$ 4,197,021	\$ 61,101,412	\$ 64,075,961	\$ 2,974,549

Total operating expenses, excluding depreciation, decreased \$1,046,537 or 1.8% over 2009. The operating budget change was a positive \$3,889,885 and double the positive variance of the previous year. The Department continues to recognize the need to find ways to limit spending both in sustainable and innovative cost reduction methods while maintaining our system integrity. However, costs continue to increase to the City's General Fund for street sweeping, trails coordinator and franchise fees as the Utilities' obligation to City General Government was nearly \$8.5 million this year.

CAPITAL EXPENDITURES

Water, Sewer and Stormwater Funds each have a separate capital improvement program and debt financing as shown in the financial statements. During 2010 the Utilities funds added \$36.9 million in either completed or work in process projects to the balance sheet. One of the aspects of our capital projects budget is to ensure that there is enough revenue to rebuild and improve the infrastructure of the Department so we can continue to provide the kind of service our customers expect. The Sewer Reclamation Treatment Plant received a State grant for \$6.3 million to upgrade the plant digester building. In all, the plant has nearly \$35 million in work in process costs that will be added to the value of the plant during next fiscal year. A new Sewer Master Plan has identified problems in the Orange Street line and 1800 North line that will require a \$12 million bond issue to replace the Orange Street line. The Water Fund continues its upgrade of the County water system (Big Cottonwood and Tanner Ditch) to bring their pressure up to fire safety standards spending \$7.4 million at the end of June 30, 2010. Renovations for treatment plants and existing lines in the systems are an integral part of the capital planning of the Department to maintain the infrastructure as it continues to age. A new 150 million gallon Metropolitan Water Plant at the south end of the Salt Lake Valley completed three years ago requires a \$7 million yearly payment to the Metropolitan Water District until 2035. The related schedule is located in the notes to the financial statements. The Department's goal is to attempt to replace one percent of the infrastructure each year. The goal is considered achievable since the struggling construction market offers competitive options for available projects.

At year end, property, plant and equipment placed in service include \$7,174,727 of non-cash contributed capital from contractors as follows for each fund:

<u>Water</u>	<u>Sewer</u>	<u>Stormwater</u>	<u>Total</u>
\$2,135,125	\$2,999,749	\$2,039,853	\$7,174,727

The Utilities also capitalizes a portion of the debt interest paid during the year as part of the cost of constructing Water, Sewer and Storm lines during the year. Water, Sewer and Stormwater capitalized interest in the amounts of \$549,002, \$933,008 and \$180,684, respectively.

DEBT ADMINISTRATION

During the year the State provided the Sewer Fund with a stimulus type bond for \$6.3 million to replace the digester covers at the Sewer Reclamation Plant. These bonds have no interest and are not payable until 2012. No other bonds were issued during the year, but with an aggressive capital program underway, the Department may issues bonds for all three funds. Current debt for all three funds is about \$54.2 million which reflects an increase of \$3.2 million compared to 2009 fiscal year. Water still has outstanding revenue bonds of \$21.7 million that will mature in 2024. Sewer has outstanding revenue bonds of \$26.2 million used for the extensive upgrade in secondary treatment capacity at the sewer reclamation plant which will mature in 2031. Stormwater has about \$6.3 million debt outstanding which will mature in 2024. After year end, the Department bonded for \$12 million more for the Sewer Fund to repair the Orange Street trunk line as determined by the latest Sewer Master Plan. The Department is always watching the bond interest rates so when desirable, the Department may refund higher yield bonds and replace them with lower interest bearing amounts as occurred in fiscal year 2008. With favorable interest rates, the debt service for next year will increase about \$750,000.

PUBLIC UTILITIES RATE STRUCTURE

Listed below is the general rate structure for Water, Sewer and Stormwater rates as of July 2010. Rates for fiscal 2010 did not change except for a Stormwater increase to \$4 from \$3 a month. A rate study this year by the Department has created a 4th tier for a summer conservation rate. Overall a water increase of 5% will be applied to the new tier structure including an increase to Sewer of 4.5% and Stormwater of 6%. These rates effective 2011 fiscal year are shown below. Public Utilities’ rates still remain some of the lowest in the Country. Water rates are structured to help conservation efforts as authorized by a special 2008 conservation study approved by a nine member Public Utilities Advisory Committee, City Council and Mayor. Units of water are measured in 100 cubic foot units. One unit of 748 gallons of water at the winter rate costs 93 cents. Bills are sent to customers monthly unless a special agreement exists. The Department also bills garbage collection to all residential customers for the Salt Lake Municipal Government. The Refuse Collection Fund pays Public Utilities for the garbage collection billing services.

BASIC RESIDENTIAL RATE STRUCTURE Effective 7/01/2010

	Salt Lake City Customers					Salt Lake County Customers				
	Service Fee*	First Tier 1-10 units	Second Tier 11-30 units	Third Tier 31-70 units	Fourth Tier >70 units	Service Fee*	First Tier 1-10 units	Second Tier 11-30 units	Third Tier 31-70 units	Fourth Tier >70 units
Water Rates / Unit	\$7.79	\$0.93	\$1.43	\$1.98	\$2.08	\$10.34	\$1.26	\$1.93	\$2.67	\$2.80
Sewer Rates[@]	\$1.38 per unit of Winter water use					No Sewer customers in the County				
Stormwater	\$4.24 per month per resident depending on size of property and pervious or impervious property									

1 Unit = 748 gallons

*Amount shown is minimum monthly service fee. Bill minimum starts at \$93.48 per year City; County fixed fee is 35% higher at \$124.08 per year. The fixed monthly charge increases by line size up to 10" line size.

[@] Sewer rates for commercial owners maybe placed into one of 7 categories by waste strength thus increasing unit costs

ECONOMIC OUTLOOK

The effects of a struggling economy continue to bring stress to the City forcing layoffs and budget cuts unlike any existing employees have seen. A new franchise fee will be implemented for Stormwater to generate additional fees to the General Fund starting July 2010. One positive aspect of the weak economy is that the price of construction will not likely increase. However, as equally offsetting, interest earning rates for idle funds are at all time lows and do not help bridge the gap when wet weather further decreases income. As last year, the Department is moving ahead full bore to complete desired projects and do its part to continue to help bolster our local economy. The new rates for all three funds will support the funding of projects at such an accelerated pace. The Department will still remain focused at providing the necessary water and utility services our customers have come to expect and look to this service with the expectation of providing it at the least impact possible to our customers during the struggling economy. Conservation, transparency, sustainability and improving our carbon footprint are part of the vision that management is focusing additional time and effort to improve or implement throughout the Department.

The general revenue outlook is affected by weather and conservation. July through October 2010 has remained dry and mild. Our hope is for a good snow pack along with a hot and dry spring next year. We also expect to see continued conservation with a tougher water tier structure that was implemented. Overall, in the eight years since the Department started educating the public on water conservation and the implementation of the new conservation rate structure in 2002, it is estimated that 45 billion gallons of water were saved. This is greater than one full year of water use for the Department, or about 138,000 acre feet of water. An acre foot of water contains 325,900 gallons of water. The Department continues to meet its own and State of Utah's water conservation goals.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Salt Lake City Public Utilities, 1530 South West Temple, Salt Lake City, Utah 84115.

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Public Utilities Management

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)

COMBINED BALANCE SHEET
JUNE 30, 2010 (WITH COMPARATIVE INFORMATION FOR 2009)

	Supplemental Information			Combined	
	Water Utility	Sewer Utility	Stormwater Utility	2010	2009
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 23,511,719	\$ 38,017,185	\$ 9,353,774	\$ 70,882,678	\$ 70,241,460
Investments	8,046,224	-	-	8,046,224	10,185,117
Accounts receivable, less allowance for doubtful accounts of \$299,008, \$13,077, \$3,222, totaling \$315,307, respectively	5,607,190	1,830,014	753,523	8,190,727	6,955,675
Bond proceeds receivable	-	4,540,000	-	4,540,000	-
Other receivables	658,772	12,891	-	671,663	848,743
Prepays	-	1,429	-	1,429	19,149
Supplies inventories	2,331,661	602,691	-	2,934,352	2,995,092
Total current assets	40,155,566	45,004,210	10,107,297	95,267,073	91,245,236
NONCURRENT ASSETS:					
Restricted and reserved cash and cash equivalents, amounts restricted or reserved for:					
Revenue bond debt service	1,144,932	775,133	244,779	2,164,844	2,163,021
Renewal and replacement	142,200	1,384,500	-	1,526,700	1,526,700
Capital improvements	16	788,564	-	788,580	3,634,458
Customer deposits	496,597	-	-	496,597	536,889
Impact fees	2,443,926	1,163,047	941,699	4,548,672	6,326,219
Total restricted and reserved cash and cash equivalents	4,227,671	4,111,244	1,186,478	9,525,393	14,187,287
Property and equipment, at cost:					
Land	13,491,785	4,185,947	1,387,919	19,065,651	17,885,381
Water rights	32,359,285	-	-	32,359,285	32,359,285
Buildings	45,226,962	46,813,235	6,952,656	98,992,853	97,897,597
Improvements other than buildings, principally water and sewer lines and stormwater facilities	253,536,329	85,716,866	113,593,483	452,846,678	435,695,538
Machinery and equipment	23,058,361	28,756,918	2,880,787	54,696,066	53,911,028
Construction in progress	16,316,007	52,509,803	4,454,554	73,280,364	59,153,905
	383,988,729	217,982,769	129,269,399	731,240,897	696,902,734
Less accumulated depreciation	(96,910,888)	(70,700,059)	(36,169,955)	(203,780,902)	(192,498,797)
Net property and equipment	287,077,841	147,282,710	93,099,444	527,459,995	504,403,937
Other assets:					
Unamortized bond issue costs, net	245,030	266,520	62,141	573,691	548,938
Investments in water company stock, at cost	1,577,962	-	-	1,577,962	1,577,962
Total other assets	1,822,992	266,520	62,141	2,151,653	2,126,900
Total noncurrent assets	293,128,504	151,660,474	94,348,063	539,137,041	520,718,124
TOTAL ASSETS	\$ 333,284,070	\$ 196,664,684	\$ 104,455,360	\$ 634,404,114	\$ 611,963,360

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)

COMBINED BALANCE SHEET

JUNE 30, 2010 (WITH COMPARATIVE INFORMATION FOR 2009)

	Supplemental Information			Combined	
	Water Utility	Sewer Utility	Stormwater Utility	2010	2009
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 2,240,355	\$ 1,247,366	\$ 663,037	\$ 4,150,758	\$ 4,189,598
Accrued compensation	203,907	76,049	23,939	303,895	246,241
Current portion of long-term compensation liability	355,161	59,703	18,080	432,944	521,963
Current revenues collected in advance	1,260,923	140,169	60,660	1,461,752	1,423,524
Current maturities of long-term obligations	1,055,834	556,383	175,699	1,787,916	1,102,876
Total current liabilities	5,116,180	2,079,670	941,415	8,137,265	7,484,202
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:					
Current maturities of long-term obligations:					
Principal	754,166	397,417	125,501	1,277,084	1,827,124
Accrued interest	390,766	377,716	119,279	887,761	936,434
Customer deposits	496,597	-	-	496,597	536,889
Total liabilities payable from restricted assets	1,641,529	775,133	244,780	2,661,442	3,300,447
Long-term obligations, less current maturities	19,950,078	25,260,012	5,987,372	51,197,462	48,121,421
Long-term compensation liability	3,874,749	871,257	184,705	4,930,711	4,141,129
Revenues collected in advance	20,250,866	-	-	20,250,866	21,273,460
Total liabilities payable from restricted assets and long-term liabilities	45,717,222	26,906,402	6,416,857	79,040,481	76,836,457
Total liabilities	50,833,402	28,986,072	7,358,272	87,177,746	84,320,659
COMMITMENTS AND CONTINGENCIES (Note 10)					
NET ASSETS:					
Invested in capital assets, net of related debt	265,562,808	121,726,953	86,873,012	474,162,773	457,536,301
Restricted or reserved	4,227,691	4,111,244	1,186,478	9,525,413	10,552,829
Unrestricted - designated for capital improvements	9,119,956	9,177,125	2,049,117	20,346,198	26,452,620
Unrestricted	3,540,213	32,663,290	6,988,481	43,191,984	33,100,951
Total net assets	282,450,668	167,678,612	97,097,088	547,226,368	527,642,701
TOTAL LIABILITIES AND NET ASSETS	\$ 333,284,070	\$ 196,664,684	\$ 104,455,360	\$ 634,404,114	\$ 611,963,360

(Concluded)

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE INFORMATION FOR 2009)

	Supplemental Information			Combined	
	Water Utility	Sewer Utility	Stormwater Utility	2010	2009
OPERATING REVENUES:					
Metered sales	\$ 52,121,963	\$ -	\$ -	\$ 52,121,963	\$ 55,580,475
Charges for sewer services	-	16,808,524	-	16,808,524	17,056,970
Stormwater fees	-	-	6,220,499	6,220,499	5,377,785
Other	1,780,698	303,734	19,117	2,103,549	2,149,139
Total operating revenues	53,902,661	17,112,258	6,239,616	77,254,535	80,164,369
OPERATING EXPENSES:					
Cost of sales and services	32,361,955	7,418,483	1,998,202	41,778,640	42,817,503
General and administrative	8,617,402	2,809,357	1,727,904	13,154,663	13,162,337
Depreciation and amortization	6,824,427	3,957,809	2,349,776	13,132,012	12,753,126
Total operating expenses	47,803,784	14,185,649	6,075,882	68,065,315	68,732,966
OPERATING INCOME	6,098,877	2,926,609	163,734	9,189,220	11,431,403
OTHER REVENUE (EXPENSE):					
Bond interest expense	(979,181)	(933,008)	(294,634)	(2,206,823)	(2,301,572)
Bond premium	36,943	92,732	29,284	158,959	158,958
Less capitalized interest portion	549,002	933,008	180,684	1,662,694	1,385,918
Net bond interest expense	(393,236)	92,732	(84,666)	(385,170)	(756,696)
Interest income, net	434,780	259,117	55,842	749,739	1,661,807
Gain on disposition of property and equipment	144,118	317,418	12,121	473,657	167,985
Net other revenue	185,662	669,267	(16,703)	838,226	1,073,096
CAPITAL CONTRIBUTIONS AND GRANTS	3,590,525	3,541,081	2,424,615	9,556,221	11,582,751
CHANGES IN NET ASSETS	9,875,064	7,136,957	2,571,646	19,583,667	24,087,250
NET ASSETS:					
Beginning of the year	272,575,604	160,541,655	94,525,442	527,642,701	503,555,451
End of the year	\$ 282,450,668	\$ 167,678,612	\$ 97,097,088	\$ 547,226,368	\$ 527,642,701

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE INFORMATION FOR 2009)

	Supplemental Information			Combined	
	Water Utility	Sewer Utility	Stormwater Utility	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 53,277,738	\$ 16,873,626	\$ 5,997,369	\$ 76,148,733	\$ 82,034,635
Payments for services provided by Salt Lake City	(2,832,443)	(1,027,923)	(1,008,640)	(4,869,006)	(4,855,294)
Payments to suppliers	(23,187,237)	(2,583,804)	(644,604)	(26,415,645)	(27,012,052)
Payments to employees	(15,656,409)	(6,274,759)	(1,641,774)	(23,572,942)	(23,498,998)
Net cash provided by operating activities	11,601,649	6,987,140	2,702,351	21,291,140	26,668,291
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchases of capital equipment	(1,683,374)	(595,492)	(8,815)	(2,287,681)	(3,088,538)
Payments for acquisition and construction of property	(16,090,480)	(5,727,404)	(2,756,474)	(24,574,358)	(19,757,924)
Proceeds from issue of bonds	-	1,760,000	-	1,760,000	-
Premium on issue of bonds	-	(92,732)	-	(92,732)	(92,732)
Principal paid on capital debt	(1,735,000)	(908,200)	(286,800)	(2,930,000)	(2,820,000)
Interest paid on capital debt	(761,219)	(928,937)	(294,855)	(1,985,011)	(1,828,877)
Deferred contributions	(1,022,595)	-	-	(1,022,595)	(1,022,596)
Capital contributions	1,455,399	541,332	384,762	2,381,493	4,154,416
Receipts from sale of capital assets	167,370	313,128	24,175	504,673	192,766
Net cash used in capital and related financing activities	(19,669,899)	(5,638,305)	(2,938,007)	(28,246,211)	(24,263,485)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on investments	480,544	259,117	55,842	795,503	2,258,566
Proceeds from sale of investments	2,138,892	-	-	2,138,892	8,880,184
Net cash provided by investing activities	2,619,436	259,117	55,842	2,934,395	11,138,750
CHANGE IN CASH AND CASH EQUIVALENTS	(5,448,814)	1,607,952	(179,814)	(4,020,676)	13,543,556
CASH AND CASH EQUIVALENTS:					
Beginning of year	33,188,204	40,520,477	10,720,066	84,428,747	70,885,191
End of year	\$ 27,739,390	\$ 42,128,429	\$ 10,540,252	\$ 80,408,071	\$ 84,428,747

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE INFORMATION FOR 2009)

	<u>Supplemental Information</u>			<u>Combined</u>	
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Stormwater Utility</u>	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income	\$ 6,098,877	\$ 2,926,609	\$ 163,734	\$ 9,189,220	\$ 11,431,403
Adjustments to reconcile income from operations to net cash:					
Depreciation and amortization expense	6,824,427	3,957,809	2,349,776	13,132,012	12,753,126
Change in assets and liabilities:					
Accounts receivable and other accounts receivable	(594,352)	(249,086)	(260,300)	(1,103,738)	1,813,951
Supplies inventories	91,171	(30,430)	-	60,741	76,016
Prepays	-	5,650	-	5,650	20,782
Customer deposits	(40,292)	-	-	(40,292)	6,704
Revenues collected in advance	9,722	10,453	18,053	38,228	49,608
Prepaid expenses	3,254	-	8,815	12,069	10,899
Accounts payable	(1,281,268)	212,110	341,906	(727,252)	(194,169)
Accrued expenses	490,110	154,025	80,367	724,502	699,971
Net cash provided by operating activities	\$ 11,601,649	\$ 6,987,140	\$ 2,702,351	\$ 21,291,140	\$ 26,668,291
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES:					
Donated water lines - at cost	\$ 2,135,125	\$ -	\$ -	\$ 2,135,125	\$ 4,420,492
Donated sewer lines - at cost	-	2,999,749	-	2,999,749	1,257,900
Donated stormwater lines - at cost	-	-	2,039,853	2,039,853	1,749,943

(Concluded)

SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES (Enterprise Funds of Salt Lake City Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

1. SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying combined financial statements follows.

Basis of Presentation—The Water Utility Fund, the Sewer Utility Fund, and the Stormwater Utility Fund (the “Salt Lake City Water, Sewer, and Stormwater Utilities” or the “Utilities”) are enterprise funds of Salt Lake City Corporation (the “City”). The accompanying combined financial statements include only these three enterprise funds of the City; however, the Utilities are an integral part of the City and are included in the City’s Comprehensive Annual Financial Report as enterprise funds.

The Utilities provide water, sewer and storm drain services to industrial, commercial, and residential users in Salt Lake City, Utah. Two significant components of the Utilities’ processes, power and chemicals, are received from single source suppliers. Significant droughts over the course of several years or a contamination of a significant source of water could impede the Utilities ability to provide services.

All federal awards and related reports required under the Single Audit Act of 1996 and Office of Management and Budget Circular A-133 are issued by Salt Lake City Corporation (the “City”).

Basis of Accounting—Revenues and expenses of the Utilities are recognized using the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Cash and Cash Equivalents—The Utilities consider investments in highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable—Due to the Utilities cycle billing system, the accounts receivable balances at June 30, 2010 include an accrual for unbilled sales.

Supplies Inventories—Supplies inventories are stated at the lower of cost (determined on a first-in, first-out or average-cost basis) or market.

Applicable Accounting Standards—The combined financial statements of the Utilities have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the Utilities have adopted GASB Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.*” New effective July 1 2007, GASB Statement 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*” (OPEB) was implemented. This requires the Utility to account for these post employment benefits as services by employees when rendered rather than when they are paid. See note 9. The Utilities have elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Investments—The Utilities account for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for certain Investments and for External Investment Pools*. GASB Statement No. 31 requires certain investments to be reported at fair value with the accompanying change in fair market value to be included in revenues or expenses.

A portion of the Utilities’ investments at June 30, 2010 are deposited in the City’s pooled cash account. The City’s pooled cash account is invested primarily in the Utah Public Treasurer’s Investment Pool (the “Treasurer’s Pool”) which is not registered with the Securities and Exchange Commission. Regulatory oversight of the Treasurer’s Pool is provided by the Money Management Council, which is subsequently monitored by the State of Utah. The fair market value of the City’s position in the fund is the same as the value of the fund shares owned by the City.

Investments in the Treasurer’s Pool are shown at fair value based on information obtained from the pool sponsor.

Property and Equipment—Property and equipment are stated at cost. A substantial portion of the property and equipment costs relating to the Stormwater Utility were estimated in 1991 based on engineering records and current price levels adjusted to historical cost using a consumer price index.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	35–60
Improvements other than buildings	13–100
Machinery and equipment	3–30

No depreciation is provided on construction in progress until construction is complete and the assets are placed in service.

When an asset is sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in net earnings. At June 30, 2010, the Water, Sewer and Storm Utilities had approximately \$11,527,653, \$10,955,906, and \$1,458,286, respectively, of fully depreciated property and equipment that was still in service. The capitalization threshold for capital assets is \$5,000.

Risk Management—The Utilities is covered by insurance policies for property (all risk), excess workers compensation, employee dishonesty, theft, forgery and alteration, and bond. The Utilities are covered under the City’s Risk Management Fund, which is self-insured, for workers compensation, public liability, and automobile liability.

Amortization—Amortization of bond issue costs, bond discount, and the deferred loss on refunding and defeasance of revenue bonds is computed on the straight-line method (which approximates the amount determined using the interest method) over the life of the related bonds.

Capitalization of Interest—The Utilities capitalize, as a cost of property and equipment, that portion of its interest costs (net of any interest earned on related interest-bearing investments acquired with proceeds of related tax-exempt borrowings) which represents interest incurred during the construction period on qualifying assets.

Contributions—The Utilities have received contributions in aid of construction from various sources. Consistent with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, these contributions are recorded as revenue and are reflected in the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

Total Columns—The total columns shown on the accompanying financial statements are mathematical totals and do not eliminate interfund transactions or include other entries required to present consolidated financial statements. Therefore, the accompanying financial statements are not intended to present consolidated financial information.

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist of the following:

	Water Utility	Sewer Utility	Stormwater Utility	Total
Unrestricted Cash and Cash equivalents	\$ 13,551,180	\$ 8,968,833	\$ (305,190)	\$ 22,214,823
Restricted Cash and Cash equivalents	3,082,723	2,566,860	941,699	6,591,282
Unrestricted Investments	18,006,763	29,048,352	9,658,964	56,714,079
Restricted Investments	1,144,948	1,544,384	244,779	2,934,111
Total	\$ 35,785,614	\$ 42,128,429	\$ 10,540,252	\$ 88,454,295
Deposits	\$ 16,490,454	\$ 1,384,800	\$ -	\$ 17,875,254
Investments held in State Treasurer's Pool	11,105,487	30,592,736	9,903,743	51,601,966
Investments	8,046,224	-	-	8,046,224
Cash on Hand	143,449	10,150,893	636,509	10,930,851
Total	\$ 35,785,614	\$ 42,128,429	\$ 10,540,252	\$ 88,454,295

The deficit or credit balance for Stormwater unrestricted cash and cash equivalents is caused by the restriction of impact fee revenues that were in total slightly larger than the cash funds on hand at June 30, 2010.

Investments presented in the above table consist of the following:

	Fair Market Value	Water Utility	Sewer Utility	Stormwater Utility	Total
Securities:					
Less than 1 year	\$ 7,040,808	\$ 7,040,808	\$ -	\$ -	\$ 7,040,808
1-2 years	1,005,416	1,005,416	-	-	1,005,416
2-5 years	-	-	-	-	-
over 5 years	-	-	-	-	-
Money Market	5,952,053	1,630,283	2,869,629	1,452,141	5,952,053
State Treasurer's Pool	45,649,913	9,475,204	27,723,107	8,451,602	45,649,913
Total Investments by Fund	\$ 59,648,190	\$ 19,151,711	\$ 30,592,736	\$ 9,903,743	\$ 59,648,190

The Utilities maintain funds in the City's pooled cash account. The Utilities pay the City or receive from the City an allocation of interest expense or income based upon their balance in the pooled cash account.

Money market deposits in the Water and Sewer Utility Revenue Fund and Principal and Interest Fund are held by an appointed trustee in accordance with the Revenue Bond Resolutions (see Note 3).

All funds invested with the Utah State Treasurer's Investment Pool ("State Treasurer's Pool") must comply with the Utah Money Management Act and Rules of the Money Management Council. The State Treasurer's Pool invests primarily in money market securities, including time certificates of deposit and top-rated domestic commercial paper. The maximum final maturity of any security purchased by the

State Treasurer's Pool is limited to five years. The maximum weighted average life of the portfolio does not exceed 180 days.

Cash on Deposit with Banks and Pooled Cash—State law requires that City funds, of which the Utilities are a part, be deposited with a “qualified depository” as defined by the Utah Money Management Act. “Qualified depository” includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified institution can accept. City policy provides that not more than 25% of total City funds or 25% of the qualified depository's allotment, whichever is less, can be invested in any one qualified depository. Not more than 20% of total City funds may be invested in any one certified out-of-state financial institution.

The bank balance of the Utilities' cash on deposit with banks was \$6,734,311 at June 30, 2010, of which \$250,000 was insured in the Utilities' name. The remaining uninsured and uncollateralized balance of \$6,484,311 was deposited with certified institutions according to the Utah Money Management Act.

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the Utility or City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Of the total \$59,648,190 invested by the City for Public Utilities, \$8,046,224 was exposed to custodial credit risk. The entire amount exposed was held in the Water Fund's name by the counterparty. The City has no formal policy with respect to investment custodial credit risk. All of this custodial amount is given an AAA rating by nationally recognized security rating agencies and has a weighted investment life of 0.67 years. Of these investments 100% are other US instruments such as FHLB (Federal Home Loan Bank), FNMA (Federal National Mortgage Association) and FFCB (Federal Farm Credit Bank).

Cash Equivalents—The City's investment policies are governed by State statutes. In addition, the City has its own written investment policies. City funds, of which the Utilities' funds are a part, are invested only in the following: (1) negotiable or non-negotiable deposits of qualified depositories (see definition of qualified depository in “Cash on Deposit with Banks and Pooled Cash” above); (2) repurchase agreements with qualified depositories or certified dealers acting as principal for securities of the United States Treasury or other authorized investments, only if these securities are delivered to the custody of the City Treasurer or the City's safekeeping bank, or the investment activities are conducted with a qualified depository; (3) commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poors, Inc., having a remaining term to maturity of 270 days or less (commercial paper can be purchased directly from the issuer provided proper delivery and safekeeping procedures are followed with a qualified depository or the City Treasurer's safekeeping bank or trust company); (4) banker's acceptances that are eligible for discount at a federal reserve bank and which have a remaining term to maturity of 270 days or less; (5) negotiable certificates of deposit of \$100,000 or less which have a remaining term to maturity of 365 days or less; (6) obligations of the United States Treasury included United States Treasury Bills, United States Treasury Notes, and United States Treasury Bonds; (7) top-rated corporate notes having a remaining term of one year or less; (8) certain no-load money market mutual funds; or (9) the Utah State Treasurer's Investment Pool.

3. RESTRICTED AND RESERVED CASH AND CASH EQUIVALENTS

Certain cash and cash equivalents are restricted by provisions of the Improvement and Refunding Bond Resolutions (“Bond Resolutions”) adopted by the City (see Note 5) as follows:

Amounts Restricted for Revenue Bond Debt Service—The Bond resolutions require that a debt service account be maintained in the Principal and Interest Fund that is equal to the “average aggregate debt service,” as defined, on outstanding revenue bonds and that a sinking fund be established for the “accrued aggregate debt service,” as defined, on outstanding revenue bonds. The assets which have been restricted for revenue bond debt service came from earnings rather than bond proceeds. As of June 30, 2010, the Utilities have restricted cash and cash equivalents of \$2,164,844 for revenue bond debt service.

Amounts Restricted and Reserved for Renewal and Replacement—The Bond Resolutions require that a renewal and replacement reserve of \$300,000 be established. In addition, this reserve is to be reviewed every three years and adjusted as necessary. The Chief Engineer of the Utilities determined this reserve should be \$1,526,700 as of June 30, 2010. The Utilities have restricted cash and cash equivalents of \$1,526,700. As of June 30, 2010, \$1,526,700 of net assets has also been reserved.

Amounts Restricted for Capital Improvements—Public Utilities bonds have been issued almost exclusively for existing and future capital projects. The \$788,580 of unspent bond proceeds is the remaining cash available for specific capital improvements at June 30, 2010.

Amounts Restricted for Customer Deposits—The Utilities’ customers living in apartments, duplexes, and fourplexes are required to provide the Utilities with deposits designed to protect the Utilities from loss associated with non-payment. The remaining balance of a customer’s deposit is refunded when service has been discontinued and the account is paid in full. As of June 30, 2010, the Utilities have reserved cash and cash equivalents in the amount of \$496,597 for these customer deposits.

Amounts Restricted for Impact Fees Collected—To comply with the Utah Impact Fee Act (Chapter 36 of the Utah Code), funds collected from land developers and private individuals are required to be restricted until contractual requirements have been satisfied and the funds are spent on appropriate projects. Such impact fees are recognized as capital contributions when received. As of June 30, 2010, the Utilities have restricted cash and cash equivalents in the amount of \$4,548,672 for these restricted impact fees.

4. PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized as follows at June 30, 2010:

	Water Utility	Sewer Utility	Stormwater Utility	Total
Capital assets, not being depreciated:				
Land	\$ 13,491,785	\$ 4,185,947	\$ 1,387,919	\$ 19,065,651
Water rights	32,359,285	-	-	32,359,285
Construction in progress	16,316,007	52,509,803	4,454,554	73,280,364
Total capital assets not being depreciated	<u>62,167,077</u>	<u>56,695,750</u>	<u>5,842,473</u>	<u>124,705,300</u>
Capital assets being depreciated:				
Buildings	45,226,962	46,813,235	6,952,656	98,992,853
Improvements other than buildings, principally water and sewer lines and stormwater facilities	253,536,329	85,716,866	113,593,483	452,846,678
Machinery and equipment	23,058,361	28,756,918	2,880,787	54,696,066
Total capital assets being depreciated	<u>321,821,652</u>	<u>161,287,019</u>	<u>123,426,926</u>	<u>606,535,597</u>
Less accumulated depreciation:				
Buildings	(11,862,313)	(17,891,993)	(2,109,956)	(31,864,262)
Improvements other than buildings, principally water and sewer lines and stormwater facilities	(68,587,391)	(29,235,172)	(31,879,884)	(129,702,447)
Machinery and equipment	(16,461,184)	(23,572,894)	(2,180,115)	(42,214,193)
Total accumulated depreciation	<u>(96,910,888)</u>	<u>(70,700,059)</u>	<u>(36,169,955)</u>	<u>(203,780,902)</u>
Total capital assets, being depreciated net	<u>224,910,764</u>	<u>90,586,960</u>	<u>87,256,971</u>	<u>402,754,695</u>
Total capital assets, net	<u>\$ 287,077,841</u>	<u>\$ 147,282,710</u>	<u>\$ 93,099,444</u>	<u>\$ 527,459,995</u>

The following is a summary of transactions affecting the combined total of property and equipment for the year ended June 30, 2010:

	Balance				Balance
	June 30, 2009	Additions	Transfers	Retirements	June 30, 2010
Capital assets, not being depreciated:					
Land	\$ 17,885,381	\$ 1,167,413	\$ 14,647	\$ (1,790)	\$ 19,065,651
Water rights	32,359,285	-	-	-	32,359,285
Construction in progress	59,153,905	26,393,615	(12,267,156)	-	73,280,364
Total capital assets not being depreciated	<u>109,398,571</u>	<u>27,561,028</u>	<u>(12,252,509)</u>	<u>(1,790)</u>	<u>124,705,300</u>
Capital assets being depreciated:					
Buildings	97,897,597	1,000,000	272,996	(177,740)	98,992,853
Improvements other than buildings, principally water and sewer lines and stormwater facilities	435,695,538	6,174,727	11,333,994	(357,581)	452,846,678
Machinery and equipment	53,911,028	2,197,346	645,519	(2,057,827)	54,696,066
Total capital assets being depreciated	<u>587,504,163</u>	<u>9,372,073</u>	<u>12,252,509</u>	<u>(2,593,148)</u>	<u>606,535,597</u>
Less accumulated depreciation:					
Buildings	(30,189,659)	(1,837,531)	-	162,928	(31,864,262)
Improvements other than buildings, principally water and sewer lines and stormwater facilities	(121,612,032)	(8,447,998)	-	357,583	(129,702,447)
Machinery and equipment	(40,697,106)	(2,801,496)	-	1,284,409	(42,214,193)
Total accumulated depreciation	<u>(192,498,797)</u>	<u>(13,087,025)</u>	<u>-</u>	<u>1,804,920</u>	<u>(203,780,902)</u>
Total capital assets, being depreciated net	<u>395,005,366</u>	<u>(3,714,952)</u>	<u>12,252,509</u>	<u>(788,228)</u>	<u>402,754,695</u>
Total capital assets, net	<u>\$ 504,403,937</u>	<u>\$ 23,846,076</u>	<u>\$ -</u>	<u>\$ (790,018)</u>	<u>\$ 527,459,995</u>

5. LONG-TERM OBLIGATIONS

The following is a summary of outstanding long-term obligations as of June 30, 2010:

	Water Utility	Sewer Utility	Stormwater Utility	Total
Revenue bonds:				
2004 Series Improvement and Refunding Revenue Bonds, 3.0% to 5%, due 2005-2024	\$ -	\$ 18,654,200	\$ 5,890,800	\$ 24,545,000
Plus unamortized premium	-	1,259,612	397,772	1,657,384
Total 2004 Series Revenue Bonds	-	19,913,812	6,288,572	26,202,384
2005 Series Improvement and Refunding Revenue Bonds, 3.5% to 5.0%, due 2006-2017	8,120,000	-	-	8,120,000
Plus unamortized premium	426,742	-	-	426,742
Less unamortized loss on refunding and defeasance	(208,216)	-	-	-
Total 2005 Series Revenue Bonds	8,338,526	-	-	8,338,526
2008 Series Improvement and Refunding Revenue Bonds, 3.5% to 4.5%, due 2009-2024	13,365,000	-	-	13,365,000
Plus unamortized premium	461,392	-	-	461,392
Less unamortized loss on refunding and defeasance	(404,840)	-	-	-
Total 2008 Series Revenue Bonds	13,421,552	-	-	13,421,552
2009 Series Revenue Bonds, 0%, due 2012 - 2031	-	6,300,000	-	6,300,000
Total 2009 Series Revenue Bonds	-	6,300,000	-	6,300,000
Total revenue bonds	21,760,078	26,213,812	6,288,572	54,262,462
Long-term compensation liability	4,229,910	930,960	202,785	5,363,655
Total long-term obligations	\$ 25,989,988	\$ 27,144,772	\$ 6,491,357	\$ 59,626,117

	Water Utility	Sewer Utility	Stormwater Utility	Total
Financial statement classification:				
Current maturities of long-term obligations	\$ 1,055,834	\$ 556,383	\$ 175,699	\$ 1,787,916
Current maturities of long-term obligations payable from restricted assets	754,166	397,417	125,501	1,277,084
Long-term obligations, less current maturities	<u>19,950,078</u>	<u>25,260,012</u>	<u>5,987,372</u>	<u>51,197,462</u>
Total long-term obligations	<u>21,760,078</u>	<u>26,213,812</u>	<u>6,288,572</u>	<u>54,262,462</u>
Current portion of long-term compensation	355,161	59,703	18,080	432,944
Long-term compensation liability, less current portion	<u>3,874,749</u>	<u>871,257</u>	<u>184,705</u>	<u>4,930,711</u>
Total long-term compensation	<u>4,229,910</u>	<u>930,960</u>	<u>202,785</u>	<u>5,363,655</u>
Total	<u>\$ 25,989,988</u>	<u>\$ 27,144,772</u>	<u>\$ 6,491,357</u>	<u>\$ 59,626,117</u>

The following is a summary of long-term obligation activity during 2010:

	Beginning Balance	Additions	Deductions	Ending Balance
2004 Series Revenue Bonds	\$ 25,740,000	\$ -	\$ (1,195,000)	\$ 24,545,000
2005 Series Revenue Bonds	9,135,000	-	(1,015,000)	8,120,000
2008 Series Revenue Bonds	14,085,000	-	(720,000)	13,365,000
2009 Series Revenue Bonds	-	6,300,000	-	6,300,000
Premium on Revenue Bonds	2,765,513	-	(219,995)	2,545,518
Deferred loss from defeasance of Revenue Bonds	(674,092)	-	61,036	(613,056)
Compensation liability	<u>4,663,092</u>	<u>714,866</u>	<u>(14,303)</u>	<u>5,363,655</u>
Total	<u>\$ 55,714,513</u>	<u>\$ 7,014,866</u>	<u>\$ (3,103,262)</u>	<u>\$ 59,626,117</u>

Revenue Bonds—On June 23, 1993, the Water and Sewer Utilities issued \$13,500,000 in Revenue Bonds, Series 1993 (\$11,110,130 Water and \$2,389,870 Sewer). The principle purpose of the Series 1993 Bonds was to defease a portion of the Series 1986 Bonds in the amount of \$9,635,000, maturing on or after February 1, 2001 through February 1, 2005, with an average interest rate of 7.5%. The bonds were also used to generate \$2,470,000 in additional construction funds to construct a new water line and to replace operating equipment at the City’s Big Cottonwood Water Treatment Plant and to pay certain

costs of issuance of the Series 1993 Bonds. Net proceeds (after payment of bond issue costs of \$270,100 and net of discount of \$7,615) amounted to \$13,222,285.

On July 19, 1994, the Water Utility issued \$14,000,000 in Revenue Bonds. The principle purpose of the Series 1994 Bonds was to finance construction of Water Utility capital improvement projects with an estimated date of completion of June 30, 1998. Net proceeds (after payment of bond issue costs of \$235,634 and net of discount of \$134,399) amounted to \$13,629,967.

On November 1, 1997, the Water Utility issued \$24,515,000 in Revenue Bonds. The principle purpose of the Series 1997 Bonds was to defease a portion of the 1991 and 1994 Series Bonds and to finance the acquisition of certain improvements to the water system. Net proceeds (after payment of bond issue costs of \$267,188 and net of discount of \$135,465) amounted to \$24,112,347. \$3,060,000 and \$8,620,000 of the 1991 and 1994 Series Bonds, respectively, was defeased through the establishment of an irrevocable trust escrow consisting of cash and noncallable direct obligations of the United States Government. This defeasance reduced its total debt service payments by almost \$1,358,309 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$525,098.

On February 1, 2004, the Sewer and Stormwater Utilities issued \$30,955,000 in Revenue Bonds. The principle purpose of the Series 2004 bonds was to finance a major upgrade at the Sewer Treatment Plant and a new storm system trunk line. Net proceeds (after payment of bond issue costs of \$381,233) were \$33,344,480 including a premium of \$2,389,480 on the sale.

On May 1, 2005, the Water Utility issued \$11,075,000 in Revenue Bonds. The 2005 series bond was issued to fully defease the outstanding debt for both the Water and Sewer 1993 bond issues and part of the 1997 Water bond issue. Of the 1993 bond issue \$1,042,228 was defeased for Water and \$252,772 for Sewer Revenue Bonds. The 1997 Water Revenue Bond was defeased \$7,805,000 with a remaining balance of \$14,100,000 remaining at June 30, 2005. The 2005 issue included both a deferred loss of \$364,377 on the refunding and a premium on the sale of \$746,799. The average net interest rate for the 2005 issue is 3.58%

On February 27, 2008, the Water Utility issued \$14,800,000 in Revenue Bonds. The 2008 series bond was issued to fully defease the outstanding debt of the 1997 Water Bond issue. The 1997 Water Revenue Bond was defeased in the amount of \$9,925,000. The 2008 issue included both a deferred loss of \$476,867 on the refunding and a premium on the sale of \$543,480. The average net interest rate for the 2008 issue is 3.79%.

On November 17, 2009, the Sewer Utility issued \$6,300,000 in Revenue Bonds. The 2009 series bond was issued as part of economic stimulus funding through the State of Utah. The Sewer Utility will use the funds to replace the digester cover and walls at the reclamation plant facility. These bonds mature 2012 through 2031 with annual principal payments of \$315,000 beginning February 2012 and the average interest of 0%. The Sewer Utility incurred issuance costs of \$69,740 related to the 2009 series bonds. The issuance cost will be amortized commensurate with the debt service payments beginning February 2012. As of June 30, 2010, the Utilities had only drawn \$1,760,000 and recorded a receivable of \$4,540,000 from State's Treasurer where the funds are being held. The Utilities draws the proceeds of the bonds as the project works progress.

Remaining outstanding balances at June 30, 2010 of defeased debt are \$405,000 for the 1991 Series, \$555,000 for the 1993 Series, \$4,050,000 for the 1994 series and \$8,175,000 for the 1997 Series.

Maturities of the Revenue Bonds are as follows:

Year Ending June 30,	Principal					Total
	2004 Series Sewer Utility	2004 Series Storm Utility	2005 Series Water Utility	2008 Series Water Utility	2009 Series Sewer Utility	
2011	\$ 953,800	\$ 301,200	\$ 1,065,000	\$ 745,000	\$ -	\$ 3,065,000
2012	999,400	315,600	1,100,000	765,000	315,000	3,495,000
2013	1,048,800	331,200	1,145,000	790,000	315,000	3,630,000
2014	1,102,000	348,000	1,100,000	930,000	315,000	3,795,000
2015	1,159,000	366,000	1,200,000	965,000	315,000	4,005,000
2016-2020	7,022,400	2,217,600	2,510,000	3,870,000	1,575,000	17,195,000
2021-2025	6,368,800	2,011,200	-	5,300,000	1,575,000	15,255,000
2026-2030	-	-	-	-	1,575,000	1,575,000
2031	-	-	-	-	315,000	315,000
Total	\$ 18,654,200	\$ 5,890,800	\$ 8,120,000	\$ 13,365,000	\$ 6,300,000	\$ 52,330,000

Year Ending June 30,	Interest					Total
	2004 Series Sewer Utility	2004 Series Storm Utility	2005 Series Water Utility	2008 Series Water Utility	2009 Series Sewer Utility	
2011	\$ 886,648	\$ 279,994	\$ 377,600	\$ 533,175	\$ -	\$ 2,077,417
2012	838,008	264,634	329,833	510,575	-	1,943,050
2013	787,009	248,529	273,896	487,313	-	1,796,747
2014	733,460	231,619	217,583	460,894	-	1,643,556
2015	677,173	213,844	160,500	430,195	-	1,481,712
2016-2020	2,437,716	769,805	137,458	1,314,189	-	4,659,168
2021-2025	633,435	200,032	-	629,024	-	1,462,491
2026-2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
Total	\$ 6,993,449	\$ 2,208,457	\$ 1,496,870	\$ 4,365,365	\$ -	\$ 15,064,141

The Bond Resolutions as amended and approved in conjunction with the issuance of the Improvement and Refunding Revenue Bonds provide, among other things, that, with regard to the Water, Sewer and Stormwater Utilities:

All revenues derived from providing utility services by each Utility shall be deposited into the Revenue Fund.

The operating and maintenance costs of each Utility shall be paid as a first charge to the Revenue Fund.

Monthly transfers are made from the Revenue Fund to the Principal and Interest Fund. The required monthly transfers to the Principal and Interest Fund equal one-twelfth of the next year's debt service. As discussed in Note 3, the Bond Resolutions require that a Renewal and Replacement fund of \$30,000 per year be established until a total of \$300,000 has been reserved. Additional transfers to or from the Renewal and Replacement fund are made at the time the Utilities' Chief Engineer determines that the total reserve should be adjusted. The Chief Engineer determined that the total reserve should be \$1,526,700 as of June 30, 2010 (see Note 3).

Any remaining amounts in the Revenue Fund may be applied to any lawful Utility purpose.

The Bond Resolutions constitute a contractual agreement between the City and the bondholders, under which the City has irrevocably pledged the net revenues of the Water, Sewer and Stormwater Utilities for the payment of the bonds. The bonds are obligations of the Water, Sewer and Stormwater Utilities, and all Utilities have pledged their individual future net revenues against the entire balance of the revenue bonds outstanding. Net revenues are defined as the revenues derived by the City from or attributable to the Water, Sewer and Stormwater Utilities, less all operating and maintenance costs. Under the terms of the Bond Resolutions, the City covenanted that rates will be established to yield aggregate net revenues equal to at least 1.25 times the aggregate debt service to become due in the next fiscal year. If the aggregate revenues fall below 1.25 times the aggregate debt service, the Water, Sewer, and Stormwater Utilities must make quarterly payments to a debt service reserve account.

6. INTERFUND RECEIVABLE AND PAYABLE

In prior years, the Water, Sewer and Stormwater Utility Funds had book receivables or payables in their cash accounts that represented cash amounts due to and from the General Fund. The cash account is used by the Water, Sewer, and Stormwater Utility Funds and is considered to be a pooled cash account. As a result, the book receivable or payable is considered to be a loan to or from the Utility Funds to the General Fund pool account. These pooled cash amounts are included in cash and cash equivalents on the Balance Sheet. As of June 30, 2010 there are no interfund loans between Public Utilities and the City General Fund.

7. INTERFUND AND RELATED PARTY TRANSACTIONS

Operating expenses include the following amounts charged by other funds of the City as of June 30, 2010:

	Water Utility	Sewer Utility	Stormwater Utility	Total
Administrative services	\$ 692,632	\$ 160,832	\$ 64,716	\$ 918,180
Fleet maintenance	932,210	272,544	220,773	1,425,527
Data processing	280,145	203,942	173,728	657,815
Risk management	560,357	104,202	40,930	705,489
Telephone charges	9,533	18,414	7,000	34,947
Payment in lieu of taxes	320,066	267,989	90,122	678,177
Trails Coordinator	37,500	-	-	37,500
Street Sweeping	-	-	411,371	411,371
Total	\$ 2,832,443	\$ 1,027,923	\$ 1,008,640	\$ 4,869,006

The following amounts are included in revenues and expenses in the financial statements of the corresponding utility:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Stormwater Utility</u>	<u>Total</u>
Charges between Water, Sewer and Stormwater Utilities for various services	\$ 187,633	\$ (190,341)	\$ 2,708	\$ -
Billing system costs charged by the Water Utility	-	648,458	457,700	1,106,158
Billing system costs charged by the Water Utility to the Refuse Collection Fund of the City	528,752	-	-	528,752
Revenues from Utility sales and services charged to other City funds	1,894,618	68,523	105,109	2,068,250
Revenues from the City Fire Department for fire hydrant rentals	108,000	-	-	108,000

During the year ended June 30, 2010, the Water Utility paid \$8,380,696 for water purchased from and treated by the Metropolitan Water District of Salt Lake City and Sandy City (the “District”). The District is considered a related party, since some of its board members are appointed by the Mayor of the City and approved by the City Council.

8. PENSION PLANS

Plan Description—The Utilities contribute to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System (“Systems”), both of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (“Systems”). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (“Board”) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy—Plan members in the Local Governmental Contributory Retirement System are required to contribute 6% of their annual covered salary, all of which is paid by the Utilities for the employee, and the Utilities are required to contribute 7.61% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, the Utilities are required to contribute 11.62% of members’ annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions from all Salt Lake City Corporation entities to the Local Governmental Contributory Retirement System for the years ending June 30, 2010, 2009, and 2008 were \$1,005,403, \$1,092,053, and \$1,102,458, respectively, and for the Noncontributory Retirement System the contributions for the years ending June 30, 2010, 2009, and 2008 were \$10,224,216, \$10,327,021, and \$9,656,412,

respectively. The contributions were equal to the required contributions for each year. Assets of the plans are not segregated by entity within the plan. Therefore, it is not possible to determine the portion of contributions applicable to each entity.

The Utilities incurred expense of \$213,554 for the Contributory and \$1,978,918 for the Noncontributory systems during the year ended June 30, 2010.

Additional information regarding current year covered payroll, plan provisions, employer and employee obligations, contributions made, actuarially-determined contribution requirement, explanation of pension benefit obligation, total pension benefit obligation, total net assets available for benefits, and reference to historical trend information can be found in the comprehensive annual financial report of the City.

401(k) Deferred Compensation Plan—The Utilities also participate in the City’s deferred compensation plan established under Internal Revenue Code Section 401(k) (the “401(k) Plan”). Employees covered by any of the Utah State Retirement plans are eligible to participate. The Utah State Retirement Board administers this plan. The Utilities contribute 2.65% of base payroll or 1.4% of base payroll for employees hired before 1987 who changed from the contributory plan to the noncontributory plan. The 401(k) Plan assets are not available to the Utilities or its general creditors. Therefore, no assets or liabilities of the 401(k) Plan are reflected in the Utilities’ balance sheet. The Utilities incurred 401(k) expenses of \$68,720 for the year ended June 30, 2010.

9. POST-EMPLOYMENT BENEFITS

The Utilities participate in the City’s post-employment benefit plan for employees. In addition to providing benefits as discussed in Note 8, the City provides health care and life insurance benefits for retired City employees. Substantially all of the City’s employees may become eligible for those benefits at retirement from the City. Although not statutorily required nor contractually obligated, the City has for many years provided health and life insurance coverage for retired employees. These benefits are expensed when incurred and are financed on a pay-as-you-go basis. As of June 30, 2010, 99 Utilities’ participants were eligible for these benefits.

Annual OPEB Cost and Net OPEB Obligation — The Utility annual other Post employment benefit (OBEP) expense is calculated based on the employer’s annual required contribution ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal expenses each year and amortize and unfunded actuarial liabilities over a period not to exceed thirty years. For the fiscal year ended June 30, 2010, the Utility’s annual OPEB expense of \$955,000 was greater than the ARC due to an actuarial adjustment. The following table shows the components of the Utility’s annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the Utility’s net OPEB obligation for the year ended June 30, 2010:

	OPEB June 30, 2010				6/30/2009
	Water	Sewer	Stormwater	Total	Total
Annual required contribution	\$ 698,000	\$ 194,000	\$ 57,000	\$ 949,000	\$ 1,025,000
Interest on net OPEB obligation	50,000	14,000	4,000	68,000	4,000
Adjustments to annual required contribution	(45,000)	(13,000)	(4,000)	(62,000)	(131,000)
Annual OPEB Expense	703,000	195,000	57,000	955,000	898,000
Contributions made	(240,000)	(66,000)	(19,000)	(325,000)	(298,000)
Increase in net OPEB obligation	463,000	129,000	38,000	630,000	600,000
Net OPEB obligation, beginning of year	1,137,000	279,000	78,000	1,494,000	894,000
Net OPEB obligation, end of year	\$ 1,600,000	\$ 408,000	\$ 116,000	\$ 2,124,000	\$ 1,494,000

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Expense Contributed	Net OPEB Obligation Fiscal Year Ended
June 30, 2010	\$ 955,000	\$ 325,000	34.0%	\$ 2,124,000

Funded Status and Funding Progress — The funded status of the Utility's portion of the plan as of June 30, 2010 was as follows:

	Water	Sewer	Stormwater	Total	
	Utility	Utility	Utility	Utility	6/30/2009
Actuarial Valuation Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2009
Actuarial accrued liability (AAL)	\$ 8,399,000	\$ 1,832,000	\$ 521,000	\$ 10,752,000	\$ 11,744,000
Actuarial value of plan assets	-	-	-	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 8,399,000	\$ 1,832,000	\$ 521,000	\$ 10,752,000	\$ 11,744,000
Funded ratio (Actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 11,467,669	\$ 4,361,469	\$ 1,214,385	\$ 17,043,523	\$ 16,629,271
UAAL as a percentage of covered payroll	73.24%	42.00%	42.90%	63.09%	70.62%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit expense between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the fiscal year 2010 actuarial valuation, the unit credit method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5.0% after ten years and added an additional 2% in 2011, 1% in 2012, and 0.5% in 2013, to account for expected health care cost increases driven by the federal health reform bill. Covered payroll included a 3.5% inflation assumption. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll over an open thirty year period.

10. COMMITMENTS AND CONTINGENCIES

As of June 30, 2010, the Utilities had outstanding commitments for the construction and acquisition of property and equipment. Commitments of the Water Utility totaled \$5,014,603, the Sewer Utility totaled \$15,688,386, and the Stormwater Utility totaled \$6,523,857.

Water Right Purchase—The City purchased water rights connected to Big Cottonwood Canyon stream flows from one of its water exchange customers called Big Cottonwood Tanner Ditch Irrigation Company in the amount of \$22,764,010. Under this new agreement the City will continue to provide culinary water to the customers of the Big Cottonwood Tanner Ditch Irrigation Company and will provide them with water vouchers which will entitle them to a set amount of water at no charge in return for their ownership in the water rights to the canyon stream. The City also agreed to upgrade the water system to meet current water system standards and to take ownership of the system. The financial statements show the increase in water rights and the value of the system purchased. In addition a new liability account called revenue collected in advance was required to show the value of the water vouchers issued in the amount of \$20,250,866 long term and \$1,260,923 in current liabilities.

Metropolitan Water District—To meet the water supply needs of Salt Lake City and Sandy through the year 2035, the Metropolitan Water District Board completed a new treatment plant. The new treatment plant is located at the Point of the Mountain in Draper City and includes a conveyance pipeline connecting the new plant to the District's Little Cottonwood Water Treatment Plant. The cost of the treatment plant and conveyance system totaled over \$300 million, and the Utilities' share of the cost is over \$200 million. The 70 million gallon per day plant is funded by an assessment paid by the two cities. Salt Lake City has 62.5 percent of the capacity and cost assessment in the new treatment plant.

Following are the future minimum payments due from the Water Utility through 2035:

Year Ending June 30,	
2011	\$ 7,021,892
2012	7,021,892
2013	7,021,892
2014	7,021,892
2015-2019	35,109,460
2020-2024	35,109,460
2025-2029	35,109,460
2030-2034	35,109,460
2035	3,510,946
Total	<u>\$ 172,036,354</u>

Litigation - The Utilities are involved in legal proceedings, primarily related to property damages and personal injury, arising in the ordinary course of business. Based on the facts currently available, management accrued \$428,851, which is the estimated amount of litigation probable to have a negative outcome. All of this potential liability is Water Fund related although there are some matters still pending in the Sewer Fund related to construction disputes. Management believes that the disposition of other matters that are pending or asserted will not have a materially adverse effect on the financial position of the Utilities.

In 2003 the Department began an environmental remediation process on the Sewer's Northwest Oil Drain (NWOD) Canal under a US Environmental Protection Agency administrative order and with a cost-sharing agreement between the Department, British Petroleum, and Chevron. Total cost of the project was \$7,079,180 in 2009 with the cost shared between the three parties. Dredging removal of contaminated sediment was conducted 2004-2006, but confirmation sampling and subsequent assessment indicated additional contaminated sediment remains in the canal; therefore this site, does not meet the US EPA administrative order requirements for regulatory site closure.

A Request for Proposal process was prepared and a consultant hired to conduct a detailed remediation technology evaluation to address the remaining contaminated sediment in the NWOD Canal. The cost of the study thus far has been \$111,039. The Technology Evaluation was completed November 2010 and is being used to guide design studies for sediment removal alternatives along the canal. Design studies for sediment removal for the first segment of the NWOD Canal will be completed by January 2011; it is anticipated that sediment removal actions in the first canal segment will commence during the summer of 2011. Project costs for the design studies and sediment removal for the first canal segment are pending. It is anticipated that project costs for design studies for the remaining two canal segments will begin in spring/summer 2011 with sediment removal occurring during summer of 2012.

11. SUBSEQUENT EVENTS

Subsequent to year end, the Sewer Utility issued \$12 million in Revenue Bonds at an interest rate of 2.73%. The Series 2010 Bonds were issued by direct purchase through JPMorgan Chase Bank on September 14, 2010 authorized by City Council resolution for the purchase, acquisition and construction of improvements, facilities and properties including the sewer Orange Street trunk line or other various improvements. This issue matures February 1, 2031. Annual payments for debt financing are expected to average \$747,000.

SUPPLEMENTAL INFORMATION

**SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)**

**SUPPLEMENTAL SCHEDULE OF NET REVENUES TO AGGREGATE DEBT SERVICE
FOR WATER, SEWER AND STORMWATER UTILITY FUNDS
YEAR ENDED JUNE 30, 2010**

TOTAL OPERATING INCOME	\$ 9,189,220
ADD:	
Interest income (not including \$2,907 from 2008 and \$243 from 2009 construction funds)	749,739
Depreciation and amortization	<u>13,132,012</u>
	<u>\$23,070,971</u>
AGGREGATE DEBT SERVICE:	
Total Improvement and Refunding Bond interest incurred during the fiscal year, as shown in the June 30, 2010 financial statements	\$ 2,206,823
ADD:	
Total required principal payments on Improvement and Refunding Revenue Bonds during 2010	<u>2,930,000</u>
	<u>\$ 5,136,823</u>
RATIO OF NET REVENUES TO AGGREGATE DEBT SERVICE	<u>4.49</u>
MINIMUM RATIO	<u>1.25</u>

**SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)**

**SUPPLEMENTAL SCHEDULE OF INVESTMENT BALANCES CONTROLLED
BY TRUSTEE FOR WATER AND SEWER UTILITY FUNDS
YEAR ENDED JUNE 30, 2010**

	<u>Cash Equivalents</u>
Revenue bond debt service reserve	<u>\$ 2,164,844</u>
TOTAL INVESTMENT CONTROLLED BY TRUSTEE	<u><u>\$ 2,164,844</u></u>

**SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)**

**SUPPLEMENTAL SCHEDULE OF CONSUMER INFORMATION
YEAR ENDED JUNE 30, 2010**

WATER UTILITY

Number of metered water consumers as of June 30, 2010	<u>90,958</u>
Number of unmetered water consumers as of June 30, 2010	<u>103</u>
Billed charges by the Water Utility:	
Residential	\$ 27,230,309
Industrial	1,645,258
Commercial	10,131,119
Miscellaneous	4,848,600
Special agreements	<u>5,319,326</u>
	<u>\$ 49,174,612 *</u>
Average monthly billing	<u>\$ 45.05</u>

SEWER UTILITY

Number of sewer accounts as of June 30, 2010	<u>49,481</u>
Billed charges by the Sewer Utility:	
Residential	\$ 9,275,974
Commercial and industrial	4,011,610
Special agreements	<u>3,463,692</u>
	<u>\$ 16,751,276 *</u>
Average monthly billing	<u>\$ 28.21</u>

STORMWATER UTILITY

Number of storm water accounts as of June 30, 2010	<u>47,794</u>
Billed charges by the Stormwater Utility	<u>\$ 6,050,750 *</u>
Average monthly billing	<u>\$ 10.55</u>

* Total charges are based on internally generated reports by the Department and not audited financial information

**SALT LAKE CITY WATER, SEWER, AND STORMWATER UTILITIES
(Enterprise Funds of Salt Lake City Corporation)**

**SUPPLEMENTAL SCHEDULE OF INSURANCE POLICIES
FOR WATER, SEWER AND STORMWATER UTILITY FUNDS
YEAR ENDED JUNE 30, 2010**

Type	Policy	Limits	Description
Property (all risk)	FM Global Inc	\$500,000,000	\$100,000 deductible with sub limits for specific coverage
Workers' Compensation	Self Insured*		
Workers' Compensation Excess	Safety National	\$40,000,000	\$1,500,000 retention
Public Liability	Self Insured*		
Automobile Liability	Self Insured*		
Employee Dishonesty	Hartford	\$1,000,000	\$50,000 deductible
Theft	Hartford	\$1,000,000	\$50,000 deductible
Forgery and Alteration	Hartford	\$25,000	\$500 deductible
Bond	Travelers Insurance Co.	\$10,000,000	Treasurers Bond

*Through the City's Risk Management Fund

**INDEPENDENT AUDITORS' REPORT
ON UTILITY REVENUE BOND COMPLIANCE**

Salt Lake City Public Utilities Advisory Committee
Salt Lake City Water, Sewer and Stormwater Utilities

We have audited, in accordance with auditing standards generally accepted in the United States of America, the combined balance sheet of the Water Utility Fund, the Sewer Utility Fund, and the Stormwater Utility Fund (the "Salt Lake City Water, Sewer, and Stormwater Utilities" or the "Utilities"), enterprise funds of Salt Lake City Corporation (the "City"), as of June 30, 2010, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated November 8, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that the Utilities failed to comply with the terms, covenants, provisions, or conditions of the Master Trust Indenture Resolution No. 100 as approved on January 1, 2004 and by Resolution No. 3-2004 authorizing the issuance of the 2004 Water and Sewer bonds or the terms, covenants, provisions, or conditions of Resolution No. 100 as amended providing for the issuance of Water and Sewer Revenue Bonds or the terms, covenants, provisions, or conditions of Resolution No. 25-2005, Resolution No. 5-2008, Resolution No. 36-2009 which are supplementary and amendatory resolutions authorizing the issuance of the 2005 Series Water and Sewer Revenue Bonds, the 2008 Water Revenue bonds, and 2009 Taxable Water and Sewer Revenue Bonds insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Advisory Committee, management of the Salt Lake City Water, Sewer and Stormwater Utilities, management of the City, and US Bank Trust and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
November 8, 2010