# CITY OF OREM, UTAH
## SUPPLEMENTARY REPORTS
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For The Fiscal Year Ended June 30, 2010

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The Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements was performed in accordance with Government Auditing Standards. This report includes an examination of the City of Orem’s internal control over financial reporting, its compliance with applicable laws and regulations, and the manner in which these matters are reflected in the City of Orem’s financial statements. The report also includes an opinion on the effectiveness of the City of Orem’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control fails to allow management or employees, or the normal course of operations, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Orem’s financial statements will not be prevented, or detected, and corrected on a timely basis.

Our examination of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to detect all internal control deficiencies that might be identified, with regard to complete or preventive controls. We identified one deficiency in internal control over financial reporting that is considered to be a material weakness. As stated above, deficiencies in internal control over financial reporting that are identified in this report are included in the accompanying Schedule of Findings and Questioned Costs.

Compliance and Other Matters
As part of attaining reasonable assurance about whether the City of Orem’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. Noncompliance with which could result in a direct and material effect on the dissemination of financial statements exists. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are reported to be reported in the accompanying Schedule of Findings and Questioned Costs as findings and recommendations.
INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
Members of the City Council
City of Orem, Utah

We have audited the financial statements of the governmental activities, the business-type activities, the discretely
presented component unit, each major fund, and the aggregate remaining fund information of the City of Orem as of
and for the year ended June 30, 2010, which collectively comprise the City of Orem’s basic financial statements, and
have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing
standards generally accepted in the United States of America and the standards applicable to financial audits
contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the City of Orem’s internal control over financial reporting as a
basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements,
but not for the purpose of expressing an opinion on the effectiveness of the City of Orem’s internal control over
financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Orem’s internal
control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or
employees, in the normal course of performing their assigned functions, to prevent, or detect and correct
misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal
control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will
not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first
paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting
that might be deficiencies, significant deficiencies, or material weaknesses. We identified one deficiency in internal
control over financial reporting that we considered to be a material weakness, as defined above, described in finding
number one in the accompanying Schedule of Findings and Questioned Costs.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Orem’s financial statements are free of material
misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant
agreements, noncompliance with which could have a direct and material effect on the determination of financial
statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our
audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of
noncompliance that are required to be reported under Government Auditing Standards and which are described in
the accompanying State of Utah Legal Compliance Schedule of Findings and Recommendations as findings one and
two.
This report is intended solely for the information and use of the Mayor, City Council and management of the City of Orem, the Utah State Auditor’s Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2010

Members of the City Council
City of Orem, Utah

Compliance

We have reviewed the compliance of the City of Orem with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Orem’s major federal programs are identified in the summary of audits’ results section of the accompanying Independent Auditor’s Report. Compliance with the requirements of laws, regulations, standards, and grants applicable to each of its major federal programs is the responsibility of the City of Orem’s management. Our responsibility is to express an opinion on the City’s management’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program reviewed. An audit includes examining, at a reasonable level, evidence about the City of Orem’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion. Our audit does not provide a basis for an opinion on the financial statements of the City of Orem.

In our opinion, the City of Orem complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Orem is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City of Orem’s internal control over compliance with requirements that could have a direct and material effect on a major federal program to be in order to determine the auditing procedures for the purpose of expressing our opinions on compliances and in the report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Orem’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, at the normal course of performing their assigned functions, to prevent, detect, or correct noncompliance with a type of compliance requirement of a major federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was not for the purpose of expressing an opinion in the first program of this report and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant weaknesses, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.
INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Jensen & Keddington, P.C.
Certified Public Accountants
Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Honorable Mayor and
Members of the City Council
City of Orem, Utah

Compliance

We have audited the compliance of the City of Orem with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Orem's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Orem's management. Our responsibility is to express an opinion on management's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Orem's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Orem's compliance with those requirements.

In our opinion, The City of Orem complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Orem is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City of Orem's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine out auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Orem's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Orem as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Orem, the Utah State Auditor’s Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2010

[Signature]
## CITY OF OREM, UTAH
### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
#### Fiscal Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>Department of Commerce</th>
<th>Federal Grantor/Pass-Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass-Through Grantor’s Number</th>
<th>Federal Expenditures</th>
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</thead>
<tbody>
<tr>
<td>Direct Program:</td>
<td>Economic Adjustment Assistance</td>
<td>11.307</td>
<td>05-29-C02234</td>
<td>$ 80,000</td>
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<tr>
<td></td>
<td>Total Department of Commerce</td>
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<td></td>
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<tr>
<td>Department of Housing and Urban Development</td>
<td>Community Development Block Grant</td>
<td>14.218</td>
<td>B-06-MC-49-0002</td>
<td>$ 590,403</td>
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<td>Direct Program:</td>
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<td></td>
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<tr>
<td></td>
<td>Community Development Block Grant ARRA Entitlement Grants</td>
<td>14.253</td>
<td>B-06-MY-49-0002</td>
<td>$ 194,094</td>
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<tr>
<td></td>
<td>Total Department of Housing and Urban Development</td>
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<td></td>
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</tr>
<tr>
<td>National Foundation on the Arts and the Humanities</td>
<td>Passed through Arts Midwest:</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>The Big Read</td>
<td>45.024</td>
<td>54696</td>
<td>12,000</td>
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<tr>
<td></td>
<td>Passed through Department of Community and Culture:</td>
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<td></td>
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<tr>
<td></td>
<td>ARRA Saving the Arts Today Grant (STAT)</td>
<td>45.025</td>
<td>101200</td>
<td>15,000</td>
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<td></td>
<td>Library Services and Technology Act (LSTA)</td>
<td>45.310</td>
<td>LS-00-08-0045-08</td>
<td>9,750</td>
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<td></td>
<td>Passed through Institute of Museum &amp; Library Services:</td>
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<td></td>
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<tr>
<td></td>
<td>National Leadership Grant</td>
<td>45.312</td>
<td>CL-00-08-0020-06</td>
<td>$ 20,208</td>
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<td></td>
<td>Total National Foundation on the Arts and the Humanities</td>
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<td></td>
<td></td>
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<tr>
<td>Environmental Protection Agency</td>
<td>Passed through Department of Environmental Quality:</td>
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<tr>
<td></td>
<td>Capitalization Grants for Clean Water State Revolving Funds - ARRA</td>
<td>66.458</td>
<td>2W-97882501</td>
<td>1,796,105</td>
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<td></td>
<td>Total Environmental Protection Agency</td>
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</tr>
<tr>
<td>Department of Energy</td>
<td>Direct Program:</td>
<td>81.128</td>
<td>DE-SC0001751</td>
<td>58,933</td>
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<td></td>
<td>Energy Efficiency &amp; Conservation Block Grant Program (RECBG) - ARRA</td>
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<tr>
<td></td>
<td>Total Department of Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Homeland Security</td>
<td>Passed through Department of Public Safety Division of:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Emergency Services and Homeland Security:</td>
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<td></td>
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<tr>
<td></td>
<td>Emergency Management Performance Grant (EMPG)</td>
<td>97.042</td>
<td>EMPG-2010-HLS-060</td>
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<td>State Homeland Security Program (LEPC)</td>
<td>97.073</td>
<td>DES-2007-SHSP-002</td>
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<td>Buffer Zone Protection Grant</td>
<td>97.078</td>
<td>B2F-P-2007-001</td>
<td>170,712</td>
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<td>Total Department of Homeland Security</td>
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<td>218,608</td>
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<tr>
<td>Department of Justice</td>
<td>Passed through Commission on Criminal and Juvenile Justice:</td>
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<td>HIDTA Grant Program</td>
<td>7.9909</td>
<td>G-09-RM0030A</td>
<td>77,005</td>
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<td>HIDTA Grant Program</td>
<td>7.9909</td>
<td>G-10-RM0030A</td>
<td>45,028</td>
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<td>Violence against Women Act Grant (VAWA)</td>
<td>16.588</td>
<td>08-VAWA-17</td>
<td>5,081</td>
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<td>Violence against Women Act Grant (VAWA)</td>
<td>16.588</td>
<td>09-VAWA-06</td>
<td>12,162</td>
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<td>Crime Victims Reparation Grant (CVR)</td>
<td>16.588</td>
<td>10-WREC-16</td>
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<td>Victims of Crime Act Grant (VCOA)</td>
<td>16.575</td>
<td>09-VCOA-37</td>
<td>53,791</td>
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<td></td>
<td>Total Department of Justice</td>
<td></td>
<td></td>
<td>219,361</td>
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**Total Federal Financial Assistance**: $ 3,184,462

See notes to the Supplementary Schedule of Expenditures of Federal Awards.
CITY OF OREM, UTAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. General - The Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Orem, Utah. Federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included on the Schedule of Expenditures of Federal Awards.

2. Basis of Accounting - The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

FINDINGS - FINANCIAL STATEMENT AUDIT AND GOVERNMENT AUDITING STANDARDS

Utility Billings Prior Period Adjustment (Material Weakness)

Findings
During our audit, we observed that certain utility billings that occurred after fiscal year-end were not recorded. This resulted in a prior period adjustment to increase accounts receivable and net fund balance of $901,794.

Recommendation
We recommend that the City ensure that revenues are recorded in the period that the revenues occur.

Management's Response
Utility billings will be recorded into the proper fiscal period based upon the billed service dates.

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS' AUDIT

None...
CITY OF OREM, UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements.

2. One significant deficiency was disclosed during the audit of the financial statements, which is also reported as a material weakness.

3. No instances of noncompliance material to the basic financial statements, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. No significant deficiencies in internal control over the major federal award programs were reported in this schedule.

5. The auditor's report on compliance for the major federal award program for the City of Orem expressed an unqualified opinion on the major federal program.

6. There are no audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133.

7. The following programs were tested as major programs: Community Development Block Grant ARRA Entitlement Grants, CFDA# 14.253; Capitalization Grants for Clean Water State Revolving Funds - ARRA, CFDA# 66.458; Buffer Zone Protection Grant, CFDA# 97.078.

8. The threshold for distinguishing Types A and B programs was $300,000.


FINDING - FINANCIAL STATEMENT AUDIT AND GOVERNMENT AUDITING STANDARDS

Utility Billings Prior Period Adjustment (Material Weakness)
Finding
During our audit, we observed that certain utility billings that occurred after fiscal year end with service dates within the current fiscal year were not accrued. This resulted in a prior period adjustment to increase accounts receivable and fund balance/net assets of $902,174.

Recommendation
We recommend that revenues are recorded in the period that the revenues occurred.

Management's Response
Utility billings will be accrued into the proper fiscal period based upon the billed service dates.

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None
INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE

Jensen & Kedington, P.C.
Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Kedington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Honorable Mayor and
Members of the City Council
City of Orem, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orem, Utah (the City), for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2010. The City received the following major State assistance program from the State of Utah:

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

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

State Asset Forfeiture (Department of Public Safety)

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

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Liquor Law Enforcement
B & C Road Funds
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees
Asset Forfeiture
Utah Retirement System
Fund Balance

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.
Our audit does not provide a legal determination of the City's compliance with these requirements.

The results of our audit procedures disclosed two immaterial instances of noncompliance with the requirements referred to above, which are described in the Schedule of Findings and Recommendations. We considered these instances of noncompliance in forming our opinion, which is expressed in the following paragraph.

In our opinion, The City of Orem, Utah complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2010.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Orem, the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

December 14, 2010
1. **Expenditures in Excess of Budget – State Legal Compliance**
   
   **Finding**
   Utah State Code 10-6-123 states that “City officers may not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or as subsequently amended.” The City's expenditures exceeded the budget in the Friends of the Library fund by $6,845.

   **Recommendation**
   We recommend that the City closely monitor expenditures in all departments to ensure compliance with the Utah State Code 10-6-123.

   **Management’s Response**
   The City will closely monitor expenditures in the Friends of the Library Fund to ensure it does not exceed budgeted amounts.

2. **Fund Balance – State Legal Compliance**
   
   **Finding**
   Utah State Code 10-6-116(2) states that “The accumulation of a fund balance in the General Fund may not exceed 18% of the total estimated revenue of the General Fund.” We noted that the City’s General Fund exceeded 18% of total estimated revenue.

   **Recommendation**
   We recommend that the City ensure that they are compliant with Utah Code 10-6-116(2).

   **Management’s Response**
   We will budget the required reduction in unrestricted fund balance in the General Fund and anticipate reducing fund balance to the appropriate level by June of 2011.