

PAYSON CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2011

PAYSON CITY CORPORATION

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GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
ESTABLISHED 1974

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Payson, Utah

December 14, 2011

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 Payson City as of and for the year ended, June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Payson City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of Payson City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Payson City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



GILBERT & STEWART
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Payson City, we offer readers of the Payson City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. The narrative is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and the City's financial statements.

FINANCIAL HIGHLIGHTS

- The total net assets of Payson City increased from \$57,106,136 to \$58,468,458. Of this, the governmental net assets increased by \$144,563 and the business-type net assets increased by \$1,217,759. (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net assets of \$58,468,458 is made up of \$50,619,701 in capital assets net of related debt and \$5,202,096 in unrestricted and \$2,646,661 restricted net assets.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$392,755.
- Total long-term liabilities of the City went down from \$30,909,408 to \$28,932,637, which includes all debt owing (bonds, leases, compensated absences, water share liability, bond premiums and Landfill post-closure liability), as of June 30, 2011.

REPORTING THE CITY AS A WHOLE

The discussion and analysis is intended to serve as an introduction to Payson City's basic financial statements. Payson City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

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

- *The statement of net assets* presents information on all of Payson City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Payson City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all

of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Payson City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities or enterprise funds).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Payson City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

- Governmental funds – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Project Funds. The balance of the governmental funds are determined to be non-major and are included in the combining statements within this report.

- Proprietary funds – Payson City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Payson City uses enterprise funds to account for its Water Utility, Electric Utility, Sewer Utility, Solid Waste Utility, Storm Drainage Utility, Golf Course Operations, and Ambulance Services. Internal service funds are an accounting device used to accumulate and allocate costs internally among Payson City's various functions. The City is using two internal service funds for maintenance of its vehicles and equipment. Because this service primarily benefits governmental activities, it has been included with governmental activities in the government-wide financial statements.

As determined by generally accepted accounting principles, the Electric, Water, and Sewer, and Golf Course enterprise funds satisfy the criteria for major fund classification. The other

enterprise funds are classified as non-major and are included in the combining statements within this report.

- Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting method used for these funds is much like that used for proprietary funds. They are included in non-major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Payson City, assets exceed liabilities by \$58,468,458.

By far the largest portion of Payson City’s net assets (88%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes Payson City’s Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 8,672,649	\$ 8,142,315	\$ 5,120,637	\$ 4,579,113	\$ 13,793,286	\$ 12,721,428
Capital assets	30,241,757	31,032,493	45,974,034	46,425,194	76,215,791	77,457,687
Total assets	<u>38,914,406</u>	<u>39,174,808</u>	<u>51,094,671</u>	<u>51,004,307</u>	<u>90,009,077</u>	<u>90,179,115</u>
Other liabilities	1,773,667	1,524,132	834,314	763,770	2,607,981	2,287,902
Long-term liabilities outstanding	8,775,900	9,430,400	20,156,738	21,354,677	28,932,638	30,785,077
Total liabilities	<u>10,549,567</u>	<u>10,954,532</u>	<u>20,991,052</u>	<u>22,118,447</u>	<u>31,540,619</u>	<u>33,072,979</u>
Net assets:						
Invested in capital assets, net						
of related debt	22,099,972	22,223,141	28,519,729	27,827,323	50,619,701	50,050,464
Restricted	948,070	457,254	1,698,591	1,150,540	2,646,661	1,607,794
Unrestricted	5,316,797	5,539,881	(114,701)	(92,003)	5,202,096	5,447,878
Total net assets	<u>\$ 28,364,839</u>	<u>\$ 28,220,276</u>	<u>\$ 30,103,619</u>	<u>\$ 28,885,860</u>	<u>\$ 58,468,458</u>	<u>\$ 57,106,136</u>

The following table summarizes Payson City's change in net assets:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,511,717	\$ 1,533,845	\$ 18,289,354	\$ 17,607,115	\$ 19,801,071	\$ 19,140,960
Operating grants and contribs	343,077	266,075	-	-	343,077	266,075
Capital grants and contribs	809,339	1,169,610	598,248	944,925	1,407,587	2,114,535
General revenues:						
Taxes	4,924,289	4,910,788	-	-	4,924,289	4,910,788
Gain (Loss) on Sale of Assets	1,403	137,097	5,434	21,550	6,837	158,647
Special Assessments	116,289	300,792	-	-	116,289	300,792
Unrestricted investment earnings	24,125	34,767	-	166,544	24,125	201,311
Transfers	1,373,802	2,127,962	(1,373,802)	(2,127,962)	-	-
Misc.	28,218	21,634	-	-	28,218	21,634
Total revenues	9,132,259	10,502,570	17,519,234	16,612,172	26,651,493	27,114,742
Expenses:						
General government	2,698,896	2,767,547			2,698,896	2,767,547
Public safety	2,557,461	2,188,390			2,557,461	2,188,390
Highways and public works	624,881	997,959			624,881	997,959
Parks and recreation	2,222,048	2,127,784			2,222,048	2,127,784
Economic Development	292,167	261,140			292,167	261,140
Cemetery	169,209	163,689			169,209	163,689
Interest on long-term debt	423,034	458,569			423,034	458,569
Water			1,636,914	1,725,862	1,636,914	1,725,862
Electric			10,667,805	10,310,594	10,667,805	10,310,594
Sewer			1,407,123	1,560,036	1,407,123	1,560,036
Solid Waste			1,082,192	1,032,848	1,082,192	1,032,848
Golf			955,033	960,985	955,033	960,985
Storm Drain			216,846	317,499	216,846	317,499
Ambulance			335,562	354,936	335,562	354,936
Total expenses	8,987,696	8,965,078	16,301,475	16,262,760	25,289,171	25,227,838
Increase in net assets	144,563	1,537,492	1,217,759	349,412	1,362,322	1,886,904
Net assets - beginning	28,220,276	26,682,784	28,885,860	28,536,448	57,106,136	55,219,232
Net assets - ending	\$ 28,364,839	\$ 28,220,276	\$ 30,103,619	\$ 28,885,860	\$ 58,468,458	\$ 57,106,136

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2011, the City's governmental funds (General, Debt Service, & Special Revenue) reported combined fund balance of \$6,574,634 up from \$6,181,879 last year. This represents an increase of \$392,755 from last year's ending balances, with the General Fund portion increasing by \$401,127.

The General Fund is the chief operating fund of the City. All activities, which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 64% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several

Taxes continue to be the largest source of revenue in the General Fund and represent 64% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several years. It represents 51% of total tax revenues and represents \$2,323,012 of total general fund revenues.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund budget was amended from an original budget expenditure total of \$8,193,690 to a final budget of \$8,550,156 to accommodate additional expenditures needed in various departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – Payson City’s investment in capital assets for all activities as of June 30, 2011, amounts to \$76,895,445 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during this 2011 fiscal year included the following:

- Fire Equipment \$10,077
- Street - Sander/Snow Plow \$15,000
- Class C Roads - Chip seal/seal coating \$96,090; 900 E project \$146,200
- Water – Winegar Development Filter & Meter \$50,000; Water Meters \$69,000; \$376,685 400 North Repair; \$22,000 Tank Inspection.
- Electric – Eastside voltage cutover \$21,800; Improvements (reimbursed) \$25,000; Miscellaneous Equipment \$8,949; Air Quality Testing \$2,800; SCADA Upgrades \$2,950
- Sewer – Jet Truck \$300,000 (Bond & \$50,000 Cap Proj Fund); Screw Press Building \$329,000 (Bond), De-watering System \$65,000; Aerotor Repair \$50,000
- Ambulance – Miscellaneous Equipment \$5,935, Defib Machines \$50,000
- GC Restaurant Equipment \$3,500
- Storm Drain – Retention Pond \$28,000; 300 S 400 W Project \$60,000; Remainder of 900 E Project \$477,266; Office Furnishings \$1,900, Additional Improvements \$266,000, 930 West Improvements \$39,596.
- Vehicle Maintenance – System Solvent Tank \$1,500; Shop Tools \$3,000
- IT – Replacement Desktops, Laptops, Printers \$18,600
- Solid Waste – Cat Repair \$108,000; Scraper Repair \$20,000
- Economic Development – Analysis \$24,000
- Park – Memorial Park Lighting & Sound System \$14,000

The following table summarizes Payson City's changes in Capital Assets:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Invested in capital assets, net						
Land	\$ 3,606,477	\$ 3,606,477	\$ 7,873,757	\$ 7,873,757	\$ 11,480,234	\$ 11,480,234
Building	7,008,125	7,226,336	513,626	538,949	7,521,751	7,765,285
Equipment	480,744	660,754	1,928,696	2,040,686	2,409,440	2,701,440
Water Shares	-	-	198,400	198,400	198,400	198,400
Improvements	3,131,366	3,523,881	35,459,555	35,773,402	38,590,921	39,297,283
Infrastructure	16,015,045	16,015,045	-	-	16,015,045	16,015,045
Construction in Progress	-	-	679,654	-	679,654.00	-
Total net assets	\$ 30,241,757	\$ 31,032,493	\$ 46,653,688	\$ 46,425,194	\$ 76,895,445	\$ 77,457,687

The City has adopted the modified approach for reporting, where infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction or major replacements under the modified approach.

The City Level of Service Policy for streets is:

L.O.S 1 No curb and gutter (rural)

1. To maintain a minimum of 24 ft. of asphalt travel with a minimum of 4 foot of gravel shoulder with adequate facility for storm water dispersion. Adequate signage to move traffic in a uniform safe manner.

L.O.S. 2 (Residential)

2. Maintain 40 ft. of asphalt width with adequate storm water facilities to include curb gutter and sidewalk and signage information to provide safe uninhibited flow of traffic and suitable information to negotiate the road system in a safe uniform manner

L.O.S. 3 (Arterial)

3. Maintain 60 ft. asphalt width with adequate storm water facilities to include curb gutter and sidewalk and traffic control devices to allow for the safe uniform flow of traffic in the most fluid and efficient manner possible with higher volumes of traffic involving higher speeds.

The streets are assessed by the Iwork Computer program. The most recent assessment found that the City's streets were within the prescribed parameters with 80% having a pavement condition with service life of 12 years or better and 2% of the streets having a pavement condition 2 years service life or less.

Over the last five reporting years, the estimated amounts needed and actual expenditures utilized to maintain and preserve the City's road system are as follows (capital expenditures are not included):

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2007	\$138,000	\$137,768
2008	483,880	434,851
2009	470,949	478,883
2010	416,832	384,700
2011	161,390	158,999

Additional information on the City's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt – At June 30, 2011, the City had total bonded debt outstanding of \$26,051,000. Of this, the amount considered to be general obligation debt backed by the full faith and credit of the City, includes the Pit SID of which Payson City put in infrastructure, for \$2,405,000 (with the remaining amount owing \$1,395,000). Also the following revenue bonds; the Sewer Revenue Bonds, for the eastside sewer line for \$4,500,000 (with the remaining amount owing \$3,970,000); Sales Tax Bonds for swimming pool and golf course improvements for \$8,865,000 (with the remaining amount owing swimming pool \$6,520,000 and golf course \$1,010,000). The following Sewer Revenue Refunding Bond of \$5,301,000 (with the remaining amount owing \$4,911,000) and the Water Revenue & Refunding Bond of \$9,445,000 (with the remaining owing \$8,015,000)

The following table summarizes Payson City's Changes in Debt:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ 8,145,000	\$ 8,675,000	\$ 18,023,982	\$ 19,010,331	\$ 26,168,982	\$ 27,685,331
Notes Payable	-	67,220	-	-	-	67,220
Capital Lease	123,961	202,739	475,427	784,222	599,388	986,961
Accrued Compensated Absences	506,938	485,441	366,154	384,058	873,092	869,499
Post Retirement Benefit	-	-	-	2,173	-	2,173
Water Share Liability	-	-	339,068	346,117	339,068	346,117
Closure and Postclosure Liability	-	-	952,107	952,107	952,107	952,107
Total Long Term Debt	<u>\$ 8,775,899</u>	<u>\$ 9,430,400</u>	<u>\$ 20,156,738</u>	<u>\$ 21,479,008</u>	<u>\$ 28,932,637</u>	<u>\$ 30,909,408</u>

The State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Utah State unemployment rate was 7% in October 2011, and the national rate was 9.1%. (Source: Utah Dept of Workforce Services). This reflects the economic downturn that has been reflected in all areas.
- Payson City saw a dramatic drop in building permits for new homes from 2006 to 2008, with 77 permits issued in Calendar Year 2006, 64 in 2007, 20 in 2008, 52 in 2009, and 223 in 2010. So far in 2011 we have issued 195 permits for new homes.
- The General Fund budget for fiscal year ending June 30, 2011 reflects an increase in expenditures of \$356,466 over the final budget for the fiscal year ended June 30, 2011.
- The City Council also voted the Certified Tax Rate at .001323 for FY 2012.
- Some capital improvements planned for and budgeted in the FY 2012 budget include:
 - Police – Hand held radios \$4,400; Police Car Lease \$150,000
 - Fire – Miscellaneous fire equipment \$9,648

- Streets – Upgrade Curves on South Main \$25,000; Repair & Maintenance \$310,838 (B&C Roads)
- Recreation – Sound System and Memorial Park lighting \$10,363
- Cemetery – Backhoe lease \$6,000
- Water – Backhoe lease \$6,000
- Electric – Voltage Cut overs \$30,000; Miscellaneous Equipment \$9,949
- Ambulance – Miscellaneous Equipment \$39,485
- Golf – Signage \$9250; Tables and Chairs \$3,500
- Storm Drain – Retention Pond Repair \$28,200; 600 East Curb & Gutter and sumps \$60,000; 930 West \$200,000; Miscellaneous Storm Drain Projects \$100,000
- City Shops – Shop tools \$3,000; Solvent \$1,500
- Information Technology – Replacement Computers \$18,100; Software (Caselle) Upgrade \$55,000

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Payson City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or request for additional financial information should be addressed to: City Recorder, Payson City, 439 W. Utah Avenue, Payson, UT 84651.

BASIC FINANCIAL STATEMENTS

PAYSON CITY CORPORATION
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 4,424,218	\$ 699,925	\$ 5,124,143
Accounts Receivable (Net of Allowance for Uncollectables)	1,534,050	2,038,813	3,572,863
Prepaid Items		136,000	136,000
Notes Receivable	174,140	-	174,140
Internal Balances	853,996	(853,996)	-
Restricted Assets:			
Cash and Cash Equivalents	1,559,069	1,594,832	3,153,901
Bond Issuance Costs (Net of Accumulated Amortization)	127,176	330,929	458,105
Equity in Joint Venture		494,480	494,480
Capital Assets (Net of Accumulated Depreciation)			
Water Shares	-	198,400	198,400
Land	3,606,477	7,873,757	11,480,234
Buildings	7,008,125	513,626	7,521,751
Improvements	3,131,366	35,459,555	38,590,921
Machinery and Equipment	480,744	1,928,696	2,409,440
Infrastructure	16,015,045	-	16,015,045
Construction in Progress	-	679,654	679,654
Total Assets	38,914,406	51,094,671	90,009,077
Liabilities			
Accounts Payable	200,942	228,860	429,802
Interest Payable	170,231	204,357	374,588
Other Current Liabilities	617,938	401,097	1,019,035
Deferred Revenue	784,556	-	784,556
Long-Term Liabilities:			
Due Within One Year	641,848	1,214,758	1,856,606
Due In More Than One Year	8,134,052	18,941,980	27,076,032
Total Liabilities	10,549,567	20,991,052	31,540,619
Net Assets			
Invested in Capital Assets, Net of Related Debt	22,099,972	28,519,729	50,619,701
Restricted for:			
RDA	288,166		288,166
Debt Service	175,082	364,390	539,472
Class "C" Roads	217,361	-	217,361
Impact Fees	259,354	793,145	1,052,499
Grant Funds	8,107	-	8,107
Landfill Closure Costs	-	541,056	541,056
Unrestricted (Deficit)	5,316,797	(114,701)	5,202,096
Total Net Assets	\$ 28,364,839	\$ 30,103,619	\$ 58,468,458

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Activities
For the Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 2,698,896	\$ 161,670	\$ 46,964	-	\$ (2,490,262)	-	\$ (2,490,262)
Public Safety	2,557,461	431,800	278,029	39,715	(1,807,917)	-	(1,807,917)
Highways and Streets	624,881	-	-	641,026	16,145	-	16,145
Parks and Recreation	2,222,048	898,503	18,084	128,598	(1,176,863)	-	(1,176,863)
Economic Development	292,167	-	-	-	(292,167)	-	(292,167)
Cemetery	169,209	19,744	-	-	(149,465)	-	(149,465)
Interest on Long-Term Debt	423,034	-	-	-	(423,034)	-	(423,034)
Total Governmental Activities	<u>8,987,696</u>	<u>1,511,717</u>	<u>343,077</u>	<u>809,339</u>	<u>(6,323,563)</u>	<u>-</u>	<u>(6,323,563)</u>
Business-Type Activities:							
Water	1,636,914	2,007,985	-	84,300	-	\$ 455,371	455,371
Electric	10,667,805	11,156,407	-	281,776	-	770,378	770,378
Sewer	1,407,123	1,934,739	-	199,766	-	727,382	727,382
Solid Waste	1,082,192	1,640,558	-	-	-	558,366	558,366
Golf	955,033	557,896	-	-	-	(397,137)	(397,137)
Storm Drain	216,846	573,381	-	-	-	356,535	356,535
Ambulance	335,562	418,388	-	32,406	-	115,232	115,232
Total Business-Type Activities	<u>16,301,475</u>	<u>18,289,354</u>	<u>-</u>	<u>598,248</u>	<u>-</u>	<u>2,586,127</u>	<u>2,586,127</u>
Total Primary Government	<u>\$ 25,289,171</u>	<u>\$ 19,801,071</u>	<u>\$ 343,077</u>	<u>\$ 1,407,587</u>	<u>(6,323,563)</u>	<u>2,586,127</u>	<u>(3,737,436)</u>
General Revenues							
Taxes:							
Property Taxes					1,218,863	-	1,218,863
General Sales Taxes					2,323,012	-	2,323,012
Motor Vehicle Taxes					114,291	-	114,291
Utility Taxes					973,007	-	973,007
Other Taxes					295,116	-	295,116
Special Assessments					116,289	-	116,289
Gain (Loss) on Sale of Capital Asset					1,403	5,434	6,837
Investment Earnings					24,125	-	24,125
Miscellaneous					28,218	-	28,218
Transfers					1,373,802	(1,373,802)	-
Total General Revenues and Transfers					<u>6,468,126</u>	<u>(1,368,368)</u>	<u>5,099,758</u>
Change in Net Assets					144,563	1,217,759	1,362,322
Net Assets Beginning of Year					28,220,276	28,885,860	57,106,136
Net Assets End of Year					<u>\$ 28,364,839</u>	<u>\$ 30,103,619</u>	<u>\$ 58,468,458</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION

Balance Sheet

Governmental Funds

June 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$ 1,794,122	\$ 2,630,096	\$ -	\$ 4,424,218
Accounts Receivable (Net of Allowance for Uncollectables)	1,534,050	-	-	1,534,050
Due From Other Funds	-	1,415,161	487,348	1,902,509
Notes Receivable	-		174,140	174,140
Restricted Assets:				
Cash and Cash Equivalents	348,193	441,264	769,612	1,559,069
Total Assets	<u><u>\$ 3,676,365</u></u>	<u><u>\$ 4,486,521</u></u>	<u><u>\$ 1,431,100</u></u>	<u><u>\$ 9,593,986</u></u>
Liabilities				
Accrued Liabilities	\$ 189,772	\$ 1,001	\$ 1,536	\$ 192,309
Due To Other Funds	382,056	-	777,851	1,159,907
Deposits	617,938	-	-	617,938
Interest Payable	-	-	3,472	3,472
Deferred Revenue	815,726	-	-	815,726
Bonds Payable	-	-	230,000	230,000
Total Liabilities	<u>2,005,492</u>	<u>1,001</u>	<u>1,012,859</u>	<u>3,019,352</u>
Fund Balances				
Restricted for:				
RDA	-	-	288,166	288,166
Class "C" Roads	217,361	-	-	217,361
Impact Fees	-	-	259,354	259,354
Committed for:				
Perpetual Care	-	-	278,203	278,203
Other	-	-	398,960	398,960
Assigned for:				
Debt Service			175,082	175,082
Other	120,808	-	-	120,808
Special Revenue	-	-	8,107	8,107
Capital Project Fund	-	4,485,520	-	4,485,520
Unassigned:	1,332,704	-	(989,631)	343,073
Total Fund Balances (Deficits)	<u>1,670,873</u>	<u>4,485,520</u>	<u>418,241</u>	<u>6,574,634</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,676,365</u></u>	<u><u>\$ 4,486,521</u></u>	<u><u>\$ 1,431,100</u></u>	<u><u>\$ 9,593,986</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011

Total Governmental Funds Balances	\$ 6,574,634
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	30,241,757
Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	31,170
An internal service fund is used by management to charge the costs of vehicle repairs and maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	106,233
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	<u>(8,588,955)</u>
Net Assets of Governmental Activities	<u>\$ 28,364,839</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Property Taxes	\$ 836,558	\$ -	\$398,927	\$ 1,235,485
General Sales Taxes	2,323,012	-	-	2,323,012
Motor Vehicle Taxes	114,291	-	-	114,291
Utility Taxes	973,007	-	-	973,007
Other Taxes	295,116	-	-	295,116
Licenses and Permits	155,104	-	-	155,104
Intergovernmental	984,103	-	-	984,103
Charges for Services	1,095,816	-	19,744	1,115,560
Fines and Forfeitures	241,053	-	-	241,053
Special Assessments	-	-	116,289	116,289
Interest	5,596	13,001	5,528	24,125
Miscellaneous	28,218	-	-	28,218
Total Revenues	<u>7,051,874</u>	<u>13,001</u>	<u>540,488</u>	<u>7,605,363</u>
Expenditures				
Current:				
General Government	2,532,856	18,000	-	2,550,856
Public Safety	2,469,923	-	-	2,469,923
Highways and Streets	558,575	-	-	558,575
Parks and Recreation	1,798,526	-	-	1,798,526
Economic Development	172,129	-	40,053	212,182
Cemetery	169,209	-	-	169,209
Debt Service:				
Principal Retirement	-	155,000	135,000	290,000
Interest and Fiscal Charges	442,958	92,160	171,737	706,855
Total Expenditures	<u>8,144,176</u>	<u>265,160</u>	<u>346,790</u>	<u>8,756,126</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,092,302)</u>	<u>(252,159)</u>	<u>193,698</u>	<u>(1,150,763)</u>
Other Financing Sources (Uses)				
Impact Fees	-	-	168,313	168,313
Sale of Fixed Assets	1,403	-	-	1,403
Transfers In	1,711,453	246,000	-	1,957,453
Transfers Out	(219,427)	(349,224)	(15,000)	(583,651)
Total Other Financing Sources (Uses)	<u>1,493,429</u>	<u>(103,224)</u>	<u>153,313</u>	<u>1,543,518</u>
Net Change in Fund Balances	401,127	(355,383)	347,011	392,755
Fund Balances (Deficits) Beginning of Year	<u>1,269,746</u>	<u>4,840,903</u>	<u>71,230</u>	<u>6,181,879</u>
Fund Balances (Deficits) End of Year	<u>\$ 1,670,873</u>	<u>\$ 4,485,520</u>	<u>\$ 418,241</u>	<u>\$ 6,574,634</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 392,755
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(808,986)
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	552,324
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(16,622)
The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	<u>25,092</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 144,563</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Major				Non Major		
	Water	Electric	Sewer	Golf Course	Enterprise Funds	Total	
Assets							
Current Assets:							
Cash and Cash Equivalents	\$ -	\$ 123,041	\$ -	\$ -	\$ 576,884	\$ 699,925	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	252,842	891,659	220,851	-	673,461	2,038,813	-
Due From Other Funds	1,109,282	889,444	-	-	863,758	2,862,484	111,394
Prepaid Items	-	136,000	-	-	-	136,000	-
Total Current Assets	1,362,124	2,040,144	220,851	-	2,114,103	5,737,222	111,394
Noncurrent Assets:							
Restricted Assets:							
Cash and Cash Equivalents	126,965	386,841	539,970	-	541,056	1,594,832	-
Bond Issuance Costs	271,946	106,405	156,045	-	-	534,396	-
Less Accumulated Amortization	(69,799)	(106,405)	(27,263)	-	-	(203,467)	-
Equity in Joint Venture	-	-	494,480	-	-	494,480	-
Capital Assets:							
Water Shares	198,400	-	-	-	-	198,400	-
Land	6,711,439	116,337	157,482	833,376	55,123	7,873,757	-
Buildings	-	279,792	13,199	245,950	290,506	829,447	-
Improvements	16,113,274	17,799,756	21,574,288	4,337,896	3,642,383	63,467,597	-
Machinery and Equipment	222,014	1,428,118	1,271,243	1,182,559	2,732,243	6,836,177	1,501,655
Construction in Progress	256,201	-	-	-	423,453	679,654	-
Less Accumulated Depreciation	(7,619,717)	(11,114,624)	(8,306,135)	(3,169,846)	(3,021,022)	(33,231,344)	(1,464,752)
Total Capital Assets, Net	15,881,611	8,509,379	14,710,077	3,429,935	4,122,686	46,653,688	36,903
Total Noncurrent Assets	16,210,723	8,896,220	15,873,309	3,429,935	4,663,742	49,073,929	36,903
Total Assets	17,572,847	10,936,364	16,094,160	3,429,935	6,777,845	54,811,151	148,297
Liabilities							
Current Liabilities:							
Accrued Liabilities	10,298	116,094	18,251	5,353	78,864	228,860	8,633
Due to Other Funds	-	-	272,658	3,443,822	-	3,716,480	-
Compensated Absences Payable	38,152	164,018	32,510	57,967	73,506	366,153	56,115
Bonds Payable	280,000	-	546,000	150,000	-	976,000	-
Interest Payable	50,066	-	137,799	16,492	-	204,357	-
Capital Leases Payable	-	91,123	-	53,684	93,951	238,758	-
Total Current Liabilities	378,516	371,235	1,007,218	3,727,318	246,321	5,730,608	64,748
Current Liabilities Payable from Restricted Assets:							
Customer Deposits Payable	-	401,097	-	-	-	401,097	-
Total Current Liabilities Payable from Restricted Assets	-	401,097	-	-	-	401,097	-
Long-Term Liabilities:							
Unamortized Bond Premiums (Net)	117,983	-	-	-	-	117,983	-
Revenue Bonds Payable (net of current portion)	7,735,000	-	8,335,000	860,000	-	16,930,000	-
Capital Leases Payable (net of current portion)	-	141,403	-	95,266	-	236,669	-
Closure and Postclosure Liability	-	-	-	-	952,107	952,107	-
Water Share Liability	339,068	-	-	-	-	339,068	-
Total Long-Term Liabilities	8,192,051	141,403	8,335,000	955,266	952,107	18,575,827	-
Total Liabilities	8,570,567	913,735	9,342,218	4,682,584	1,198,428	24,707,532	64,748
Net Assets							
Invested in Capital Assets, Net of Related Debt	7,748,628	8,418,256	5,957,859	2,366,251	4,028,735	28,519,729	36,903
Restricted for:							
Bond and Lease Requirements	51	-	364,339	-	-	364,390	-
Landfill Closure Costs	-	-	-	-	541,056	541,056	-
Impact Fees	147,375	502,108	143,662	-	-	793,145	-
Unrestricted	1,106,226	1,102,265	286,082	(3,618,900)	1,009,626	(114,701)	46,646
Total Net Assets	\$ 9,002,280	\$ 10,022,629	\$ 6,751,942	\$ (1,252,649)	\$ 5,579,417	\$ 30,103,619	\$ 83,549

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
Operating Revenues							
Charges for Services	\$ -	\$ 10,888,758	\$ -	\$ 534,158	\$ 2,481,999	\$ 13,904,915	\$ 568,335
Charges Pledged as Security for Revenue Bond	2,001,017	-	1,867,893	-	-	3,868,910	-
Miscellaneous	80	115,858	62,488	23,738	144,243	346,407	-
Total Operating Revenues	2,001,097	11,004,616	1,930,381	557,896	2,626,242	18,120,232	568,335
Operating Expenses							
Costs of Sales and Services	492,395	9,102,875	421,664	431,381	801,924	11,250,239	331,562
Maintenance Operations and Contractual Services	305,377	825,143	35,166	32,336	423,178	1,621,200	79,910
Materials and Supplies	113,972	115,013	55,570	148,707	96,837	530,099	147,116
Depreciation	349,724	612,052	507,743	288,415	303,974	2,061,908	27,618
Amortization	10,878	-	7,802	-	-	18,680	-
Total Operating Expenses	1,272,346	10,655,083	1,027,945	900,839	1,625,913	15,482,126	586,206
Operating Income (Loss)	728,751	349,533	902,436	(342,943)	1,000,329	2,638,106	(17,871)
Non-Operating Revenues (Expenses)							
Interest Income	6,888	151,791	4,358	-	6,085	169,122	-
Impact Fees	84,300	281,776	199,766	-	-	565,842	-
Grant Revenue	-	-	-	-	32,406	32,406	-
Gain (Loss) on Sale of Fixed Assets	-	-	-	2,509	2,925	5,434	-
Interest and Fiscal Charges	(364,568)	(12,722)	(379,178)	(54,194)	(8,687)	(819,349)	-
Total Non-Operating Revenues (Expenses)	(273,380)	420,845	(175,054)	(51,685)	32,729	(46,545)	-
Income (Loss) before Capital Contributions and Transfers	455,371	770,378	727,382	(394,628)	1,033,058	2,591,561	(17,871)
Transfers In	-	-	104,000	219,427	1,041,095	1,364,522	-
Transfers Out	(369,907)	(863,558)	(967,282)	-	(537,577)	(2,738,324)	-
Change in Net Assets	85,464	(93,180)	(135,900)	(175,201)	1,536,576	1,217,759	(17,871)
Net Assets Beginning of Year	8,916,816	10,115,809	6,887,842	(1,077,448)	4,042,841	28,885,860	101,420
Net Assets End of Year	\$ 9,002,280	\$ 10,022,629	\$ 6,751,942	\$ (1,252,649)	\$ 5,579,417	\$ 30,103,619	\$ 83,549

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
Cash Flows from Operating Activities							
Receipts from Customers and Users	\$ 2,062,549	\$ 11,092,429	\$ 1,827,812	\$ 557,896	\$ 2,468,626	\$ 18,009,312	\$ 568,335
Payments from Interfund Services Provided	-	-	-	183,647	(100,727)	82,920	-
Payments to Employees for Services	(275,107)	(856,749)	(201,183)	(281,008)	(505,991)	(2,120,038)	(232,253)
Payments for Goods and Services	(491,741)	(9,612,761)	(118,211)	(400,611)	(757,642)	(11,380,966)	(317,832)
Net Cash Provided by (Used in) Operating Activities	1,295,701	622,919	1,508,418	59,924	1,104,266	4,591,228	18,250
Cash Flows from Noncapital Financing Activities							
Operating Grants Received	-	-	-	-	32,406	32,406	-
Transfers to Other Funds	(369,907)	(863,558)	(967,282)	-	(537,577)	(2,738,324)	-
Transfers from Other Funds	-	-	104,000	219,427	1,041,095	1,364,522	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(369,907)	(863,558)	(863,282)	219,427	535,924	(1,341,396)	-
Cash Flows from Capital and Related Financing Activities							
Impact Fees	84,300	281,776	199,766	-	-	565,842	-
Proceeds from Bonds & Capital Leases	-	-	-	-	-	-	-
Proceeds from Sale of Assets	-	-	-	2,509	2,925	5,434	-
Increase in Joint Venture	-	-	(110,149)	-	-	(110,149)	-
Principal Paid on Revenue Bonds	(275,000)	-	(555,000)	(150,000)	-	(980,000)	-
Interest Paid on Revenue Bonds	(364,568)	-	(379,178)	-	-	(743,746)	-
Principal Paid on Capital Leases	(33,735)	(87,538)	-	(75,318)	(145,939)	(342,530)	-
Interest Paid on Capital Leases	-	(12,722)	-	(56,643)	(8,687)	(78,052)	-
Payments for Capital Acquisitions	(256,201)	(106,406)	(979,232)	-	(914,828)	(2,256,667)	(18,250)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(845,204)	75,110	(1,823,793)	(279,452)	(1,066,529)	(3,939,868)	(18,250)
Cash Flows from Investing Activities							
Interest Income Received	539	151,791	4,358	-	6,085	162,773	-
Net Increase (Decrease) in Cash and Cash Equivalents	81,129	(13,738)	(1,174,299)	(101)	579,746	(527,263)	-
Cash and Cash Equivalents Beginning of Year	45,836	523,620	1,714,269	101	538,194	2,822,020	-
Cash and Cash Equivalents End of Year	\$ 126,965	\$ 509,882	\$ 539,970	\$ -	\$ 1,117,940	\$ 2,294,757	\$ -
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating Income (Loss)	\$ 728,751	\$ 349,533	\$ 902,436	\$ (342,943)	\$ 1,000,329	\$ 2,638,106	\$ (17,871)
Adjustments:							
Depreciation	349,724	612,052	507,743	288,415	303,974	2,061,908	27,618
Amortization	10,878	-	7,802	-	-	18,680	-
(Increase) Decrease in Assets:							
Accounts Receivable	61,452	19,516	(102,569)	-	(157,616)	(179,217)	-
Due From Other Funds	185,049	(542,622)	-	-	(9,110)	(366,683)	46,292
Increase (Decrease) in Liabilities:							
Accrued Liabilities	(15,957)	107,588	(4,535)	(65,645)	41,597	63,048	(53,134)
Customer Deposits	-	68,297	-	-	-	68,297	-
Compensated Absences Payable	(15,429)	8,555	1,006	(3,550)	(8,486)	(17,904)	15,345
Water Share Liability	(7,049)	-	-	-	-	(7,049)	-
Accrued Interest	(1,718)	-	65,521	-	-	63,803	-
Due to Other Funds	-	-	131,014	183,647	(66,422)	248,239	-
Net Cash Provided by (Used in) Operating Activities	\$ 1,295,701	\$ 622,919	\$ 1,508,418	\$ 59,924	\$ 1,104,266	\$ 4,591,228	\$ 18,250
Noncash investing, capital, and financing activities:							
Contributions of capital assets from developers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Payson City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

Payson City is a political subdivision of the State of Utah. Payson City Corporation was incorporated in 1853 under the laws of the State of Utah. The City operates under a Mayor-Council form of government. The City provides municipal services under the following organizational structure.

Mayor and City Council: Mayor and City Council, Community Promotion, and Advisory Boards and Commissions.

City Administration: City Administrator, Risk Management, Emergency Operations, Recorder, Community and Neighborhood, and Computer Services.

Financial Services: Finance Director, Treasurer, Utilities, Accounting, Facilities, and Purchasing.

City Attorney: Legal Services, Prosecution, Civil and Environmental Law, and Personnel.

Development Services: Economic Development, Planning and Zoning, and Code Enforcement.

Public Safety: Police, Fire, Animal Control, and Emergency Medical Services.

Public Works: Streets, Engineering Parks, Fleet Maintenance, Water, Solid Waste Services, Water Reclamation, Street Lighting, and Storm Sewer Services.

Recreation: Swimming Pool Operations, Outdoor Recreation Programs, and Senior Citizen Programs.

Library: Library Administration, Collection Development, and Public Services.

PAYSON CITY CORPORATION
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The City is a municipal corporation governed by an elected five-member Council and Mayor. As required by generally accepted accounting principles, these financial statements present the City (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the activities concerning the capital projects of the City.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City’s water production, treatment and distribution operations.

The *electric fund* accounts for the activities of the City’s electric generation and distribution operations.

The *sewer fund* accounts for the activities of the City’s sewer treatment operations.

The *golf course fund* accounts for the activities of the City’s golf course operations.

Activities of the four funds include administration, operations and maintenance of the water, sewer, electric, and golf course systems and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water, sewer, sewer and golf course fund debt. All costs are financed through charges to utility

PAYSON CITY CORPORATION
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customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

Additionally the City reports the *internal service fund* to account for the costs of operating and maintaining vehicles and equipment owned by the City. The City also reports the following non-major fund type; Debt Service, Special Revenue and Proprietary.

As a general rule, the effect of interfund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 principle ongoing operations.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with Federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to or due from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

PAYSON CITY CORPORATION
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3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

4. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Improvements other than buildings	20-50
Infrastructure	20-40
Machinery and equipment	5-10
Furniture and fixtures	5-10

PAYSON CITY CORPORATION
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The City has adopted an allowable alternative to reporting depreciation for its roads network. Under this alternative method, referred to as the “modified approach,” the City must maintain an asset management system and demonstrate that its roads are being preserved at or above condition levels established by City policy. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

6. Compensated Absences

Payson City Corporation’s personnel policy permits employees to accumulate earned, but unused, vacation time which will be paid to employees upon termination. At June 30, 2011, the total liability for compensated absences is \$873,092.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting in Governmental Fund Types Definitions*. The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the City is bound to honor them. The City first determines and reports nonspendable balances, then restricted, then committed, and so forth. The City's governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

- **Nonspendable.** This category includes fund balance amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. Fund balance amounts related to inventories, prepaid expenditures, and endowments are classified as nonspendable.
- **Restricted.** This category includes net fund resources that are subject to external constraints that have been placed on the use of the resources either a) imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. Restricted fund balance amounts include the following:
 - a) Class C Roads
 - b) Impact fees
 - c) RDA
- **Committed.** This category includes amounts that can only be used for specific purposes established by formal action of the City Council. Fund balance commitments can only be removed or changed by the same type of action (for example, resolution) of the City Council. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City Council has committed perpetual care and revolving loan fund.
- **Assigned.** This category includes General Fund balance amounts that the City intends to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the City's administration comprised of the City administrative council. This category also includes the remaining positive fund balance for other governmental funds. The City has assigned debt service requirement, special revenue and capital projects.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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- **Unassigned.** Residual balances in the governmental fund are classified as unassigned.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

PAYSON CITY CORPORATION
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Cost of capital assets	\$39,234,036
Accumulated depreciation	(8,992,279)
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$30,241,757</u>

Long-term debt transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Accrued interest payable	\$ 170,231
Compensated absences	506,939
Bonds, notes payable, and lease payable	8,038,961
Less Bond Cost net of amortization	(127,176)
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 8,588,955</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$ 10,058
Disposal of Asset	(20,578)
Depreciation expense	(798,466)
Net adjustment to increase <i>net changes in fund balances- total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>(\$ 808,986)</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

PAYSON CITY CORPORATION
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Bond and Note Payments	\$ 492,220
Lease Payment and Proceeds	78,778
Compensated absence	(21,497)
Decrease in Accrued Interest	11,254
Less: Amortization of Bond Cost	<u>(8,431)</u>

Net adjustments to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities* \$552,324

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

- G. Encumbrances lapse at yearend. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 4 – DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized nor are they required to be by State statute.

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

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

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2011, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2011</u>
Regular Checking Account	Insured	\$250,000
Regular Checking Account	Uninsured	933,653

B. Investments

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

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

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

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

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2011 the government had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities In Years			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 7,584,284	\$ 7,584,284	\$ -	\$ -	\$ -
Total Fair Value	\$ 7,584,284	\$ 7,584,284	\$ -	\$ -	\$ -

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

Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The

PAYSON CITY CORPORATION
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Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk.

The deposits and investments described above are included on the Statement of Net Assets as per the following reconciliation:

Deposits and Investments	\$ 692,760
Investments	7,584,284
Cash on Hand	1,000
Total Cash	<u>\$8,278,044</u>
Government-Wide	
Cash and Cash Equivalents	\$ 5,124,143
Restricted Cash and Cash Equivalents	2,657,235
Fiduciary Restricted Cash	496,666
Total Cash	<u>\$8,278,044</u>
Net Cash on Statement of Net Assets	<u>\$8,278,044</u>

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

PAYSON CITY CORPORATION
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	General	Water	Electric	Sewer	Non Major Business Type	Total
Receivables:						
Accounts	\$ 3,934	\$ 252,842	\$ 1,049,359	\$ 220,851	\$ 768,069	\$ 2,295,055
Property tax	873,434	-	-	-	-	873,434
Other taxes	543,059	-	-	-	-	543,059
Intergovernmental	113,623	-	-	-	-	113,623
Less allowance for uncollectible accts	-	-	(157,700)	-	(94,608)	(252,308)
	<u>\$ 1,534,050</u>	<u>\$ 252,842</u>	<u>\$ 891,659</u>	<u>\$ 220,851</u>	<u>\$ 673,461</u>	<u>\$ 3,572,863</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

Property taxes receivable (general fund)	<u>Unavailable</u> <u>\$ 31,170</u>	<u>Unearned</u> <u>\$ 784,556</u>
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NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The RDA Business Park and Golf Course are not expected to be repaid within one year. The composition of interfund balances as of June 30, 2011 is as follows:

<u>Due to/from other funds:</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Capital Project	RDA Business Park	\$ 756,159
		General	382,056
		Golf Course	276,946
	Water	Sewer	272,658
		Golf Course	836,624
	Electric	Golf Course	889,444
	Non Major Governmental	Non Major Governmental	21,692
		Golf Course	465,656
	Non Major Enterprise	Golf Course	863,758
	Internal Service Fund	Golf Course	111,394
	Total		<u>\$4,876,387</u>

PAYSON CITY CORPORATION
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Inter-fund Transfers:

Transfer Out:	<u>General</u>	<u>Capital Projects</u>	<u>Golf Course</u>	<u>Sewer</u>	<u>Non Major Enterprise</u>	<u>Total</u>
General	\$ -		\$ 219,427	\$ -	\$ -	\$ 219,427
Capital Projects	88,224	-	-	104,000	157,000	349,224
Water	369,907	-	-	-	-	369,907
Electric	863,558	-	-	-	-	863,558
Sewer	83,187	-	-	-	884,095	967,282
Non Major Enterprise	291,577	246,000	-	-	-	537,577
Perpetual Care	15,000	-	-	-	-	15,000
Total Transfers In	<u>\$1,711,453</u>	<u>\$ 246,000</u>	<u>\$ 219,427</u>	<u>\$104,000</u>	<u>\$ 1,041,095</u>	<u>\$ 3,321,975</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

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PAYSON CITY CORPORATION
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NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,606,477	\$ -	\$ -	\$ 3,606,477
Infrastructure	16,015,045	-	-	16,015,045
Total capital assets not being depreciated	<u>19,621,522</u>	<u>-</u>	<u>-</u>	<u>19,621,522</u>
Capital assets being depreciated:				
Buildings	8,728,456	-	-	8,728,456
Improvements	6,641,733	-	-	6,641,733
Machinery and equipment	4,286,495	28,308	72,478	4,242,325
Total capital assets being depreciated	<u>19,656,684</u>	<u>28,308</u>	<u>72,478</u>	<u>19,612,514</u>
Less accumulated depreciation for:				
Buildings	(1,502,120)	(218,211)	-	(1,720,331)
Improvements	(3,117,852)	(392,515)	-	(3,510,367)
Machinery and equipment	(3,625,741)	(187,740)	(51,900)	(3,761,581)
Total accumulated depreciation	<u>(8,245,713)</u>	<u>(798,466)</u>	<u>(51,900)</u>	<u>(8,992,279)</u>
Total capital assets, being depreciated, net	<u>11,410,971</u>	<u>(770,158)</u>	<u>20,578</u>	<u>10,620,235</u>
Governmental activities capital assets, net	<u>\$ 31,032,493</u>	<u>\$ (770,158)</u>	<u>\$ 20,578</u>	<u>\$ 30,241,757</u>
Business-type activities:				
	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 7,873,757	\$ -	\$ -	\$ 7,873,757
Water Shares	198,400	-	-	198,400
Construction in Progress	-	679,654	-	679,654
Total capital assets not being depreciated	<u>8,072,157</u>	<u>679,654</u>	<u>-</u>	<u>8,751,811</u>
Capital assets being depreciated:				
Buildings	829,447	-	-	829,447
Improvements	62,316,864	1,150,733	-	63,467,597
Machinery and equipment	6,403,162	460,016	27,000	6,836,177
Total capital assets being depreciated	<u>69,549,473</u>	<u>1,610,749</u>	<u>27,000</u>	<u>71,133,221</u>
Less accumulated depreciation for:				
Buildings	(290,498)	(25,323)	-	(315,821)
Improvements	(26,543,462)	(1,464,580)	-	(28,008,042)
Machinery and equipment	(4,362,476)	(572,005)	(27,000)	(4,907,481)
Total accumulated depreciation	<u>(31,196,436)</u>	<u>(2,061,908)</u>	<u>(27,000)</u>	<u>(33,231,344)</u>
Total capital assets, being depreciated, net	<u>38,353,037</u>	<u>(451,159)</u>	<u>-</u>	<u>37,901,877</u>
Business-type activities capital assets, net	<u>\$ 46,425,194</u>	<u>\$ 228,495</u>	<u>\$ -</u>	<u>\$ 46,653,688</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

Governmental activities:	
General government	\$ 131,368
Public safety	69,667
Highways and public improvements	66,306
Economic Development	79,985
Parks and recreation	423,522
Capital assets held by the government's Internal Service Fund are charged to various functions based on their usage of assets	<u>27,618</u>
Total depreciation expense - governmental activities	<u><u>\$ 798,466</u></u>
 Business-type activities:	
Water	\$ 349,724
Electric	612,052
Sewer	507,743
Solid Waste	163,013
Golf Course	288,415
Storm Drain	120,342
Ambulance	20,619
Total depreciation expense - Business-Type Activities	<u>\$ 2,061,908</u>
Total depreciation expense	<u><u>\$ 2,860,374</u></u>

NOTE 8 - LEASE COMMITMENTS

The City over the past few years has executed various capital leases.

The assets acquired through capital leases are as follows:

Asset:	<u>Business</u>
	<u>Type</u>
Machinery and Equipment	\$2,346,496
Less: Accumulated Amortization	(1,530,693)
Total	<u><u>\$ 815,803</u></u>

Amortization of capital assets purchased under capital leases are included in depreciation.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The present value of future minimum capital lease payments under these leases as of June 30, 2011 are:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$343,126
2013	209,503
2014	76,801
2015	<u>12,583</u>
Total minimum lease payments	642,013
Less amounts representing interest	(42,625)
Present value of minimum lease payments	<u>\$ 599,388</u>

At June 30, 2011, the City's capital leases payable balance consisted of the following:

	<u>Total Capital Leases Payable</u>	
	<u>Governmental</u>	<u>Business Type</u>
Capital Leases Payable	\$ 123,961	\$ 475,427
Current Portion Capital Leases Payable	(81,848)	(238,758)
Long Term Capital Leases Payable	<u>\$ 42,113</u>	<u>\$ 236,669</u>

NOTE 9 – BONDS AND NOTES PAYABLE

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

Special Revenue Fund – RDA	
Tax Increment Revenue Bonds, Series 1998, 5.15%	
Dated March 1, 1997 (original amount \$1,130,000)	\$ 230,000
Special Improvement District No. 2001-1	
5.8%, (original amount \$2,500,000)	1,395,000
Sales Tax Revenue Bonds Series 2007B, Dated July 26, 2007	
5.0% to 5.8% (original amount \$7,300,000)	<u>6,520,000</u>
Total Bonds and Notes	8,145,000
Less Noncurrent	(7,585,000)
Current Portion	<u>\$ 560,000</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Capital Leases

2008 Loader Sweeper 3.86% (original amount \$315,400)	\$ 123,961
Total Capital lease	123,961
Less Noncurrent	(81,848)
Current portion	<u>\$ 42,113</u>

Business-type Activities:

As of June 30, 2011, the long-term debt payable from proprietary fund resources consisted of the following:

Sewer Revenue Refunding Bonds, Series 2010, dated June 21, 2010 3.64% (original amount \$5,301,000)	\$ 4,911,000
Sales Tax revenue Bond, Series 2007A, Dated July 26, 2007 4.0%-4.38% (original amount \$1,565,000)	1,010,000
Sewer Revenue Bond, Series 2007, Dated August 8, 2007 4.0%-4.5% (original amount \$4,500,000)	3,970,000
Water Revenue and Refunding Series 2008, dated Feb. 1, 2007 3-5% (original amount \$9,445,000)	<u>8,015,000</u>
Total Bonds & Notes	17,906,000
Less non-current	(16,930,000)
Current portion	<u>\$ 976,000</u>

Capital Leases

2007 Garbage Truck, 4.7% (original amount \$183,023)	\$10,097
2008 Golf Cart, 4.67% (original amount \$29,380)	15,360
2010 Golf Equipment, 3.69% (original amount \$58,000)	46,011
2010 Golf Carts, 3.42% (original amount \$56,500)	42,098
2007 Golf Equipment, 4.75% (original amount \$40,400)	17,152
2008 Golf Equipment, 3.93% (original amount \$66,894)	28,330
2008 Bucket Equipment, 3.93% (original amount \$231,950)	95,223
2009 Line Truck, 4.23% (original amount \$220,196)	137,304
2007 Cat Dozer, 4.29% (original amount \$393,788)	<u>83,853</u>
Total Capital lease	475,428
Less Noncurrent	(236,670)
Current portion	<u>\$ 238,757</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The future annual requirements for all outstanding bond and note obligations as of June 30, 2011 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2012	\$ 1,536,000	\$ 1,139,694	\$ 2,675,694
2013	1,610,000	1,066,950	2,676,950
2014	1,554,000	1,002,989	2,556,989
2015	1,613,000	936,753	2,549,753
2016	1,678,000	876,960	2,554,960
2016-2020	8,010,000	3,080,226	11,090,226
2021-2025	6,820,000	1,628,067	8,448,067
2026-2030	3,230,000	246,625	3,476,625
	<u>\$ 26,051,000</u>	<u>\$ 9,978,264</u>	<u>\$ 36,029,264</u>

Changes in Long Term Debt

Government Type Activities	2010	Additions	Reductions	2011	One Year
Bonds Payable					
Special Revenue - RDA	\$ 335,000	\$ -	\$ 105,000	\$ 230,000	\$ 110,000
SID No. 200101	1,550,000	-	155,000	1,395,000	165,000
Sales Tax Revenue Bond 2006B	6,790,000	-	270,000	6,520,000	285,000
Total Bonds Payable	<u>8,675,000</u>	<u>-</u>	<u>530,000</u>	<u>8,145,000</u>	<u>-</u>
Notes Payables	67,220	-	67,220	-	-
Capital Lease	202,739	-	78,778	123,961	81,848
Accrued Compensated Absences	485,441	21,497	-	506,938	-
Govt Activities Long-Term Debt	<u>\$ 9,430,400</u>	<u>\$ 21,497</u>	<u>\$ 675,998</u>	<u>\$ 8,775,899</u>	<u>\$ 641,848</u>

Business Type Activities	2010	Additions	Reductions	2011	One Year
Bonds Payable					
2008 Water Rev & Refunding Bond	\$ 8,290,000	\$ -	\$ 275,000	\$ 8,015,000	\$ 280,000
2006 Sales Tax Revenue Bond	1,160,000	-	150,000	1,010,000	150,000
2006 Sewer Revenue Bond	4,135,000	-	165,000	3,970,000	175,000
2010 Sewer Refunding	5,301,000	-	390,000	4,911,000	371,000
Unamortized Bond Premium	124,331	-	6,349	117,982	-
Total Bonds Payable	<u>19,010,331</u>	<u>-</u>	<u>986,349</u>	<u>18,023,982</u>	<u>-</u>
Capital Lease	784,222	-	308,795	475,427	238,757
Accrued Compensated Absence	384,058	-	17,904	366,154	-
Post Retirement Benefits Payable	2,173	-	2,173	-	-
Water Share Liability	346,117	-	7,049	339,068	-
Closure and Postclosure Liability	952,107	-	-	952,107	-
Business activities long- term debt	<u>\$ 21,479,008</u>	<u>\$ -</u>	<u>\$ 1,322,270</u>	<u>\$ 20,156,738</u>	<u>\$ 1,214,757</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 – ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS

Payson City is closing landfill parcels on an on-going basis as each land parcel is completely filled. State and Federal laws and regulations require Payson to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the cost to close the final cell through the end of the year. The estimated liability for landfill closure and post-closure care costs is \$952,107 as of June 30, 2011, which represents the cumulative amount reported to date based on the use of 35% of the estimated capacity of the landfill. The estimated total current cost of the landfill closure and post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill are performed by Payson City. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Payson City estimated the remaining life of the landfill is 26 to 56 years. As of June 30, 2011, no cost was charged to closure and post-closure expenses.

NOTE 11 - RETIREMENT PLAN

Plan Description. Payson City Corporation contributes to the Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

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

Funding Policy. Payson City Corporation is required to contribute a percent of covered salary to the respective systems, 13.37% to the Noncontributory, and 26.13% to the Public Safety Noncontributory and 16.77% to the Firefighters Retirement System, respectively. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Payson City Corporation contributions to Noncontributory Retirement System for June 30, 2011, 2010 and 2009, were \$498,024, \$457,763, and \$474,848 respectively, and for the Public Safety Retirement System the contributions for June 30, 2011, 2010, and 2009 were \$187,993, \$171,645, and \$182,968 respectively. For the Firefighter System the contributions for June 30, 2011, 2010 and 2009 were \$15,213, \$10,516, and \$10,244 respectively. The contribution was equal to the required contribution for each year.

401K Plan

The employees of the City also participate in a 401(K) deferred compensation plan. The amount of the employer contributions for the year ended June 30, 2011, 2010, and 2009 were \$16,067, \$18,932, and \$7,682 respectively.

Post Retirement Benefits

The City in previous years had established a post retirement benefit package for their employees. The City provides certain medical benefits to retiring employees. The medical benefits include the payment of health insurance premiums for the employee up to five years (or until the plan expires on January 1, 2011) or until the date the employee is eligible for Medicare. The plan expired on January 1, 2011, the final payment was made in September 2011, and the liability is recorded on the financial statement as an accounts payable.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The City is involved in claims arising in the normal course of business. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management, such litigation will have no material effect on the financial operations of the City.

NOTE 13 – DEFICIT FUND BALANCES

The following funds had a deficit fund balance/retained earnings balance at June 30, 2011:

Redevelopment Agency – Business Park	(\$ 989,631)
Golf Course	(1,252,649)

NOTE 14 - RISK MANAGEMENT

Payson City Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is unable to obtain insurance to cover the risk of losses related to torts at a cost it considers to be economically justifiable. The City participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages and other losses.

The City continues to carry commercial insurance for all other risks of loss, including theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage of any of the past three fiscal years.

NOTE 15 – EQUITY IN JOINT VENTURE

Utah Associated Municipal Power Systems (UAMPS)

Payson City is a member of Utah Associated Municipal Power Systems (UAMPS), a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the Interlocal cooperation act. UAMPS' membership consists of 31 municipalities, including one joint action agency and one electric service district. In addition, one contract purchaser of power is also supplied by UAMPS. UAMPS was formed to plan, finance, develop, acquire, construct, improve, operate, or maintain projects for the generation, transmission, and distribution of electric energy for the benefit of its members.

The City is a 19.99% participant in the operation of a joint agency project (Craig-Mona Transmission Project). Under the terms of the agreement, the operational costs and debt service requirements are reflected in the cost of power purchased. No separate payments are made to UAMPS under this agreement.

Separate compiled financial statements for UAMPS may be obtained from the Manager of Finance at 2825 East Cottonwood Parkway, suite 200, Salt Lake City, Utah 84121-7077.

South Utah Valley Municipal Water Association (SUVMWA)

Payson City is a member of South Utah Valley Municipal Water Association, a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the Interlocal cooperation act. SUVMWA membership consists of 10 municipalities. SUVMWA was formed to plan, finance, develop, acquire, construct, improve, operate, or maintain projects for the water and waste water treatment facility.

SUVMWA purchased land for the wastewater treatment facility. Payson is a 19.29% participant and paid \$494,480 toward purchase of the property. This payment is shown with equity in joint venture in the sewer fund.

Payson will have an annual payment of \$110,171 to pay for their share of the lease bond that SUVMWA incurred when they purchased the land. The lease bond is \$3,623,000 as of June 30, 2011.

Separate completed financial statements for SUVMWA may be obtained from the manager of finance at 40 South Main, Spanish Fork, UT 84660.

NOTE 16 – REDEVELOPMENT AGENCY

The Payson City Redevelopment Agencies were established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2011, the following activity occurred in the City's redevelopment agencies.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Business Park

Tax increment collection from other taxing agencies for various project areas	\$398,927
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	230,000
Amounts expended for site improvements and preparation costs	16,962
Amounts expended for administrative costs	8,528

Down Town

Tax increment collection from other taxing agencies for various project areas	\$ -
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	-
Amounts expended for site improvements and preparation costs	10,031
Amounts expended for administrative costs	-

NOTE 17 – SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 14, 2011, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Taxes:				
Property Taxes	\$ 814,541	\$ 827,000	\$ 836,558	\$ 9,558
General Sales Taxes	2,000,000	2,300,000	2,323,012	23,012
Motor Vehicle Taxes	115,690	115,690	114,291	(1,399)
Utility Taxes	-	954,000	973,007	19,007
Other Taxes	1,279,367	308,849	295,116	(13,733)
Licenses and Permits	112,011	143,600	155,104	11,504
Intergovernmental	734,472	864,713	984,103	119,390
Charges for Services	1,048,308	1,115,088	1,095,816	(19,272)
Fines and Forfeitures	194,150	211,800	241,053	29,253
Interest	5,000	5,000	5,596	596
Miscellaneous	47,000	29,101	28,218	(883)
Total Revenues	<u>6,350,539</u>	<u>6,874,841</u>	<u>7,051,874</u>	<u>177,033</u>
Expenditures				
Current:				
General Government:				
Administrative	1,516,914	1,550,784	1,428,708	122,076
Planning and Zoning	565,877	567,677	552,112	15,565
Building Maintenance	258,736	277,786	263,283	14,503
Judicial	182,889	182,888	180,665	2,223
Non-Departmental	119,996	121,682	108,088	13,594
Total General Government	<u>2,644,412</u>	<u>2,700,817</u>	<u>2,532,856</u>	<u>167,961</u>
Public Safety:				
Police Administration	1,923,705	1,949,634	1,927,921	21,713
Fire Administration	324,919	454,556	409,743	44,813
Victims Advocate	65,694	67,244	65,582	1,662
Animal Control	75,351	75,351	66,677	8,674
Total Public Safety	<u>2,389,669</u>	<u>2,546,785</u>	<u>2,469,923</u>	<u>76,862</u>
Highways and Streets:				
Streets and Sidewalks	414,172	414,171	396,017	18,154
Class "C" Road	163,091	163,091	162,558	533
Total Highways and Streets	<u>577,263</u>	<u>577,262</u>	<u>558,575</u>	<u>18,687</u>
Economic Development:				
Senior Citizens	129,446	141,756	129,272	12,484
Community Events	45,328	45,328	42,857	2,471
Total Economic Development	<u>174,774</u>	<u>187,084</u>	<u>172,129</u>	<u>14,955</u>
Parks and Recreation:				
Parks	236,309	250,596	240,493	10,103
Swimming Pool	328,817	408,817	375,600	33,217
Library	282,160	290,778	275,635	15,143
Ground Mowing	168,734	168,733	149,773	18,960
Recreation and Culture	444,516	472,250	434,460	37,790
Youth Sports	177,461	177,461	173,080	4,381
Adult Sports	82,690	82,690	76,948	5,742
Snack Shack	86,470	86,469	72,537	13,932
Total Culture and Recreation	<u>1,807,157</u>	<u>1,937,794</u>	<u>1,798,526</u>	<u>139,268</u>
Cemetery	<u>156,658</u>	<u>156,657</u>	<u>169,209</u>	<u>(12,552)</u>
Debt Service:				
Interest and Fiscal Charges	443,757	443,757	442,958	799
Total Expenditures	<u>8,193,690</u>	<u>8,550,156</u>	<u>8,144,176</u>	<u>405,980</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,843,151)</u>	<u>(1,675,315)</u>	<u>(1,092,302)</u>	<u>583,013</u>
Other Financing Sources (Uses)				
Proceeds of Notes	-	-	-	-
Sale of Assets	-	1,402	1,403	1
Transfers In	1,953,327	1,711,453	1,711,453	-
Transfers Out	(219,427)	(219,427)	(219,427)	-
Total Other Financing Sources (Uses)	<u>1,733,900</u>	<u>1,493,428</u>	<u>1,493,429</u>	<u>1</u>
Net Change in Fund Balance	<u>(109,251)</u>	<u>(181,887)</u>	<u>401,127</u>	<u>583,014</u>
Fund Balance Beginning of Year	<u>1,269,746</u>	<u>1,269,746</u>	<u>1,269,746</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 1,160,495</u>	<u>\$ 1,087,859</u>	<u>\$ 1,670,873</u>	<u>\$ 583,014</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY

Ratings for the City's Road System For the Year Ended June 30, 2011

As allowed by GASB Statement 34, the City has adopted the modified approach for reporting, where infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction or major replacements under the modified approach.

In order to utilize the modified approach, the City is required to:

1. Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
2. Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
3. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level disclosed by the City.
4. Document that the infrastructure assets are being preserved approximately at, or above the condition level established by the City.

The City has used an inventory system that evaluates the Condition and Safety of its roads. This system rates good roads with a high value and poor roads with a low value by road type. Roads are re-inventoried each year to determine current condition and safety needs. Roads in each road type with low values are then targeted for maintenance in the coming budget year.

The City Level of Service (LOS) Policy for streets is:

LOS 1 No curb and gutter (rural)

1. To maintain a minimum of 24 ft. of asphalt travel with a minimum of 4 foot of gravel shoulder with adequate facility for storm water dispersion. Adequate signage to move traffic in a uniform safe manner.

LOS 2 (Residential)

2. Maintain 40 ft. of asphalt width with adequate storm water facilities to include curb gutter and sidewalk and signage information to provide safe uninhibited flow of traffic and suitable information to negotiate the road system in a safe uniform manner

LOS 3 (Arterial)

3. Maintain 60 ft. asphalt width with adequate storm water facilities to include curb gutter and sidewalk and traffic control devices to allow for the safe uniform flow of traffic in the most fluid and efficient manner possible with higher volumes of traffic involving higher speeds.

The streets are assessed by the Iwork Computer program. The most recent assessment found that the City's streets were within the prescribed parameters with 80% having a pavement condition with service life of 12 years or better and 2% of the streets having a pavement condition 2 years service life or less.

On June 30, 2011, the City has 83.62 center lane miles of paved road.

It is the City's policy to maintain its roads at or above the average rating for each class of roads.

Over the last five reporting years, the estimated amounts needed and actual expenditures utilized to maintain and preserve the City's road system are as follows (capital expenditures are not included):

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2007	\$138,000	\$137,768
2008	483,880	434,851
2009	470,949	478,883
2010	416,832	384,700
2011	161,390	158,999

SUPPLEMENTAL INFORMATION

PAYSON CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds						Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant	Debt Service	
Assets							
Due From Other Funds	\$ 289,702	\$ -	\$ -	\$ 8,100	\$ 8,107	\$ 175,082	\$ 487,348
Notes Receivable	-	-	-	-	-	-	174,140
Restricted Assets:							
Cash and Cash Equivalents	-	133,825	139,121	-	-	277,110	769,612
Total Assets	\$ 289,702	\$ 133,825	\$ 147,221	\$ 8,107	\$ 278,203	\$ 398,960	\$ 1,431,100
Liabilities							
Accrued Liabilities	\$ 1,536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,536
Due To Other Funds	-	756,159	21,692	-	-	-	777,851
Interest Payable	-	3,472	-	-	-	-	3,472
Bonds Payable	-	230,000	-	-	-	-	230,000
Total Liabilities	1,536	989,631	21,692	-	-	-	1,012,859
Fund Balances							
Restricted for:							
RDA	288,166	-	-	-	-	-	288,166
Impact Fees	-	112,133	147,221	-	-	-	259,354
Committed for:							
Perpetual Care	-	-	-	-	278,203	-	278,203
Other	-	-	-	-	-	398,960	398,960
Assigned for:							
Debt Service	-	-	-	-	-	175,082	175,082
Special Revenue	-	-	-	-	8,107	-	8,107
Unassigned:	-	(989,631)	-	-	-	-	(989,631)
Total Fund Balances (Deficits)	288,166	(989,631)	147,221	8,107	278,203	398,960	418,241
Total Liabilities and Fund Balances	\$ 289,702	\$ 133,825	\$ 147,221	\$ 8,107	\$ 278,203	\$ 398,960	\$ 1,431,100

PAYSON CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds							Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant	Debt Service	Perpetual Care	
Revenues								
Taxes:								
Property	-	\$ 398,927	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-	116,289	-	-
Charges for Services	-	-	-	-	-	-	19,744	-
Interest	-	-	900	1,417	-	-	1,448	1,763
Total Revenues	-	398,927	900	1,417	-	116,289	21,192	1,763
Expenditures								
Current:								
General Government	10,031	-	-	-	-	-	-	-
Economic Development	-	16,962	13,060	-	-	-	-	-
Debt Service:								
Principal Retirement	-	-	135,000	-	-	-	-	-
Interest and Fiscal Charges	-	18,167	153,570	-	-	-	-	-
Total Expenditures	10,031	35,129	301,630	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures	(10,031)	363,798	(300,730)	1,417	-	116,289	21,192	1,763
Other Financing Sources (Uses)								
Impact Fees	-	-	128,598	39,715	-	-	-	-
Transfer In (Out)	-	-	-	-	-	-	(15,000)	-
Total Other Financing Sources (Uses)	-	-	128,598	39,715	-	-	(15,000)	-
Net Change in Fund Balances	(10,031)	363,798	(172,132)	41,132	-	116,289	6,192	1,763
Fund Balances (Deficits) Beginning of Year -	298,197	(1,353,429)	284,265	106,089	8,107	58,793	272,011	397,197
Fund Balances (Deficits) End of Year	\$ 288,166	\$ (989,631)	\$ 112,133	\$ 147,221	\$ 8,107	\$ 175,082	\$ 278,203	\$ 398,960
								\$ 418,241

PAYSON CITY CORPORATION
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2011

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 576,884	\$ -	\$ 576,884
Accounts Receivable (Net of Allowance for Uncollectables)	209,751	106,615	357,095	673,461
Due From Other Funds	438,497	34,305	390,956	863,758
Total Current Assets	648,248	717,804	748,051	2,114,103
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	541,056	-	-	541,056
Capital Assets:				
Land	55,123	-	-	55,123
Buildings	138,136	152,370	-	290,506
Improvements	516,064	3,116,065	10,254	3,642,383
Machinery and Equipment	2,026,811	207,686	497,746	2,732,243
Construction in Progress	-	423,453	-	423,453
Less Accumulated Depreciation	(2,041,985)	(537,468)	(441,569)	(3,021,022)
Total Capital Assets, Net	694,149	3,362,106	66,431	4,122,686
Total Noncurrent Assets	1,235,205	3,362,106	66,431	4,663,742
Total Assets	1,883,453	4,079,910	814,482	6,777,845
Liabilities				
Current Liabilities:				
Accrued Liabilities	16,393	58,720	3,751	78,864
Due to Other Funds	-	-	-	-
Compensated Absences Payable	46,398	27,108	-	73,506
Capital Leases Payable	93,951	-	-	93,951
Total Current Liabilities	156,742	85,828	3,751	246,321
Long-Term Liabilities:				
Capital Leases Payable (net of current portion)	-	-	-	-
Closure and Postclosure Liability	952,107	-	-	952,107
Total Long-Term Liabilities	952,107	-	-	952,107
Total Liabilities	1,108,849	85,828	3,751	1,198,428
Net Assets				
Invested in Capital Assets, Net of Related Debt	600,198	3,362,106	66,431	4,028,735
Restricted for:				
Landfill Closure Costs	541,056	-	-	541,056
Unrestricted	(366,650)	631,976	744,300	1,009,626
Total Net Assets	\$ 774,604	\$ 3,994,082	\$ 810,731	\$ 5,579,417

PAYSON CITY CORPORATION
Combining Statement of Revenues,
Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2011

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Operating Revenues				
Charges for Services	\$ 1,495,062	\$ 568,549	\$ 418,388	\$ 2,481,999
Miscellaneous	142,635	1,608	-	144,243
Total Operating Revenues	<u>1,637,697</u>	<u>570,157</u>	<u>418,388</u>	<u>2,626,242</u>
Operating Expenses				
Costs of Sales and Services	477,142	67,674	257,108	801,924
Maintenance Operations and Contractual Services	369,263	14,402	39,513	423,178
Materials and Supplies	64,087	14,428	18,322	96,837
Depreciation	163,013	120,342	20,619	303,974
Total Operating Expenses	<u>1,073,505</u>	<u>216,846</u>	<u>335,562</u>	<u>1,625,913</u>
Operating Income (Loss)	<u>564,192</u>	<u>353,311</u>	<u>82,826</u>	<u>1,000,329</u>
Non-Operating Revenues (Expenses)				
Interest Income	2,861	3,224	-	6,085
Grant Revenue	-	-	32,406	32,406
Gain (Loss) on Sale of Fixed Assets	2,925	-	-	2,925
Interest and Fiscal Charges	(8,687)	-	-	(8,687)
Total Non-Operating Revenues (Expenses)	<u>(2,901)</u>	<u>3,224</u>	<u>32,406</u>	<u>32,729</u>
Income (Loss) before Capital Contributions and Transfers	561,291	356,535	115,232	1,033,058
Transfers In	-	1,041,095	-	1,041,095
Transfers Out	(511,805)	0	(25,772)	(537,577)
Change in Net Assets	49,486	1,397,630	89,460	1,536,576
Net Assets Beginning of Year	<u>725,118</u>	<u>2,596,452</u>	<u>721,271</u>	<u>4,042,841</u>
Net Assets End of Year	<u>\$ 774,604</u>	<u>\$ 3,994,082</u>	<u>\$ 810,731</u>	<u>\$ 5,579,417</u>

PAYSON CITY CORPORATION
Combining Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 1,615,846	\$ 533,419	\$ 319,361	\$ 2,468,626
Receipts from Interfund Services Provided		(100,727)		(100,727)
Payments to Employees for Services	(307,156)	(36,301)	(162,534)	(505,991)
Payments for Goods and Services	(645,183)	(4,945)	(107,514)	(757,642)
Net Cash Provided by (Used in) Operating Activities	<u>663,507</u>	<u>391,446</u>	<u>49,313</u>	<u>1,104,266</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	-	-	32,406	32,406
Transfers to Other Funds	(511,805)	-	(25,772)	(537,577)
Transfers from Other Funds	-	1,041,095	-	1,041,095
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(511,805)</u>	<u>1,041,095</u>	<u>6,634</u>	<u>535,924</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Sale of Assets	2,925	-	-	2,925
Principal Paid on Capital Leases	(145,939)	-	-	(145,939)
Interest Paid on Capital Leases	(8,687)	-	-	(8,687)
Payments for Capital Acquisitions	-	(858,881)	(55,947)	(914,828)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(151,701)</u>	<u>(858,881)</u>	<u>(55,947)</u>	<u>(1,066,529)</u>
Cash Flows from Investing Activities				
Interest Income Received	2,861	3,224	-	6,085
Net Increase (Decrease) in Cash and Cash Equivalents	2,862	576,884	-	579,746
Cash and Cash Equivalents Beginning of Year	538,194	-	-	538,194
Cash and Cash Equivalents End of Year	<u>\$ 541,056</u>	<u>\$ 576,884</u>	<u>\$ -</u>	<u>\$ 1,117,940</u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 564,192	\$ 353,311	\$ 82,826	\$ 1,000,329
Adjustments:				
Depreciation	163,013	120,342	20,619	303,974
(Increase) Decrease in Assets:				
Accounts Receivable	(21,851)	(36,738)	(99,027)	(157,616)
Allowance for Uncollectable Accounts	-	-	-	-
Due From Other Funds	(38,639)	(34,305)	63,834	(9,110)
Increase (Decrease) in Liabilities:				
Accrued Liabilities	3,331	57,205	(18,939)	41,597
Performance Bond	-	-	-	-
Compensated Absences Payable	(6,539)	(1,947)	-	(8,486)
Due to Other Funds	-	(66,422)	-	(66,422)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 663,507</u>	<u>\$ 391,446</u>	<u>\$ 49,313</u>	<u>\$ 1,104,266</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	\$ -	\$ -	\$ -	\$ -

GOVERNMENT AUDITING STANDARDS REPORT
STATE COMPLIANCE REPORT



GILBERT & STEWART

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ESTABLISHED 1974

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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 City Council
City of Payson, Utah

December 14, 2011

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of and for the year ended June 30, 2011, which collectively comprise Payson City's basic financial statements and have issued our report thereon dated December 14, 2011. 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 Payson City'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 Payson City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Payson City'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Significant Deficiencies that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

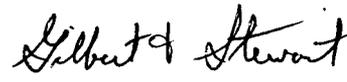
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City'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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Significant Deficiencies.

We noted certain matters that we reported to management of Payson City, in a separate letter dated December 14, 2011.

Payson City's response to the findings identified in our audit is described in the accompanying Schedule of Significant Deficiencies. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management, City Council, management, the Utah State Auditor and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

PAYSON CITY CORPORATION
SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2011

1. Draft Financial Statements

Finding: The City does not have an employee with certain expertise to draft the City's basic financial statements and related footnotes. The auditor, with oversight from management, drafts the financial statements and footnotes. Management then reviews and accepts responsibility for the financial statements. Management should make efforts to gain as much expertise as possible regarding the preparation of the basic financial statements and footnotes to ensure that they are qualified to review, approve and accept responsibility for the financial statements.

City's Response: Management will continue to gain expertise in the preparation of the financial statements and footnotes to ensure they are qualified to review, approve and accept responsibility for the statements.

2. Adjustments to Accrual Basis of Accounting

Finding: The City did not post all year-end adjusting journal entries necessary to adjust the financial statements to the accrual basis of accounting. The City also did not post all year end adjusting journal entries to reflect actual year end balances. The auditor, with oversight from management, recommended additional adjusting journal entries to the City to adjust the financial statements to the year end balances and the accrual basis of accounting.

City's Response: Management will continue to receive training on posting and converting the financial statements to the accrual basis of accounting and to post year end balances.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE IN ACCORDANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE

Honorable Mayor and City Council
City of Payson, Utah

December 14, 2011

We have audited Payson City's compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2011. The general compliance requirements applicable to the City are identified as follows:

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

The City received the following major assistance programs from the State of Utah:

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

Compliance with the requirements referred to above is the responsibility of the City's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah legal Compliance Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the major assistance programs or general compliance requirements identified above. An audit includes examining, on a

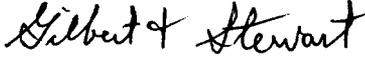
test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, Payson City complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state assistance programs for the year ended June 30, 2011.

However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which is described in our letter to management dated December 14, 2011 as items 11-1 through 11-3.

Management's response to the findings identified in our audit is described in the accompanying letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

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


GILBERT & STEWART
Certified Public Accountants

PAYSON CITY

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE



Honorable Mayor and City Council
City of Payson, Utah

December 14, 2011

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 5, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Payson City are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. As described in Note 1 to the financial statements, Payson City changed accounting policies related to Fund Balance descriptions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in June 30, 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statement. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the capital assets' useful life is based on the historical life of similar assets. We evaluated the key factors and assumptions used to develop the capital assets' useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Utah State Legal Compliance Findings – Current Year

11-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%.

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

Current Status: Payson City has reduced the General Fund balance over the past couple of years and there is a large deficit in the EDA Fund balance. At the end of the EDA life, and once that balance is transferred from the General Fund to the EDA, our General Fund balance will be brought down within the State limits.

11-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2011.

Redevelopment Agency – Business Park	(\$989,631)
Golf Course Fund	(\$1,252,649)

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

City's Status: As noted in the first finding, the General Fund balance has been kept too high to cover the deficit in these other funds.

11-3 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the 2nd report of the fiscal year was not filed within the allotted time frame.

Recommendation: We recommend that the City start filing the required reports in the time mandated by State law.

Current Status: Payson City agrees and the manager of the department has been notified and will make sure the new employee will file the quarterly building permit reports on time.

11-4 General Compliance – Budgetary Compliance

Finding: Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted the following departments in the General Fund incurred expenditures in excess of the budget:

Cemetery	\$ 12,552
----------	-----------

Recommendation: We recommend that the City keep expenditures within the approved budget.

City's Response: We concur with the finding. We will work toward budgeting properly and maintaining expenditures within the approved budget.

Utah State Legal Compliance Findings – Prior Year:

10-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%.

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

Current Status: See current year finding 11-1.

10-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2010.

Redevelopment Agency – Business Park	(\$1,353,429)
Golf Course Fund	(\$1,077,448)

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

City's Status: See current year finding 11-2.

10-3 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the last report of the fiscal year was not filed within the allotted time frame.

Recommendation: We recommend that the City start filing the required reports in the time mandated by State law.

Current Status: See current year finding 11-3.

10-4 General Compliance – Justice Courts Compliance

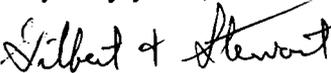
Finding: Utah Code Section 51-4-2(4)(a) states that all justice courts having funds due to the State, shall on or before the 10th day of the month, pay all funds received within the preceding month to the appropriate public treasurer. We noted that not all funds were paid within the 10 day limit.

Recommendation: We recommend that the City make timely deposits to bring the City into Compliance with State law.

City's Response: City is in compliance.

This information is intended solely for the use of City Council, management of Payson City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


GILBERT & STEWART
Certified Public Accountants