

**PAYSON CITY CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**PAYSON CITY CORPORATION**  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Payson, Utah

December 19, 2012

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, 2012, 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, 2012, 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 19, 2012, 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, 2012. 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 \$58,468,458 to \$61,621,959. Of this, the governmental net assets increased by \$108,295 and the business-type net assets increased by \$3,045,206. (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net assets of \$61,621,959 is made up of \$51,884,653 in capital assets net of related debt and \$6,375,683 in unrestricted and \$3,361,623 restricted net assets.
- The General Fund (the primary operating fund) had a decrease in its fund balance of \$180,554.
- Total long-term liabilities of the City went down from \$28,932,637 to \$27,149,491, which includes all debt owing (bonds, leases, compensated absences, water share liability, bond premiums and Landfill post-closure liability), as of June 30, 2012.

### 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 \$61,621,959.

By far the largest portion of Payson City’s net assets, (84%) 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         |               |
|-----------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
|                                   | 2012                    | 2011          | 2012                     | 2011          | 2012          | 2011          |
| Current and other assets          | \$ 9,370,912            | \$ 8,672,649  | \$ 7,952,201             | \$ 5,120,637  | \$ 17,323,113 | \$ 13,793,286 |
| Capital assets                    | 29,717,192              | 30,241,757    | 45,478,001               | 45,974,034    | 75,195,193    | 76,215,791    |
| Total assets                      | 39,088,104              | 38,914,406    | 53,430,202               | 51,094,671    | 92,518,306    | 90,009,077    |
| Other liabilities                 | 2,428,368               | 1,773,667     | 1,318,488                | 834,314       | 3,746,856     | 2,607,981     |
| Long-term liabilities outstanding | 8,186,602               | 8,775,900     | 18,962,889               | 20,156,738    | 27,149,491    | 28,932,638    |
| Total liabilities                 | 10,614,970              | 10,549,567    | 20,281,377               | 20,991,052    | 30,896,347    | 31,540,619    |
| Net assets:                       |                         |               |                          |               |               |               |
| Invested in capital assets, net   |                         |               |                          |               |               |               |
| of related debt                   | 22,208,824              | 22,099,972    | 29,675,829               | 28,519,729    | 51,884,653    | 50,619,701    |
| Restricted                        | 574,125                 | 948,070       | 2,787,498                | 1,698,591     | 3,361,623     | 2,646,661     |
| Unrestricted                      | 5,690,185               | 5,316,797     | 685,498                  | (114,701)     | 6,375,683     | 5,202,096     |
| Total net assets                  | \$ 28,473,134           | \$ 28,364,839 | \$ 33,148,825            | \$ 30,103,619 | \$ 61,621,959 | \$ 58,468,458 |

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

|                                  | Governmental Activities |                      | Business-type Activities |                      | Total                |                      |
|----------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                                  | 2012                    | 2011                 | 2012                     | 2011                 | 2012                 | 2011                 |
| Revenues:                        |                         |                      |                          |                      |                      |                      |
| Program revenues:                |                         |                      |                          |                      |                      |                      |
| Charges for services             | \$ 1,513,946            | \$ 1,511,717         | \$ 18,853,093            | \$ 18,289,354        | \$ 20,367,039        | \$ 19,801,071        |
| Operating grants and contribs    | 351,434                 | 343,077              | -                        | -                    | 351,434              | 343,077              |
| Capital grants and contribs      | 872,063                 | 809,339              | 867,866                  | 598,248              | 1,739,929            | 1,407,587            |
| General revenues:                |                         |                      |                          |                      |                      |                      |
| Taxes                            | 5,222,384               | 4,924,289            | -                        | -                    | 5,222,384            | 4,924,289            |
| Gain (Loss) on Sale of Assets    | 448,967                 | 1,403                | 32,374                   | 5,434                | 481,341              | 6,837                |
| Special Assessments              | 0                       | 116,289              | -                        | -                    | 0                    | 116,289              |
| Unrestricted investment earnings | 37,735                  | 24,125               | -                        | 0                    | 37,735               | 24,125               |
| Transfers                        | 827,444                 | 1,373,802            | (827,444)                | (1,373,802)          | -                    | -                    |
| Misc.                            | 67,174                  | 28,218               | 784,131                  | -                    | 851,305              | 28,218               |
| Total revenues                   | <u>9,341,147</u>        | <u>9,132,259</u>     | <u>19,710,020</u>        | <u>17,519,234</u>    | <u>29,051,167</u>    | <u>26,651,493</u>    |
| Expenses:                        |                         |                      |                          |                      |                      |                      |
| General government               | 2,463,421               | 2,698,896            |                          |                      | 2,463,421            | 2,698,896            |
| Public safety                    | 2,701,558               | 2,557,461            |                          |                      | 2,701,558            | 2,557,461            |
| Highways and public works        | 943,130                 | 624,881              |                          |                      | 943,130              | 624,881              |
| Parks and recreation             | 2,272,903               | 2,222,048            |                          |                      | 2,272,903            | 2,222,048            |
| Economic Development             | 288,811                 | 292,167              |                          |                      | 288,811              | 292,167              |
| Cemetery                         | 174,983                 | 169,209              |                          |                      | 174,983              | 169,209              |
| Interest on long-term debt       | 388,046                 | 423,034              |                          |                      | 388,046              | 423,034              |
| Water                            |                         |                      | 1,683,462                | 1,636,914            | 1,683,462            | 1,636,914            |
| Electric                         |                         |                      | 10,788,852               | 10,667,805           | 10,788,852           | 10,667,805           |
| Sewer                            |                         |                      | 1,583,377                | 1,407,123            | 1,583,377            | 1,407,123            |
| Solid Waste                      |                         |                      | 1,003,432                | 1,082,192            | 1,003,432            | 1,082,192            |
| Golf                             |                         |                      | 955,475                  | 955,033              | 955,475              | 955,033              |
| Storm Drain                      |                         |                      | 297,244                  | 216,846              | 297,244              | 216,846              |
| Ambulance                        |                         |                      | 352,972                  | 335,562              | 352,972              | 335,562              |
| Total expenses                   | <u>9,232,852</u>        | <u>8,987,696</u>     | <u>16,664,814</u>        | <u>16,301,475</u>    | <u>25,897,666</u>    | <u>25,289,171</u>    |
| Increase in net assets           | 108,295                 | 144,563              | 3,045,206                | 1,217,759            | 3,153,501            | 1,362,322            |
| Net assets - beginning           | 28,364,839              | 28,220,276           | 30,103,619               | 28,885,860           | 58,468,458           | 57,106,136           |
| Net assets - ending              | <u>\$ 28,473,134</u>    | <u>\$ 28,364,839</u> | <u>\$ 33,148,825</u>     | <u>\$ 30,103,619</u> | <u>\$ 61,621,959</u> | <u>\$ 58,468,458</u> |

## 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, 2012, the City's governmental funds (General, Debt Service, & Special Revenue) reported combined fund balance of \$6,708,700 up from \$6,574,634 last year. This represents an increase/decrease of \$134,066 from last year's ending balances, with the General Fund portion decreasing by \$180,554.

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 65% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several

years. It represents 53% of total tax revenues and represents \$2,515,727 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 \$8,617,699 to a final budget of \$8,881,724 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, 2012, amounts to \$75,754,053 (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 2012 fiscal year included the following:

- Police – Hand held radios \$4,400; New 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 \$9,250; Tables and Chairs \$3,500
- Storm Drain – Retention Pond Repair \$28,200; 600 East Curb & Gutter and sumps \$60,000; 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

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

|                                 | Governmental Activities |                      | Business-type Activities |                      | Total                |                      |
|---------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                                 | 2012                    | 2011                 | 2012                     | 2011                 | 2012                 | 2011                 |
| Invested in capital assets, net |                         |                      |                          |                      |                      |                      |
| Land                            | \$ 3,518,221            | \$ 3,606,477         | \$ 7,873,757             | \$ 7,873,757         | \$ 11,391,978        | \$ 11,480,234        |
| Building                        | 6,789,914               | 7,008,125            | 488,567                  | 513,626              | 7,278,481            | 7,521,751            |
| Equipment                       | 489,666                 | 480,744              | 1,940,436                | 1,928,696            | 2,430,102            | 2,409,440            |
| Water Shares                    | -                       | -                    | 198,400                  | 198,400              | 198,400              | 198,400              |
| Improvements                    | 2,744,904               | 3,131,366            | 34,976,841               | 35,459,555           | 37,721,745           | 38,590,921           |
| Infrastructure                  | 16,174,487              | 16,015,045           | -                        | -                    | 16,174,487           | 16,015,045           |
| Construction in Progress        | -                       | -                    | 558,860                  | 679,654              | 558,860              | 679,654              |
| Total net assets                | <u>\$ 29,717,192</u>    | <u>\$ 30,241,757</u> | <u>\$ 46,036,861</u>     | <u>\$ 46,653,688</u> | <u>\$ 75,754,053</u> | <u>\$ 76,895,445</u> |

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> |
|-------------|-----------------|---------------------|
| 2008        | \$ 483,880      | \$ 434,851          |
| 2009        | 470,949         | 478,883             |
| 2010        | 416,832         | 384,700             |
| 2011        | 161,390         | 158,999             |
| 2012        | 392,160         | 366,866             |

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, 2012, the City had total bonded debt outstanding of \$24,405,000. 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 \$1,230,000). Also the following revenue bonds; the Sewer Revenue Bonds, for the eastside sewer line for \$4,500,000 (with the remaining amount owing \$3,795,000); Sales Tax Bonds for swimming pool and golf course improvements for \$8,865,000 (with the remaining amount owing swimming pool \$6,235,000 and golf course \$0, paid off in current year). The following Sewer Revenue Refunding Bond of \$5,301,000 (with the remaining amount owing \$4,540,000) and the Water Revenue & Refunding Bond of \$9,445,000 (with the remaining owing \$7,735,000)

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

|                                   | Governmental Activities |                     | Business-type Activities |                      | Total                |                      |
|-----------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
|                                   | 2012                    | 2011                | 2012                     | 2011                 | 2012                 | 2011                 |
| Bonds Payable                     | \$ 7,585,000            | \$ 8,145,000        | \$ 16,931,634            | \$ 18,023,982        | \$ 24,516,634        | \$ 26,168,982        |
| Capital Lease                     | 42,113                  | 123,961             | 413,356                  | 475,427              | 455,469              | 599,388              |
| Accrued Compensated Absences      | 559,489                 | 506,938             | 399,648                  | 366,154              | 959,137              | 873,092              |
| Water Share Liability             | -                       | -                   | 266,144                  | 339,068              | 266,144              | 339,068              |
| Closure and Postclosure Liability | -                       | -                   | 952,107                  | 952,107              | 952,107              | 952,107              |
| Total Long Term Debt              | <u>\$ 8,186,602</u>     | <u>\$ 8,775,899</u> | <u>\$ 18,962,889</u>     | <u>\$ 20,156,738</u> | <u>\$ 27,149,491</u> | <u>\$ 28,932,637</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 5.2% in October 2012. This compares with the national rate of 7.9%. (Source: Utah Dept of Workforce Services). The State unemployment rate was 7% in October 2011.
- Payson City saw a dramatic drop in building permits for new residential units from 2006 to 2008, and have steadied out since that time with 52 permits in 2009, 223 in 2010, 49 in 2011, and so far in 2012 we have issued 33 permits for new residential units.
- The General Fund budget for fiscal year ending June 30, 2012 reflects an increase in expenditures of \$264,025 over the final budget for the fiscal year ended June 30, 2012.
- The City Council also voted the Certified Tax Rate at .001380 for FY 2012.
- Some capital improvements planned for and budgeted in the FY 2013 budget include:
  - Police – Handhelds \$4400

- Fire Department – Miscellaneous fire equipment \$8848
- Streets – 930 West \$113,338; Repair & Maintenance \$241,500 (BYC Roads)
- Cemetery – Backhoe lease \$8,000
- Water – Backhoe lease \$8,000; \$14,131 SCADA for new tanks
- Solid Waste/Landfill – Garbage Truck lease payments \$133,205
- Electric – Line Truck Lease Payment \$100,259
- Ambulance – New Ambulance Lease Payment \$30,000; Miscellaneous Equipment \$11,315
- Golf – Low Band Radio Equipment \$27,150
- Storm Drain – Retention Pond Repair \$28,200; Curb & Gutter \$60,000; Miscellaneous Storm Projects \$100,000; 930 West \$370,000
- Information Technology – Software Upgrades \$5,000; Building Permit Program \$6,000; Replacement Computers \$21,000

## 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.

**PAYSON CITY CORPORATION**  
**Statement of Net Assets**  
**June 30, 2012**

|  | Governmental<br>Activities | Business-Type<br>Activities | Total                |
|--|----------------------------|-----------------------------|----------------------|
| <b>Assets</b>  |                            |                             |                      |
| Cash and Cash Equivalents                                    | \$ 5,008,745               | \$ 1,710,592                | \$ 6,719,337         |
| Accounts Receivable (Net of Allowance<br>for Uncollectables) | 1,623,461                  | 2,109,414                   | 3,732,875            |
| Prepaid Items  |                            | 136,000                     | 136,000              |
| Notes Receivable   | 168,986                    | -                           | 168,986              |
| Internal Balances  | 1,164,888                  | (1,164,888)                 | -                    |
| Restricted Assets:   |                            |                             |                      |
| Cash and Cash Equivalents                                    | 1,286,087                  | 3,607,551                   | 4,893,638            |
| Bond Issuance Costs (Net of Accumulated Amortization)        | 118,745                    | 389,904                     | 508,649              |
| Equity in Joint Venture                                      |                            | 604,768                     | 604,768              |
| Capital Assets (Net of Accumulated<br>Depreciation)          |                            |                             |                      |
| Water Shares   | -                          | 198,400                     | 198,400              |
| Land   | 3,518,221                  | 7,873,757                   | 11,391,978           |
| Buildings  | 6,789,914                  | 488,567                     | 7,278,481            |
| Improvements   | 2,744,904                  | 34,976,841                  | 37,721,745           |
| Machinery and Equipment                                      | 489,666                    | 1,940,436                   | 2,430,102            |
| Infrastructure   | 16,174,487                 | -                           | 16,174,487           |
| Construction in Progress                                     | -                          | 558,860                     | 558,860              |
| <b>Total Assets</b>  | <b>39,088,104</b>          | <b>53,430,202</b>           | <b>92,518,306</b>    |
| <b>Liabilities</b>   |                            |                             |                      |
| Accounts Payable   | 891,559                    | 641,041                     | 1,532,600            |
| Interest Payable   | 157,663                    | 184,728                     | 342,391              |
| Other Current Liabilities                                    | 578,200                    | 492,719                     | 1,070,919            |
| Deferred Revenue   | 800,946                    | -                           | 800,946              |
| Long-Term Liabilities:                                       |                            |                             |                      |
| Due Within One Year  | 632,113                    | 1,067,872                   | 1,699,985            |
| Due In More Than One Year                                    | 7,554,489                  | 17,895,017                  | 25,449,506           |
| <b>Total Liabilities</b>                                     | <b>10,614,970</b>          | <b>20,281,377</b>           | <b>30,896,347</b>    |
| <b>Net Assets</b>  |                            |                             |                      |
| Invested in Capital Assets, Net of Related Debt              | 22,208,824                 | 29,675,829                  | 51,884,653           |
| Restricted for:  |                            |                             |                      |
| Capital Projects   | -                          | 574,253                     | 574,253              |
| Debt Service   | -                          | 385,665                     | 385,665              |
| Class "C" Roads  | 286,232                    | -                           | 286,232              |
| Impact Fees  | 287,893                    | 1,282,697                   | 1,570,590            |
| Landfill Closure Costs                                       | -                          | 544,883                     | 544,883              |
| Unrestricted   | 5,690,185                  | 685,498                     | 6,375,683            |
| <b>Total Net Assets</b>                                      | <b>\$ 28,473,134</b>       | <b>\$ 33,148,825</b>        | <b>\$ 61,621,959</b> |

*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, 2012**

|   | Program Revenues     |                      |  |                         | Net (Expense) Revenue and Changes in Net Assets |                      |                      |
|---|----------------------|----------------------|--|-------------------------|---|----------------------|----------------------|
|   | Expenses             | Charges for Services | Operating Grants, Contributions and Interest |                         | Primary Government                              |                      |                      |
|   |                      |                      | Capital Grants and Contributions             | Governmental Activities | Business-Type Activities                        | Total                |                      |
| <b>Primary Government</b>                   |                      |                      |  |                         |   |                      |                      |
| <b>Governmental Activities:</b>             |                      |                      |  |                         |   |                      |                      |
| General Government                          | \$ 2,463,421         | \$ 174,863           | \$ 66,263                                    | -                       | \$ (2,222,295)                                  | -                    | \$ (2,222,295)       |
| Public Safety                               | 2,701,558            | 373,244              | 268,571                                      | 59,510                  | (2,000,233)                                     | -                    | (2,000,233)          |
| Highways and Streets                        | 943,130              | -                    | -  | 748,761                 | (194,369)                                       | -                    | (194,369)            |
| Parks and Recreation                        | 2,272,903            | 943,518              | 16,600                                       | 63,792                  | (1,248,993)                                     | -                    | (1,248,993)          |
| Economic Development                        | 288,811              | -                    | -  | -                       | (288,811)                                       | -                    | (288,811)            |
| Cemetery                                    | 174,983              | 22,321               | -  | -                       | (152,662)                                       | -                    | (152,662)            |
| Interest on Long-Term Debt                  | 388,046              | -                    | -  | -                       | (388,046)                                       | -                    | (388,046)            |
| <b>Total Governmental Activities</b>        | <b>9,232,852</b>     | <b>1,513,946</b>     | <b>351,434</b>                               | <b>872,063</b>          | <b>(6,495,409)</b>                              | <b>-</b>             | <b>(6,495,409)</b>   |
| <b>Business-Type Activities:</b>            |                      |                      |  |                         |   |                      |                      |
| Water                                       | 1,683,462            | 2,099,722            | -  | 130,017                 | -   | \$ 546,277           | 546,277              |
| Electric                                    | 10,788,852           | 11,610,646           | -  | 483,041                 | -   | 1,304,835            | 1,304,835            |
| Sewer                                       | 1,583,377            | 1,913,256            | -  | 215,910                 | -   | 545,789              | 545,789              |
| Solid Waste                                 | 1,003,432            | 1,740,667            | -  | -                       | -   | 737,235              | 737,235              |
| Golf  | 955,475              | 591,884              | -  | -                       | -   | (363,591)            | (363,591)            |
| Storm Drain                                 | 297,244              | 586,658              | -  | 30,713                  | -   | 320,127              | 320,127              |
| Ambulance                                   | 352,972              | 310,260              | -  | 8,185                   | -   | (34,527)             | (34,527)             |
| <b>Total Business-Type Activities</b>       | <b>16,664,814</b>    | <b>18,853,093</b>    | <b>-</b>                                     | <b>867,866</b>          | <b>-</b>  | <b>3,056,145</b>     | <b>3,056,145</b>     |
| <b>Total Primary Government</b>             | <b>\$ 25,897,666</b> | <b>\$ 20,367,039</b> | <b>\$ 351,434</b>                            | <b>\$ 1,739,929</b>     | <b>(6,495,409)</b>                              | <b>3,056,145</b>     | <b>(3,439,264)</b>   |
| <b>General Revenues</b>                     |                      |                      |  |                         |   |                      |                      |
| <b>Taxes:</b>                               |                      |                      |  |                         |   |                      |                      |
| Property Taxes                              |                      |                      |  |                         | 1,331,671                                       | -                    | 1,331,671            |
| General Sales Taxes                         |                      |                      |  |                         | 2,515,727                                       | -                    | 2,515,727            |
| Motor Vehicle Taxes                         |                      |                      |  |                         | 113,615   | -                    | 113,615              |
| Utility Taxes                               |                      |                      |  |                         | 946,129   | -                    | 946,129              |
| Other Taxes                                 |                      |                      |  |                         | 315,242   | -                    | 315,242              |
| Gain (Loss) on Sale of Capital Asset        |                      |                      |  |                         | 448,967   | 32,374               | 481,341              |
| Investment Earnings                         |                      |                      |  |                         | 37,735  | -                    | 37,735               |
| Insurance Proceeds                          |                      |                      |  |                         | -   | 784,131              | 784,131              |
| Miscellaneous                               |                      |                      |  |                         | 67,174  | -                    | 67,174               |
| Transfers                                   |                      |                      |  |                         | 827,444   | (827,444)            | -                    |
| <b>Total General Revenues and Transfers</b> |                      |                      |  |                         | <b>6,603,704</b>                                | <b>(10,939)</b>      | <b>6,592,765</b>     |
| <b>Change in Net Assets</b>                 |                      |                      |  |                         | <b>108,295</b>                                  | <b>3,045,206</b>     | <b>3,153,501</b>     |
| <b>Net Assets Beginning of Year</b>         |                      |                      |  |                         | <b>28,364,839</b>                               | <b>30,103,619</b>    | <b>58,468,458</b>    |
| <b>Net Assets End of Year</b>               |                      |                      |  |                         | <b>\$ 28,473,134</b>                            | <b>\$ 33,148,825</b> | <b>\$ 61,621,959</b> |

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

**PAYSON CITY CORPORATION**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

|  | General             | Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| <b>Assets</b>  |                     |                     |                                |                                |
| Cash and Cash Equivalents                                    | \$ 1,711,856        | \$ 3,296,889        | \$ -                           | \$ 5,008,745                   |
| Accounts Receivable (Net of Allowance<br>for Uncollectables) | 1,623,461           | -                   | -                              | 1,623,461                      |
| Due From Other Funds   | 348,669             | 772,823             | 341,490                        | 1,462,982                      |
| Notes Receivable   | -                   |                     | 168,986                        | 168,986                        |
| Restricted Assets:   |                     |                     |                                |                                |
| Cash and Cash Equivalents                                    | 99,853              | 442,710             | 743,524                        | 1,286,087                      |
| <b>Total Assets</b>  | <b>\$ 3,783,839</b> | <b>\$ 4,512,422</b> | <b>\$ 1,254,000</b>            | <b>\$ 9,550,261</b>            |
| <b>Liabilities</b>   |                     |                     |                                |                                |
| Accrued Liabilities  | \$ 875,001          | \$ 1,001            | \$ 1,356                       | \$ 877,358                     |
| Due To Other Funds   | -                   | -                   | 423,873                        | 423,873                        |
| Deposits   | 578,200             | -                   | -                              | 578,200                        |
| Interest Payable   | -                   | -                   | 1,811                          | 1,811                          |
| Deferred Revenue   | 840,319             | -                   | -                              | 840,319                        |
| Bonds Payable  | -                   | -                   | 120,000                        | 120,000                        |
| <b>Total Liabilities</b>                                     | <b>2,293,520</b>    | <b>1,001</b>        | <b>547,040</b>                 | <b>2,841,561</b>               |
| <b>Fund Balances</b>   |                     |                     |                                |                                |
| Restricted for:  |                     |                     |                                |                                |
| RDA  | -                   | -                   | 677,241                        | 677,241                        |
| Class "C" Roads  | 286,232             | -                   | -                              | 286,232                        |
| Impact Fees  | -                   | -                   | 287,893                        | 287,893                        |
| Committed for:   |                     |                     |                                |                                |
| Perpetual Care   | -                   | -                   | 287,510                        | 287,510                        |
| Assigned for:  |                     |                     |                                |                                |
| Community Events   | 138,412             | -                   | -                              | 138,412                        |
| Capital Project Fund   | -                   | 4,511,421           | -                              | 4,511,421                      |
| Unassigned:  | 1,065,675           | -                   | (545,684)                      | 519,991                        |
| <b>Total Fund Balances (Deficits)</b>                        | <b>1,490,319</b>    | <b>4,511,421</b>    | <b>706,960</b>                 | <b>6,708,700</b>               |
| <b>Total Liabilities and Fund Balances</b>                   | <b>\$ 3,783,839</b> | <b>\$ 4,512,422</b> | <b>\$ 1,254,000</b>            | <b>\$ 9,550,261</b>            |

*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, 2012**

|  |    |                          |
|--|----|--------------------------|
| Total Governmental Funds Balances  | \$ | 6,708,700                |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p>  |    |                          |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds   |    | 29,717,192               |
| Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.   |    | 39,373                   |
| 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. |    | 113,389                  |
| 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>(8,105,520)</u>       |
| Net Assets of Governmental Activities  | \$ | <u><u>28,473,134</u></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, 2012**

|  | General             | Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                     |                     |                                |                                |
| Taxes:   |                     |                     |                                |                                |
| Property Taxes   | \$ 869,337          | \$ -                | \$454,131                      | \$ 1,323,468                   |
| General Sales Taxes  | 2,515,727           | -                   | -                              | 2,515,727                      |
| Motor Vehicle Taxes  | 113,615             | -                   | -                              | 113,615                        |
| Utility Taxes  | 946,129             | -                   | -                              | 946,129                        |
| Other Taxes  | 315,242             | -                   | -                              | 315,242                        |
| Licenses and Permits   | 168,244             | -                   | -                              | 168,244                        |
| Intergovernmental  | 940,753             | -                   | -                              | 940,753                        |
| Charges for Services   | 1,088,178           | -                   | 22,321                         | 1,110,499                      |
| Fines and Forfeitures  | 235,203             | -                   | -                              | 235,203                        |
| Interest   | 7,172               | 25,571              | 4,992                          | 37,735                         |
| Miscellaneous  | 38,799              | -                   | 28,375                         | 67,174                         |
| <b>Total Revenues</b>  | <b>7,238,399</b>    | <b>25,571</b>       | <b>509,819</b>                 | <b>7,773,789</b>               |
| <b>Expenditures</b>  |                     |                     |                                |                                |
| Current:   |                     |                     |                                |                                |
| General Government   | 2,428,711           | -                   | -                              | 2,428,711                      |
| Public Safety  | 2,659,391           | -                   | -                              | 2,659,391                      |
| Highways and Streets   | 872,689             | -                   | -                              | 872,689                        |
| Parks and Recreation   | 1,860,904           | -                   | -                              | 1,860,904                      |
| Economic Development   | 172,615             | -                   | 36,029                         | 208,644                        |
| Cemetery   | 174,983             | -                   | -                              | 174,983                        |
| Debt Service:  |                     |                     |                                |                                |
| Principal Retirement   | -                   | 165,000             | -                              | 165,000                        |
| Interest and Fiscal Charges                                  | 564,016             | 83,170              | 110,184                        | 757,370                        |
| <b>Total Expenditures</b>                                    | <b>8,733,309</b>    | <b>248,170</b>      | <b>146,213</b>                 | <b>9,127,692</b>               |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | (1,494,910)         | (222,599)           | 363,606                        | (1,353,903)                    |
| <b>Other Financing Sources (Uses)</b>                        |                     |                     |                                |                                |
| Impact Fees  | -                   | -                   | 123,302                        | 123,302                        |
| Sale of Fixed Assets   | 537,223             | -                   | -                              | 537,223                        |
| Transfers In   | 2,007,900           | 248,500             | -                              | 2,256,400                      |
| Transfers Out  | (1,230,767)         | -                   | (198,189)                      | (1,428,956)                    |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>1,314,356</b>    | <b>248,500</b>      | <b>(74,887)</b>                | <b>1,487,969</b>               |
| <b>Net Change in Fund Balances</b>                           | <b>(180,554)</b>    | <b>25,901</b>       | <b>288,719</b>                 | <b>134,066</b>                 |
| <b>Fund Balances (Deficits) Beginning<br/>of Year</b>        | <b>1,670,873</b>    | <b>4,485,520</b>    | <b>418,241</b>                 | <b>6,574,634</b>               |
| <b>Fund Balances (Deficits) End of Year</b>                  | <b>\$ 1,490,319</b> | <b>\$ 4,511,421</b> | <b>\$ 706,960</b>              | <b>\$ 6,708,700</b>            |

*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, 2012**

|  |                          |
|--|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds   | \$ 134,066               |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p>  |                          |
| <p>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.</p>   | (719,690)                |
| <p>The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase (decrease) net assets. (Contributons by Developers)</p>  | 159,442                  |
| <p>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.</p> | 481,774                  |
| <p>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.</p>   | 8,203                    |
| <p>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.</p>   | <u>44,500</u>            |
| Change in Net Assets of Governmental Activities  | <u><u>\$ 108,295</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, 2012**

|   | Business Type Activities - Enterprise Funds |                      |                     |                     |                     |                      | Internal Service<br>Funds |
|---|---|----------------------|---------------------|---------------------|---------------------|----------------------|---------------------------|
|   | Major                                       |                      |                     |                     | Non Major           |                      |                           |
|   | Water                                       | Electric             | Sewer               | Golf<br>Course      | Enterprise Funds    | Total                |                           |
| <b>Assets</b>   |   |                      |                     |                     |                     |                      |                           |
| <b>Current Assets:</b>  |   |                      |                     |                     |                     |                      |                           |
| Cash and Cash Equivalents                                       | \$ 1,005,717                                | \$ 123,911           | \$ -                | \$ -                | \$ 580,964          | \$ 1,710,592         | \$ -                      |
| Accounts Receivable (Net of Allowance<br>for Uncollectables)    | 275,340                                     | 1,026,479            | 229,692             | -                   | 577,903             | 2,109,414            | -                         |
| Due From Other Funds  | -   | 1,236,626            | -                   | -                   | 1,242,600           | 2,479,226            | 125,779                   |
| Prepaid Items   | -   | 136,000              | -                   | -                   | -                   | 136,000              | -                         |
| <b>Total Current Assets</b>                                     | <b>1,281,057</b>                            | <b>2,523,016</b>     | <b>229,692</b>      | <b>-</b>            | <b>2,401,467</b>    | <b>6,435,232</b>     | <b>125,779</b>            |
| <b>Noncurrent Assets:</b>                                       |   |                      |                     |                     |                     |                      |                           |
| <b>Restricted Assets:</b>                                       |   |                      |                     |                     |                     |                      |                           |
| Cash and Cash Equivalents                                       | 1,544,743                                   | 964,536              | 553,389             | -                   | 544,883             | 3,607,551            | -                         |
| Bond Issuance Costs   | 350,584                                     | 106,405              | 156,045             | -                   | -                   | 613,034              | -                         |
| Less Accumulated Amortization                                   | (81,660)                                    | (106,405)            | (35,065)            | -                   | -                   | (223,130)            | -                         |
| Equity in Joint Venture   | -   | -                    | 604,768             | -                   | -                   | 604,768              | -                         |
| <b>Capital Assets:</b>  |   |                      |                     |                     |                     |                      |                           |
| 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  | 16,458,250                                  | 17,799,756           | 21,612,962          | 4,337,896           | 4,193,087           | 64,401,951           | -                         |
| Machinery and Equipment   | 222,014                                     | 1,546,264            | 1,164,878           | 1,199,939           | 2,976,829           | 7,109,924            | 1,321,558                 |
| Construction in Progress  | 538,860                                     | -                    | -                   | 20,000              | -                   | 558,860              | -                         |
| Less Accumulated Depreciation                                   | (7,915,334)                                 | (11,724,259)         | (8,673,519)         | (3,412,696)         | (3,209,670)         | (34,935,478)         | (1,265,109)               |
| <b>Total Capital Assets, Net</b>                                | <b>16,213,629</b>                           | <b>8,017,890</b>     | <b>14,275,002</b>   | <b>3,224,465</b>    | <b>4,305,875</b>    | <b>46,036,861</b>    | <b>56,449</b>             |
| <b>Total Noncurrent Assets</b>                                  | <b>18,027,296</b>                           | <b>8,982,426</b>     | <b>15,554,139</b>   | <b>3,224,465</b>    | <b>4,850,758</b>    | <b>50,639,084</b>    | <b>56,449</b>             |
| <b>Total Assets</b>   | <b>19,308,353</b>                           | <b>11,505,442</b>    | <b>15,783,831</b>   | <b>3,224,465</b>    | <b>7,252,225</b>    | <b>57,074,316</b>    | <b>182,228</b>            |
| <b>Liabilities</b>  |   |                      |                     |                     |                     |                      |                           |
| <b>Current Liabilities:</b>                                     |   |                      |                     |                     |                     |                      |                           |
| Accrued Liabilities   | 462,749                                     | 72,078               | 18,896              | 15,943              | 71,375              | 641,041              | 14,201                    |
| Due to Other Funds  | -   | -                    | 247,607             | 3,396,507           | -                   | 3,644,114            | -                         |
| Compensated Absences Payable                                    | 43,175                                      | 172,926              | 34,376              | 62,085              | 87,085              | 399,647              | 75,217                    |
| Bonds Payable   | 295,000                                     | -                    | 565,000             | -                   | -                   | 860,000              | -                         |
| Interest Payable  | 54,431                                      | -                    | 130,297             | -                   | -                   | 184,728              | -                         |
| Capital Leases Payable  | -   | 93,707               | -                   | 69,793              | 44,372              | 207,872              | -                         |
| <b>Total Current Liabilities</b>                                | <b>855,355</b>                              | <b>338,711</b>       | <b>996,176</b>      | <b>3,544,328</b>    | <b>202,832</b>      | <b>5,937,402</b>     | <b>89,418</b>             |
| <b>Current Liabilities Payable from Restricted Assets:</b>      |   |                      |                     |                     |                     |                      |                           |
| Customer Deposits Payable                                       | -   | 492,719              | -                   | -                   | -                   | 492,719              | -                         |
| <b>Total Current Liabilities Payable from Restricted Assets</b> | <b>-</b>                                    | <b>492,719</b>       | <b>-</b>            | <b>-</b>            | <b>-</b>            | <b>492,719</b>       | <b>-</b>                  |
| <b>Long-Term Liabilities:</b>                                   |   |                      |                     |                     |                     |                      |                           |
| Unamortized Bond Premiums (Net)                                 | 111,634                                     | -                    | -                   | -                   | -                   | 111,634              | -                         |
| Revenue Bonds Payable (net of current portion)                  | 8,190,000                                   | -                    | 7,770,000           | -                   | -                   | 15,960,000           | -                         |
| Capital Leases Payable (net of current portion)                 | -   | 47,696               | -                   | 65,281              | 92,506              | 205,483              | -                         |
| Closure and Postclosure Liability                               | -   | -                    | -                   | -                   | 952,107             | 952,107              | -                         |
| Water Share Liability   | 266,146                                     | -                    | -                   | -                   | -                   | 266,146              | -                         |
| <b>Total Long-Term Liabilities</b>                              | <b>8,567,780</b>                            | <b>47,696</b>        | <b>7,770,000</b>    | <b>65,281</b>       | <b>1,044,613</b>    | <b>17,495,370</b>    | <b>-</b>                  |
| <b>Total Liabilities</b>  | <b>9,423,135</b>                            | <b>879,126</b>       | <b>8,766,176</b>    | <b>3,609,609</b>    | <b>1,247,445</b>    | <b>23,925,491</b>    | <b>89,418</b>             |
| <b>Net Assets</b>   |   |                      |                     |                     |                     |                      |                           |
| Invested in Capital Assets, Net of Related Debt                 | 8,366,995                                   | 7,924,183            | 6,060,982           | 3,154,672           | 4,168,997           | 29,675,829           | 56,449                    |
| <b>Restricted for:</b>  |   |                      |                     |                     |                     |                      |                           |
| Bond and Lease Requirements                                     | -   | -                    | 385,665             | -                   | -                   | 385,665              | -                         |
| Capital Projects  | 574,253                                     | -                    | -                   | -                   | -                   | 574,253              | -                         |
| Landfill Closure Costs  | -   | -                    | -                   | -                   | 544,883             | 544,883              | -                         |
| Impact Fees   | 222,324                                     | 868,059              | 192,314             | -                   | -                   | 1,282,697            | -                         |
| Unrestricted  | 721,646                                     | 1,834,074            | 378,694             | (3,539,816)         | 1,290,900           | 685,498              | 36,361                    |
| <b>Total Net Assets</b>   | <b>\$ 9,885,218</b>                         | <b>\$ 10,626,316</b> | <b>\$ 7,017,655</b> | <b>\$ (385,144)</b> | <b>\$ 6,004,780</b> | <b>\$ 33,148,825</b> | <b>\$ 92,810</b>          |

*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, 2012**

|  | Business Type Activities - Enterprise Funds |               |              |              |                        |               |            | Internal Service Funds |
|--|---|---------------|--------------|--------------|------------------------|---------------|------------|------------------------|
|  | Water                                       | Electric      | Sewer        | Golf Course  | Other Enterprise Funds | Total         |            |                        |
| <b>Operating Revenues</b>                                |   |               |              |              |                        |               |            |                        |
| Charges for Services                                     | \$ -  | \$ 11,344,261 | \$ -         | \$ 563,762   | \$ 2,529,821           | \$ 14,437,844 | \$ 612,618 |                        |
| Charges Pledged as Security for Revenue Bond             | 2,079,147                                   | -             | 1,844,597    | -            | -                      | 3,923,744     | -          |                        |
| Miscellaneous  | 11,028                                      | 102,054       | 64,821       | 28,050       | 99,857                 | 305,810       | -          |                        |
| Total Operating Revenues                                 | 2,090,175                                   | 11,446,315    | 1,909,418    | 591,812      | 2,629,678              | 18,667,398    | 612,618    |                        |
| <b>Operating Expenses</b>                                |   |               |              |              |                        |               |            |                        |
| Costs of Sales and Services                              | 494,736                                     | 8,543,537     | 389,851      | 453,718      | 807,004                | 10,688,846    | 349,343    |                        |
| Maintenance Operations and Contractual Services          | 263,785                                     | 1,509,899     | 228,275      | 29,053       | 386,704                | 2,417,716     | 63,284     |                        |
| Materials and Supplies                                   | 202,137                                     | 116,644       | 71,616       | 155,383      | 127,463                | 673,243       | 172,269    |                        |
| Depreciation   | 352,517                                     | 609,636       | 521,181      | 277,398      | 326,928                | 2,087,660     | 16,136     |                        |
| Amortization   | 11,861                                      | -             | 7,802        | -            | -                      | 19,663        | -          |                        |
| Total Operating Expenses                                 | 1,325,036                                   | 10,779,716    | 1,218,725    | 915,552      | 1,648,099              | 15,887,128    | 601,032    |                        |
| Operating Income (Loss)                                  | 765,139                                     | 666,599       | 690,693      | (323,740)    | 981,579                | 2,780,270     | 11,586     |                        |
| <b>Non-Operating Revenues (Expenses)</b>                 |   |               |              |              |                        |               |            |                        |
| Interest Income  | 9,547                                       | 164,331       | 3,838        | 72           | 7,907                  | 185,695       | -          |                        |
| Impact Fees  | 73,692                                      | 483,041       | 177,236      | -            | -                      | 733,969       | -          |                        |
| Insurance Proceeds                                       | 784,131                                     | -             | -            | -            | -                      | 784,131       | -          |                        |
| Grant Revenue  | -   | -             | -            | -            | 8,185                  | 8,185         | -          |                        |
| Gain (Loss) on Sale of Fixed Assets                      | -   | -             | 32,045       | 329          | -                      | 32,374        | (2,325)    |                        |
| Interest and Fiscal Charges                              | (358,426)                                   | (9,136)       | (364,652)    | (39,923)     | (5,549)                | (777,686)     | -          |                        |
| Total Non-Operating Revenues (Expenses)                  | 508,944                                     | 638,236       | (151,533)    | (39,522)     | 10,543                 | 966,668       | (2,325)    |                        |
| Income (Loss) before Capital Contributions and Transfers | 1,274,083                                   | 1,304,835     | 539,160      | (363,262)    | 992,122                | 3,746,938     | 9,261      |                        |
| Capital Contributions                                    | 56,325                                      | -             | 38,674       | -            | 30,713                 | 125,712       | -          |                        |
| Transfers In   | -   | -             | -            | 1,230,767    | -                      | 1,230,767     | -          |                        |
| Transfers Out  | (447,470)                                   | (701,148)     | (312,121)    | -            | (597,472)              | (2,058,211)   | -          |                        |
| Change in Net Assets                                     | 882,938                                     | 603,687       | 265,713      | 867,505      | 425,363                | 3,045,206     | 9,261      |                        |
| Net Assets Beginning of Year                             | 9,002,280                                   | 10,022,629    | 6,751,942    | (1,252,649)  | 5,579,417              | 30,103,619    | 83,549     |                        |
| Net Assets End of Year                                   | \$ 9,885,218                                | \$ 10,626,316 | \$ 7,017,655 | \$ (385,144) | \$ 6,004,780           | \$ 33,148,825 | \$ 92,810  |                        |

*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, 2012**

|   | Business Type Activities - Enterprise Funds |               |              |                |                           |               | Internal<br>Service Funds |
|---|---|---------------|--------------|----------------|---------------------------|---------------|---------------------------|
|   | Water                                       | Electric      | Sewer        | Golf<br>Course | Other<br>Enterprise Funds | Total         |                           |
| <b>Cash Flows from Operating Activities</b>   |   |               |              |                |                           |               |                           |
| Receipts from Customers and Users   | \$ 2,067,677                                | \$ 11,403,117 | \$ 1,900,577 | \$ 591,812     | \$ 2,725,236              | \$ 18,688,419 | \$ 612,618                |
| Payments from Interfund Services Provided   | 1,005,717                                   | -             | -            | (47,316)       | -                         | 958,401       | -                         |
| Payments to Employees for Services  | (265,329)                                   | (873,194)     | (214,310)    | (285,464)      | (482,464)                 | (2,120,761)   | (349,343)                 |
| Payments for Goods and Services   | (622,768)                                   | (9,679,177)   | (505,474)    | (337,982)      | (1,211,460)               | (12,356,861)  | (225,267)                 |
| Net Cash Provided by (Used in) Operating Activities   | 2,185,297                                   | 850,746       | 1,180,793    | (78,950)       | 1,031,312                 | 5,169,198     | 38,008                    |
| <b>Cash Flows from Noncapital Financing Activities</b>  |   |               |              |                |                           |               |                           |
| Operating Grants Received   | -   | -             | -            | -              | 8,185                     | 8,185         | -                         |
| Transfers to Other Funds  | (447,470)                                   | (701,148)     | (312,121)    | -              | (597,472)                 | (2,058,211)   | -                         |
| Transfers from Other Funds  | -   | -             | -            | 1,230,767      | -                         | 1,230,767     | -                         |
| Net Cash Provided by (Used in) Noncapital Financing Activities  | (447,470)                                   | (701,148)     | (312,121)    | 1,230,767      | (589,287)                 | (819,259)     | -                         |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                       |   |               |              |                |                           |               |                           |
| Insurance Proceeds  | 784,131                                     | -             | -            | -              | -                         | 784,131       | -                         |
| Impact Fees   | 73,692                                      | 483,041       | 177,236      | -              | -                         | 733,969       | -                         |
| Proceeds from Bonds & Capital Leases  | 750,000                                     | -             | -            | 52,300         | 181,000                   | 983,300       | -                         |
| Bond Cost   | (78,638)                                    | -             | -            | -              | -                         | (78,638)      | -                         |
| Proceeds from Sale of Assets  | -   | -             | 36,000       | -              | -                         | 36,000        | 485                       |
| Increase in Joint Venture   | -   | -             | (110,288)    | -              | -                         | (110,288)     | -                         |
| Principal Paid on Revenue Bonds   | (280,000)                                   | -             | (546,000)    | (1,010,000)    | -                         | (1,836,000)   | -                         |
| Interest Paid on Revenue Bonds  | (358,426)                                   | -             | (364,652)    | -              | -                         | (723,078)     | -                         |
| Principal Paid on Capital Leases  | -   | (91,123)      | -            | (66,176)       | (138,071)                 | (295,370)     | -                         |
| Interest Paid on Capital Leases   | -   | (9,136)       | -            | (56,253)       | (5,549)                   | (70,938)      | -                         |
| Payments for Capital Acquisitions   | (208,289)                                   | (118,146)     | (51,387)     | (71,760)       | (479,405)                 | (928,987)     | (38,493)                  |
| Net Cash Provided by (Used in) Capital and Related Financing Activities                               | 682,470                                     | 264,636       | (859,091)    | (1,151,889)    | (442,025)                 | (1,505,899)   | (38,008)                  |
| <b>Cash Flows from Investing Activities</b>   |   |               |              |                |                           |               |                           |
| Interest Income Received  | 3,198                                       | 164,331       | 3,838        | 72             | 7,907                     | 179,346       | -                         |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 2,423,495                                   | 578,565       | 13,419       | -              | 7,907                     | 3,023,386     | -                         |
| Cash and Cash Equivalents Beginning of Year   | 126,965                                     | 509,882       | 539,970      | -              | 1,117,940                 | 2,294,757     | -                         |
| Cash and Cash Equivalents End of Year   | \$ 2,550,460                                | \$ 1,088,447  | \$ 553,389   | \$ -           | \$ 1,125,847              | \$ 5,318,143  | \$ -                      |
| <b>Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities</b> |   |               |              |                |                           |               |                           |
| Operating Income (Loss)   | \$ 765,139                                  | \$ 666,599    | \$ 690,693   | \$ (323,740)   | \$ 981,579                | \$ 2,780,270  | \$ 11,586                 |
| Adjustments:  |   |               |              |                |                           |               |                           |
| Depreciation  | 352,517                                     | 609,636       | 521,181      | 277,398        | 326,928                   | 2,087,660     | 16,136                    |
| Amortization  | 11,861                                      | -             | 7,802        | -              | -                         | 19,663        | -                         |
| (Increase) Decrease in Assets:  |   |               |              |                |                           |               |                           |
| Accounts Receivable   | (22,498)                                    | (134,820)     | (8,841)      | -              | 95,558                    | (70,601)      | -                         |
| Due From Other Funds  | 1,109,283                                   | (347,182)     | -            | -              | (378,843)                 | 383,258       | (14,384)                  |
| Increase (Decrease) in Liabilities:   |   |               |              |                |                           |               |                           |
| Accrued Liabilities   | 32,529                                      | (44,017)      | 645          | 10,590         | (7,489)                   | (7,742)       | 5,568                     |
| Customer Deposits   | -   | 91,622        | -            | -              | -                         | 91,622        | -                         |
| Compensated Absences Payable  | 5,023                                       | 8,908         | 1,866        | 4,118          | 13,579                    | 33,494        | 19,102                    |
| Water Share Liability   | (72,922)                                    | -             | -            | -              | -                         | (72,922)      | -                         |
| Accrued Interest  | 4,365                                       | -             | (7,502)      | -              | -                         | (3,137)       | -                         |
| Due to Other Funds  | -   | -             | (25,051)     | (47,316)       | 0                         | (72,367)      | -                         |
| Net Cash Provided by (Used in) Operating Activities   | \$ 2,185,297                                | \$ 850,746    | \$ 1,180,793 | \$ (78,950)    | \$ 1,031,312              | \$ 5,169,198  | \$ 38,008                 |
| Noncash investing, capital, and financing activities:   |   |               |              |                |                           |               |                           |
| Contributions of capital assets from developers   | \$ 56,325                                   | \$ -          | \$ 38,674    | \$ -           | \$ 30,713                 | \$ 125,712    | \$ -                      |

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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.

**PAYSON CITY CORPORATION**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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 principal 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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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, 2012, the total liability for compensated absences is \$959,137.

**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 1<sup>st</sup>. Taxes are levied on all business personal property on January 1<sup>st</sup> and real estate and improvement taxes are levied on January 1<sup>st</sup> and are payable by November 30<sup>th</sup>. 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 22<sup>nd</sup> 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.

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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.

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|  |                     |
|--|---------------------|
| Cost of capital assets   | \$39,109,406        |
| Accumulated depreciation   | ( 9,392,214)        |
| Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | <u>\$29,717,192</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   | \$ 157,663          |
| Compensated absences   | 559,489             |
| Bonds, notes payable, and lease payable  | 7,507,113           |
| Less Bond Cost net of amortization   | ( 118,745)          |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | <u>\$ 8,105,520</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  | \$ 129,119          |
| Disposal of Asset   | ( 88,256)           |
| Depreciation expense  | ( 760,553)          |
| 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>(\$ 719,690)</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.

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|                                 |                 |
|---------------------------------|-----------------|
| Bond and Note Payments          | \$ 450,000      |
| Lease Payment and Proceeds      | 81,848          |
| Compensated absence             | ( 52,550)       |
| Decrease in Accrued Interest    | 10,907          |
| 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* \$481,774

**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 22<sup>nd</sup>, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1<sup>st</sup>.
- 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.

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- 
- 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 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, 2012, the City's custodial credit risk for deposits were as follows:

| <u>Depository Account</u> | <u>Custodial Credit Risk</u> | <u>Balance</u><br><u>June 30, 2012</u> |
|---------------------------|------------------------------|--|
| Regular Checking Account  | Insured                      | \$250,000                              |
| Regular Checking Account  | Uninsured                    | 594,308                                |

**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

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transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

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, 2012 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 | \$ 11,114,360        | \$ 11,114,360                  | \$ -        | \$ -        | \$ -         |
| Total Fair Value                                 | <u>\$ 11,114,360</u> | <u>\$ 11,114,360</u>           | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u>  |

***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.

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*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 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             | \$ 497,615          |
| Investments                          | 11,114,360          |
| Cash on Hand                         | <u>1,000</u>        |
| Total Cash                           | <u>\$11,612,975</u> |
| Government-Wide                      |                     |
| Cash and Cash Equivalents            | \$ 6,719,337        |
| Restricted Cash and Cash Equivalents | 4,383,012           |
| Fiduciary Restricted Cash            | <u>510,626</u>      |
| Total Cash                           | <u>\$11,612,975</u> |
| Net Cash on Statement of Net Assets  | <u>\$11,612,975</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:

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|  | General             | Water             | Electric            | Sewer             | Non Major<br>Business<br>Type | Total               |
|--|---------------------|-------------------|---------------------|-------------------|-------------------------------|---------------------|
| Receivables:                           |                     |                   |                     |                   |                               |                     |
| Accounts                               | \$ 7,058            | \$ 275,340        | \$ 1,184,179        | \$ 229,692        | \$ 652,747                    | \$ 2,349,016        |
| Property tax                           | 902,109             | -                 | -                   | -                 | -                             | 902,109             |
| Other taxes                            | 600,391             | -                 | -                   | -                 | -                             | 600,391             |
| Intergovernmental                      | 113,903             | -                 | -                   | -                 | -                             | 113,903             |
| Less allowance for uncollectible accts | -                   | -                 | (157,700)           | -                 | (74,844)                      | (232,544)           |
|  | <u>\$ 1,623,461</u> | <u>\$ 275,340</u> | <u>\$ 1,026,479</u> | <u>\$ 229,692</u> | <u>\$ 577,903</u>             | <u>\$ 3,732,875</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:

|  | <u>Unavailable</u> | <u>Unearned</u>   |
|--|--------------------|-------------------|
| Property taxes receivable (general fund) | <u>\$ 39,373</u>   | <u>\$ 800,946</u> |

**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, 2012 is as follows:

| <b>Due to/from other funds:</b> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u>      |
|---------------------------------|------------------------|---------------------|--------------------|
|                                 | General Fund           | RDA Business Park   | \$ 348,669         |
|                                 | Capital Project        | RDA Business Park   | 75,204             |
|                                 |                        | Golf Course         | 697,619            |
|                                 | Electric               | Sewer               | 247,607            |
|                                 |                        | Golf Course         | 989,019            |
|                                 | Non Major Governmental | Golf Course         | 341,490            |
|                                 | Non Major Enterprise   | Golf Course         | 1,242,600          |
|                                 | Internal Service Fund  | Golf Course         | <u>125,779</u>     |
|                                 | Total                  |                     | <u>\$4,067,987</u> |

**PAYSON CITY CORPORATION**  
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**Inter-fund Transfers:**

| <b>Transfer Out:</b>   | <u>General</u>     | <u>Capital<br/>Projects</u> | <u>Golf Course</u>  | <u>Sewer</u> | <u>Non Major<br/>Enterprise</u> | <u>Total</u>        |
|------------------------|--------------------|-----------------------------|---------------------|--------------|---------------------------------|---------------------|
| General                | \$ -               |                             | \$ 1,230,767        | \$ -         | \$ -                            | \$ 1,230,767        |
| Capital Projects       | -                  | -                           | -                   |              |                                 | -                   |
| Water                  | 447,470            | -                           | -                   | -            | -                               | 447,470             |
| Electric               | 701,148            | -                           | -                   | -            | -                               | 701,148             |
| Sewer                  | 312,121            | -                           | -                   | -            | -                               | 312,121             |
| Non Major Enterprise   | 348,972            | 248,500                     | -                   | -            | -                               | 597,472             |
| Non Major Governmental | 183,189            |                             |                     |              |                                 | 183,189             |
| Perpetual Care         | 15,000             | -                           | -                   | -            | -                               | 15,000              |
| Total Transfers In     | <u>\$2,007,900</u> | <u>\$ 248,500</u>           | <u>\$ 1,230,767</u> | <u>\$ -</u>  | <u>\$ -</u>                     | <u>\$ 3,487,167</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, 2012, was as follows:

| <b>Primary Government</b>                    |                      |                     |                   |                      |
|--|----------------------|---------------------|-------------------|----------------------|
| <b>Governmental activities:</b>              | Beginning<br>Balance | Increases           | Decreases         | Ending<br>Balance    |
| Capital assets not being depreciated:        |                      |                     |                   |                      |
| Land   | \$ 3,606,477         | \$ -                | \$ 88,256         | \$ 3,518,221         |
| Infrastructure                               | 16,015,045           | 159,442             | -                 | 16,174,487           |
| Total capital assets not being depreciated   | <u>19,621,522</u>    | <u>159,442</u>      | <u>88,256</u>     | <u>19,692,708</u>    |
| Capital assets being depreciated:            |                      |                     |                   |                      |
| Buildings                                    | 8,728,456            | -                   | -                 | 8,728,456            |
| Improvements                                 | 6,641,733            | -                   | -                 | 6,641,733            |
| Machinery and equipment                      | 4,242,325            | 167,612             | 363,428           | 4,046,509            |
| Total capital assets being depreciated       | <u>19,612,514</u>    | <u>167,612</u>      | <u>363,428</u>    | <u>19,416,698</u>    |
| Less accumulated depreciation for:           |                      |                     |                   |                      |
| Buildings                                    | (1,720,331)          | (218,211)           | -                 | (1,938,542)          |
| Improvements                                 | (3,510,367)          | (386,462)           | -                 | (3,896,829)          |
| Machinery and equipment                      | (3,761,581)          | (155,880)           | (360,618)         | (3,556,843)          |
| Total accumulated depreciation               | <u>(8,992,279)</u>   | <u>(760,553)</u>    | <u>(360,618)</u>  | <u>(9,392,214)</u>   |
| Total capital assets, being depreciated, net | <u>10,620,235</u>    | <u>(592,941)</u>    | <u>2,810</u>      | <u>10,024,484</u>    |
| Governmental activities capital assets, net  | <u>\$ 30,241,757</u> | <u>\$ (433,499)</u> | <u>\$ 91,066</u>  | <u>\$ 29,717,192</u> |
|  |                      |                     |                   |                      |
| <b>Business-type activities:</b>             | Beginning<br>Balance | Increases           | Decreases         | Ending<br>Balance    |
| Capital assets not being depreciated:        |                      |                     |                   |                      |
| Land   | \$ 7,873,757         | \$ -                | \$ -              | \$ 7,873,757         |
| Water Shares                                 | 198,400              | -                   | -                 | 198,400              |
| Construction in Progress                     | 679,654              | 558,860             | 679,654           | 558,860              |
| Total capital assets not being depreciated   | <u>8,751,811</u>     | <u>558,860</u>      | <u>679,654</u>    | <u>8,631,017</u>     |
| Capital assets being depreciated:            |                      |                     |                   |                      |
| Buildings                                    | 829,447              | -                   | -                 | 829,447              |
| Improvements                                 | 63,467,597           | 991,254             | 56,900            | 64,401,951           |
| Machinery and equipment                      | 6,836,177            | 628,161             | 354,413           | 7,109,925            |
| Total capital assets being depreciated       | <u>71,133,221</u>    | <u>1,619,415</u>    | <u>411,313</u>    | <u>72,341,323</u>    |
| Less accumulated depreciation for:           |                      |                     |                   |                      |
| Buildings                                    | (315,821)            | (25,059)            | -                 | (340,880)            |
| Improvements                                 | (28,008,042)         | (1,473,968)         | (56,900)          | (29,425,110)         |
| Machinery and equipment                      | (4,907,481)          | (588,633)           | (326,626)         | (5,169,488)          |
| Total accumulated depreciation               | <u>(33,231,344)</u>  | <u>(2,087,660)</u>  | <u>(383,526)</u>  | <u>(34,935,478)</u>  |
| Total capital assets, being depreciated, net | <u>37,901,877</u>    | <u>(468,245)</u>    | <u>27,787</u>     | <u>37,405,845</u>    |
| Business-type activities capital assets, net | <u>\$ 46,653,688</u> | <u>\$ 90,615</u>    | <u>\$ 707,441</u> | <u>\$ 46,036,862</u> |

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

|  |                            |
|--|----------------------------|
| Governmental activities:   |                            |
| General government   | \$ 130,380                 |
| Public safety  | 51,430                     |
| Highways and public improvements   | 70,441                     |
| Economic Development   | 80,167                     |
| Parks and recreation   | 411,999                    |
| Capital assets held by the government's<br>Internal Service Fund are charged to<br>various functions based on their<br>usage of assets | 16,136                     |
| Total depreciation expense - governmental activities   | <u>\$ 760,553</u>          |
| Business-type activities:  |                            |
| Water  | \$ 352,517                 |
| Electric   | 609,636                    |
| Sewer  | 521,181                    |
| Solid Waste  | 185,057                    |
| Golf Course  | 277,398                    |
| Storm Drain  | 125,569                    |
| Ambulance  | 16,302                     |
| Total depreciation expense - Business-Type Activities  | <u>\$ 2,087,660</u>        |
| Total depreciation expense   | <u><u>\$ 2,848,213</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:

|                                | Business<br>Type  |
|--------------------------------|-------------------|
| Asset:                         |                   |
| Machinery and Equipment        | \$1,682,344       |
| Less: Accumulated Amortization | ( 779,544)        |
| Total                          | <u>\$ 902,800</u> |

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

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The present value of future minimum capital lease payments under these leases as of June 30, 2012 are:

| <u>Fiscal Year</u>                      | <u>Amount</u>     |
|---|-------------------|
| 2013                                    | \$272,398         |
| 2014                                    | 139,093           |
| 2015                                    | <u>74,874</u>     |
| Total minimum lease payments            | 486,365           |
| Less amounts representing interest      | ( <u>30,897</u> ) |
| Present value of minimum lease payments | <u>\$ 455,468</u> |

At June 30, 2012, 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                 | \$ 42,113                           | \$ 413,355           |
| Current Portion Capital Leases Payable | ( <u>42,113</u> )                   | ( <u>207,872</u> )   |
| Long Term Capital Leases Payable       | <u>\$ -</u>                         | <u>\$ 205,483</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, 2012, 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)         | \$ 120,000           |
| Special Improvement District No. 2001-1                   |                      |
| 5.8%, (original amount \$2,500,000)                       | 1,230,000            |
| Sales Tax Revenue Bonds Series 2007B, Dated July 26, 2007 |                      |
| 5.0% to 5.8% (original amount \$7,300,000)                | <u>6,235,000</u>     |
| Total Bonds and Notes                                     | 7,585,000            |
| Less Noncurrent   | ( <u>6,995,000</u> ) |
| Current Portion   | <u>\$ 590,000</u>    |

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

***Capital Leases***

|   |             |
|---|-------------|
| 2008 Loader Sweeper 3.86% (original amount \$315,400) | \$ 42,113   |
| Total Capital lease                                   | 42,113      |
| Less Noncurrent                                       | ( 42,113)   |
| Current portion                                       | <u>\$ 0</u> |

***Business-type Activities:***

As of June 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

|  |                   |
|--|-------------------|
| Sewer Revenue Refunding Bonds, Series 2010, dated June 21, 2010<br>3.64% (original amount \$5,301,000) | \$ 4,540,000      |
| Water revenue Bond, Series 2012, Dated April 1, 2012<br>3.46% (original amount \$3,404,000)            | 750,000           |
| Sewer Revenue Bond, Series 2007, Dated August 8, 2007<br>4.0%-4.5% (original amount \$4,500,000)       | 3,795,000         |
| Water Revenue and Refunding Series 2008, dated Feb. 1, 2007<br>3-5% (original amount \$9,445,000)      | <u>7,735,000</u>  |
| Total Bonds & Notes  | 16,820,000        |
| Less non-current   | ( 15,960,000)     |
| Current portion  | <u>\$ 860,000</u> |

***Capital Leases***

|  |                   |
|--|-------------------|
| 2011 Golf Carts, 3.05% (original amount \$52,300)        | \$ 39,808         |
| 2008 Golf Cart, 4.67% (original amount \$29,380)         | 7,855             |
| 2010 Golf Equipment, 3.69% (original amount \$58,000)    | 35,126            |
| 2010 Golf Carts, 3.42% (original amount \$56,500)        | 28,534            |
| 2007 Golf Equipment, 4.75% (original amount \$40,400)    | 8,750             |
| 2008 Golf Equipment, 3.93% (original amount \$66,894)    | 15,001            |
| 2008 Bucket Equipment, 3.93% (original amount \$231,950) | 47,966            |
| 2009 Line Truck, 4.23% (original amount \$220,196)       | 93,437            |
| 2011 Garbage Truck, 2.8% (original amount \$181,000)     | <u>136,878</u>    |
| Total Capital lease                                      | 413,356           |
| Less Noncurrent  | ( 205,483)        |
| Current portion  | <u>\$ 207,872</u> |

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

The future annual requirements for all outstanding bond and note obligations as of June 30, 2012 are as follows:

| Fiscal Year | All Bonds and Notes  |                     |                      |
|-------------|----------------------|---------------------|----------------------|
|             | Principal            | Interest            | Total                |
| 2013        | \$ 1,571,000         | \$ 1,059,081        | \$ 2,630,081         |
| 2014        | 1,514,000            | 997,846             | 2,511,846            |
| 2015        | 1,572,000            | 934,610             | 2,506,610            |
| 2016        | 1,632,000            | 869,155             | 2,501,155            |
| 2017        | 1,962,000            | 800,657             | 2,762,657            |
| 2018-2022   | 7,774,000            | 2,916,781           | 10,690,781           |
| 2023-2027   | 6,610,000            | 1,293,613           | 7,903,613            |
| 2028-2030   | 1,770,000            | 135,563             | 1,905,563            |
|             | <u>\$ 24,405,000</u> | <u>\$ 9,007,306</u> | <u>\$ 33,412,306</u> |

**Changes in Long Term Debt**

| Government Type Activities            | 2011                | Additions        | Reductions        | 2012                | One Year          |
|---------------------------------------|---------------------|------------------|-------------------|---------------------|-------------------|
| <b>Bonds Payable</b>                  |                     |                  |                   |                     |                   |
| Special Revenue - RDA                 | \$ 230,000          | \$ -             | \$ 110,000        | \$ 120,000          | \$ 120,000        |
| SID No. 200101                        | 1,395,000           | -                | 165,000           | 1,230,000           | 175,000           |
| Sales Tax Revenue Bond 2006B          | 6,520,000           | -                | 285,000           | 6,235,000           | 295,000           |
| <b>Total Bonds Payable</b>            | <u>8,145,000</u>    | <u>-</u>         | <u>560,000</u>    | <u>7,585,000</u>    | <u>-</u>          |
| Capital Lease                         | 123,961             | -                | 81,848            | 42,113              | 42,113            |
| Accrued Compensated Absences          | 506,938             | 52,551           | -                 | 559,489             | -                 |
| <b>Govt Activities Long-Term Debt</b> | <u>\$ 8,775,899</u> | <u>\$ 52,551</u> | <u>\$ 641,848</u> | <u>\$ 8,186,602</u> | <u>\$ 632,113</u> |

| Business Type Activities                   | 2011                 | Additions           | Reductions          | 2012                 | One Year            |
|--|----------------------|---------------------|---------------------|----------------------|---------------------|
| <b>Bonds Payable</b>                       |                      |                     |                     |                      |                     |
| 2008 Water Rev & Refunding Bond            | \$ 8,015,000         | \$ -                | \$ 280,000          | \$ 7,735,000         | \$ 295,000          |
| 2006 Sales Tax Revenue Bond                | 1,010,000            | -                   | 1,010,000           | -                    | -                   |
| 2006 Sewer Revenue Bond                    | 3,970,000            | -                   | 175,000             | 3,795,000            | 180,000             |
| 2012 Water Revenue Bond                    | -                    | 750,000             | -                   | 750,000              | -                   |
| 2010 Sewer Refunding                       | 4,911,000            | -                   | 371,000             | 4,540,000            | 385,000             |
| Unamortized Bond Premium                   | 117,982              | -                   | 6,348               | 111,634              | -                   |
| <b>Total Bonds Payable</b>                 | <u>18,023,982</u>    | <u>750,000</u>      | <u>1,842,348</u>    | <u>16,931,634</u>    | <u>-</u>            |
| Capital Lease                              | 475,427              | 233,300             | 295,371             | 413,356              | 207,872             |
| Accrued Compensated Absence                | 366,154              | 33,494              | -                   | 399,648              | -                   |
| Water Share Liability                      | 339,068              | -                   | 72,924              | 266,144              | -                   |
| Closure and Postclosure Liability          | 952,107              | -                   | -                   | 952,107              | -                   |
| <b>Business activities long- term debt</b> | <u>\$ 20,156,738</u> | <u>\$ 1,016,794</u> | <u>\$ 2,210,643</u> | <u>\$ 18,962,889</u> | <u>\$ 1,067,872</u> |

**PAYSON CITY CORPORATION**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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**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, 2012, 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, 2012, 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, 10.33% to the Contributory Tier 2, 13.77% to the Noncontributory, and 27.07% to the Public Safety Noncontributory and 16.05% 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, 2012**

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Payson City Corporation contributions to Noncontributory Retirement System for June 30, 2012, 2011 and 2010, were \$549,138, \$498,024, and \$457,763 respectively, and for the Public Safety Retirement System the contributions for June 30, 2012, 2011, and 2012 were \$210,367, \$187,993, and \$171,645 respectively. For the Firefighter System the contributions for June 30, 2012, 2011 and 2010 were \$13,532, \$15,213, and \$10,516 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, 2012, 2011, and 2010 were \$21,205, \$16,067, and \$18,932 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.

**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, 2012:

|                                      |              |
|--------------------------------------|--------------|
| Redevelopment Agency – Business Park | (\$ 545,684) |
| Golf Course                          | ( 386,977)   |

**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.

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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 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 \$604,768 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 \$3,141,000 as of June 30, 2012.

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

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**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, 2012, the following activity occurred in the City’s redevelopment agencies.

**Business Park**

|   |           |
|---|-----------|
| Tax increment collection from other taxing agencies for various project areas | \$454,131 |
| Proceeds from sale of assets  | -         |
| Outstanding loans to finance RDA projects                                     | 120,000   |

**Down Town**

|   |        |
|---|--------|
| Tax increment collection from other taxing agencies for various project areas | \$ -   |
| Amounts expended for site improvements and preparation costs                  | 10,763 |
| 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 19, 2012, the date the financial statements were available to be issued.

**NOTE 18 – DISSOLVED FUNDS**

The City dissolved two non-major funds, the CDBG Grant, and the Debt Service fund. These two funds were dissolved due to lack of activity, and were no longer needed. The net assets of these two funds were transferred into the General fund.

## **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, 2012**

|  | Budgeted Amounts    |                   |                     | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|---------------------|-------------------|---------------------|---|
|  | Original            | Final             | Actual              |   |
| <b>Revenues</b>                              |                     |                   |                     |   |
| Taxes:                                       |                     |                   |                     |   |
| Property Taxes                               | \$ 814,541          | \$ 830,614        | \$ 869,337          | \$ 38,723   |
| General Sales Taxes                          | 2,260,000           | 2,442,827         | 2,515,727           | 72,900  |
| Motor Vehicle Taxes                          | 115,690             | 110,000           | 113,615             | 3,615   |
| Utility Taxes                                | -                   | 953,367           | 946,129             | (7,238)   |
| Other Taxes                                  | 1,281,367           | 287,172           | 315,242             | 28,070  |
| Licenses and Permits                         | 114,011             | 163,056           | 168,244             | 5,188   |
| Intergovernmental                            | 736,443             | 819,228           | 940,753             | 121,525   |
| Charges for Services                         | 1,100,945           | 1,092,355         | 1,088,178           | (4,177)   |
| Fines and Forfeitures                        | 200,150             | 227,000           | 235,203             | 8,203   |
| Interest                                     | 4,500               | 6,000             | 7,172               | 1,172   |
| Miscellaneous                                | 28,000              | 27,801            | 38,799              | 10,998  |
| <b>Total Revenues</b>                        | <b>6,655,647</b>    | <b>6,959,420</b>  | <b>7,238,399</b>    | <b>278,979</b>  |
| <b>Expenditures</b>                          |                     |                   |                     |   |
| Current:                                     |                     |                   |                     |   |
| General Government:                          |                     |                   |                     |   |
| Administrative                               | 1,272,731           | 1,354,954         | 1,250,702           | 104,252   |
| Planning and Zoning                          | 554,067             | 557,833           | 570,777             | (12,944)  |
| Building Maintenance                         | 258,503             | 260,028           | 266,748             | (6,720)   |
| Judicial                                     | 186,415             | 200,343           | 216,778             | (16,435)  |
| Non-Departmental                             | 136,471             | 136,470           | 123,706             | 12,764  |
| <b>Total General Government</b>              | <b>2,408,187</b>    | <b>2,509,628</b>  | <b>2,428,711</b>    | <b>80,917</b>   |
| Public Safety:                               |                     |                   |                     |   |
| Police Administration                        | 2,195,994           | 2,234,177         | 2,215,551           | 18,626  |
| Fire Administration                          | 321,744             | 335,735           | 302,967             | 32,768  |
| Victims Advocate                             | 65,262              | 65,890            | 68,723              | (2,833)   |
| Animal Control                               | 74,908              | 75,536            | 72,150              | 3,386   |
| <b>Total Public Safety</b>                   | <b>2,657,908</b>    | <b>2,711,338</b>  | <b>2,659,391</b>    | <b>51,947</b>   |
| Highways and Streets:                        |                     |                   |                     |   |
| Streets and Sidewalks                        | 391,837             | 434,628           | 438,092             | (3,464)   |
| Class "C" Road                               | 498,346             | 412,496           | 434,597             | (22,101)  |
| <b>Total Highways and Streets</b>            | <b>890,183</b>      | <b>847,124</b>    | <b>872,689</b>      | <b>(25,565)</b>   |
| Economic Development:                        |                     |                   |                     |   |
| Senior Citizens                              | 130,171             | 134,718           | 123,383             | 11,335  |
| Community Events                             | 47,328              | 48,328            | 49,232              | (904)   |
| <b>Total Economic Development</b>            | <b>177,499</b>      | <b>183,046</b>    | <b>172,615</b>      | <b>10,431</b>   |
| Parks and Recreation:                        |                     |                   |                     |   |
| Parks  | 234,089             | 255,924           | 262,628             | (6,704)   |
| Swimming Pool                                | 522,627             | 334,371           | 343,970             | (9,599)   |
| Library                                      | 283,617             | 293,310           | 279,566             | 13,744  |
| Ground Mowing                                | 177,152             | 178,093           | 165,762             | 12,331  |
| Recreation and Culture                       | 461,958             | 488,059           | 482,364             | 5,695   |
| Youth Sports                                 | 186,718             | 186,717           | 187,421             | (704)   |
| Adult Sports                                 | 85,569              | 85,569            | 64,496              | 21,073  |
| Snack Shack                                  | 86,469              | 86,469            | 74,697              | 11,772  |
| <b>Total Culture and Recreation</b>          | <b>2,038,199</b>    | <b>1,908,512</b>  | <b>1,860,904</b>    | <b>47,608</b>   |
| Cemetery                                     | 157,154             | 159,087           | 174,983             | (15,896)  |
| Debt Service:                                |                     |                   |                     |   |
| Interest and Fiscal Charges                  | 288,569             | 562,989           | 564,016             | (1,027)   |
| Capital Outlay                               | -                   | -                 | -                   | -   |
| <b>Total Expenditures</b>                    | <b>8,617,699</b>    | <b>8,881,724</b>  | <b>8,733,309</b>    | <b>148,415</b>  |
| Excess of Revenues Over (Under) Expenditures | (1,962,052)         | (1,922,304)       | (1,494,910)         | 427,394   |
| <b>Other Financing Sources (Uses)</b>        |                     |                   |                     |   |
| Proceeds of Notes                            | -                   | -                 | -                   | -   |
| Sale of Assets                               | -                   | 537,223           | 537,223             | -   |
| Transfers In                                 | 2,009,820           | 1,840,331         | 2,007,900           | 167,569   |
| Transfers Out                                | (211,285)           | (1,230,767)       | (1,230,767)         | -   |
| <b>Total Other Financing Sources (Uses)</b>  | <b>1,798,535</b>    | <b>1,146,787</b>  | <b>1,314,356</b>    | <b>167,569</b>  |
| Net Change in Fund Balance                   | (163,517)           | (775,517)         | (180,554)           | 594,963   |
| Fund Balance Beginning of Year               | 1,670,873           | 1,670,873         | 1,670,873           | -   |
| <b>Fund Balance End of Year</b>              | <b>\$ 1,507,356</b> | <b>\$ 895,356</b> | <b>\$ 1,490,319</b> | <b>\$ 594,963</b>   |

*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, 2012

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, 2012, 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> |
|-------------|-----------------|---------------------|
| 2008        | \$483,880       | \$434,851           |
| 2009        | 470,949         | 478,883             |
| 2010        | 416,832         | 384,700             |
| 2011        | 161,390         | 158,999             |
| 2012        | 392,160         | 366,866             |

**PAYSON CITY CORPORATION**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2012**

|  | Special Revenue Funds |                      |                     |                             |               |                 |                   | Total             |                     |
|--|-----------------------|----------------------|---------------------|-----------------------------|---------------|-----------------|-------------------|-------------------|---------------------|
|  | RDA<br>Downtown       | RDA<br>Business Park | Impact Fee<br>Parks | Impact Fee<br>Public Safety | CDBG<br>Grant | Debt<br>Service | Perpetual<br>Care |                   | Revolving<br>Loan   |
| <b>Assets</b>                              |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Due From Other Funds                       | \$ 277,403            | \$ -                 | \$ 55,946           | \$ 405                      | \$ -          | \$ -            | \$ 2,472          | \$ 5,264          | \$ 341,490          |
| Notes Receivable                           | -                     | -                    | -                   | -                           | -             | -               | -                 | 168,986           | 168,986             |
| Restricted Assets:                         |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Cash and Cash Equivalents                  | -                     | -                    | 25,428              | 207,470                     | -             | -               | 285,038           | 225,588           | 743,524             |
| <b>Total Assets</b>                        | <b>\$ 277,403</b>     | <b>\$ -</b>          | <b>\$ 81,374</b>    | <b>\$ 207,875</b>           | <b>\$ -</b>   | <b>\$ -</b>     | <b>\$ 287,510</b> | <b>\$ 399,838</b> | <b>\$ 1,254,000</b> |
| <b>Liabilities</b>                         |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Accrued Liabilities                        | \$ -                  | \$ -                 | \$ 1,356            | \$ -                        | \$ -          | \$ -            | \$ -              | \$ -              | \$ 1,356            |
| Due To Other Funds                         | -                     | 423,873              | -                   | -                           | -             | -               | -                 | -                 | 423,873             |
| Interest Payable                           | -                     | 1,811                | -                   | -                           | -             | -               | -                 | -                 | 1,811               |
| Bonds Payable                              | -                     | 120,000              | -                   | -                           | -             | -               | -                 | -                 | 120,000             |
| <b>Total Liabilities</b>                   | <b>-</b>              | <b>545,684</b>       | <b>1,356</b>        | <b>-</b>                    | <b>-</b>      | <b>-</b>        | <b>-</b>          | <b>-</b>          | <b>547,040</b>      |
| <b>Fund Balances</b>                       |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Restricted for:                            |                       |                      |                     |                             |               |                 |                   |                   |                     |
| RDA  | 277,403               | -                    | -                   | -                           | -             | -               | -                 | 399,838           | 677,241             |
| Impact Fees                                | -                     | -                    | 80,018              | 207,875                     | -             | -               | -                 | -                 | 287,893             |
| Committed for:                             |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Perpetual Care                             | -                     | -                    | -                   | -                           | -             | -               | 287,510           | -                 | 287,510             |
| Assigned for:                              |                       |                      |                     |                             |               |                 |                   |                   |                     |
| Debt Service                               | -                     | -                    | -                   | -                           | -             | -               | -                 | -                 | -                   |
| Special Revenue                            | -                     | -                    | -                   | -                           | -             | -               | -                 | -                 | -                   |
| Unassigned:                                | -                     | (545,684)            | -                   | -                           | -             | -               | -                 | -                 | (545,684)           |
| <b>Total Fund Balances (Deficits)</b>      | <b>277,403</b>        | <b>(545,684)</b>     | <b>80,018</b>       | <b>207,875</b>              | <b>-</b>      | <b>-</b>        | <b>287,510</b>    | <b>399,838</b>    | <b>706,960</b>      |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 277,403</b>     | <b>\$ -</b>          | <b>\$ 81,374</b>    | <b>\$ 207,875</b>           | <b>\$ -</b>   | <b>\$ -</b>     | <b>\$ 287,510</b> | <b>\$ 399,838</b> | <b>\$ 1,254,000</b> |

**PAYSON CITY CORPORATION**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2012**

|   | Special Revenue Funds |                      |                     |                             |               |                 |                   | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|-----------------------|----------------------|---------------------|-----------------------------|---------------|-----------------|-------------------|--|
|   | RDA<br>Downtown       | RDA<br>Business Park | Impact Fee<br>Parks | Impact Fee<br>Public Safety | CDBG<br>Grant | Debt<br>Service | Perpetual<br>Care |  |
| <b>Revenues</b>                                       |                       |                      |                     |                             |               |                 |                   |  |
| Taxes:  |                       |                      |                     |                             |               |                 |                   |  |
| Property  | \$ -                  | \$ 454,131           | \$ -                | \$ -                        | \$ -          | \$ -            | \$ -              | \$ 454,131                                 |
| Special Assessments                                   | -                     | -                    | -                   | -                           | -             | -               | -                 | -  |
| Charges for Services                                  | -                     | -                    | -                   | -                           | -             | -               | 22,321            | 22,321                                     |
| Misc  | -                     | -                    | 28,375              | -                           | -             | -               | -                 | 28,375                                     |
| Interest  | -                     | -                    | 984                 | 1,144                       | -             | -               | 1,986             | 878  |
| <b>Total Revenues</b>                                 | -                     | 454,131              | 29,359              | 1,144                       | -             | -               | 24,307            | 878  |
| <b>Expenditures</b>                                   |                       |                      |                     |                             |               |                 |                   |  |
| Current:  |                       |                      |                     |                             |               |                 |                   |  |
| General Government                                    | -                     | -                    | -                   | -                           | -             | -               | -                 | -  |
| Economic Development                                  | 10,763                | -                    | 25,266              | -                           | -             | -               | -                 | 36,029                                     |
| Debt Service:   |                       |                      |                     |                             |               |                 |                   |  |
| Principal Retirement                                  | -                     | -                    | -                   | -                           | -             | -               | -                 | -  |
| Interest and Fiscal Charges                           | -                     | 10,184               | 100,000             | -                           | -             | -               | -                 | 110,184                                    |
| <b>Total Expenditures</b>                             | 10,763                | 10,184               | 125,266             | -                           | -             | -               | -                 | 146,213                                    |
| Excess of Revenues Over<br>(Under) Expenditures       | (10,763)              | 443,947              | (95,907)            | 1,144                       | -             | -               | 24,307            | 878  |
| <b>Other Financing Sources (Uses)</b>                 |                       |                      |                     |                             |               |                 |                   |  |
| Impact Fees   | -                     | -                    | 63,792              | 59,510                      | -             | -               | -                 | 123,302                                    |
| Transfer In (Out)                                     | -                     | -                    | -                   | -                           | (8,107)       | (175,082)       | (15,000)          | (198,189)                                  |
| <b>Total Other Financing Sources (Uses)</b>           | -                     | -                    | 63,792              | 59,510                      | (8,107)       | (175,082)       | (15,000)          | (74,887)                                   |
| <b>Net Change in Fund Balances</b>                    | (10,763)              | 443,947              | (32,115)            | 60,654                      | (8,107)       | (175,082)       | 9,307             | 878  |
| <b>Fund Balances (Deficits) Beginning<br/>of Year</b> | 288,166               | (989,631)            | 112,133             | 147,221                     | 8,107         | 175,082         | 278,203           | 398,960                                    |
| <b>Fund Balances (Deficits) End of Year</b>           | \$ 277,403            | \$ (545,684)         | \$ 80,018           | \$ 207,875                  | \$ -          | \$ -            | \$ 287,510        | \$ 399,838                                 |

**PAYSON CITY CORPORATION**  
**Combining Statement of Net Assets**  
**Nonmajor Proprietary Funds**  
**June 30, 2012**

|  | Business Type Activities - Enterprise Funds |                     |                   |                     |
|--|---|---------------------|-------------------|---------------------|
|  | Solid<br>Waste                              | Storm<br>Drain      | Ambulance         | Total               |
| <b>Assets</b>  |   |                     |                   |                     |
| <b>Current Assets:</b>                                       |   |                     |                   |                     |
| Cash and Cash Equivalents                                    | \$ -  | \$ 580,964          | \$ -              | \$ 580,964          |
| Accounts Receivable (Net of Allowance<br>for Uncollectables) | 164,446                                     | 114,082             | 299,375           | 577,903             |
| Due From Other Funds   | 593,629                                     | 252,795             | 396,176           | 1,242,600           |
| <b>Total Current Assets</b>                                  | <b>758,075</b>                              | <b>947,841</b>      | <b>695,551</b>    | <b>2,401,467</b>    |
| <b>Noncurrent Assets:</b>                                    |   |                     |                   |                     |
| <b>Restricted Assets:</b>                                    |   |                     |                   |                     |
| Cash and Cash Equivalents                                    | 544,883                                     | -                   | -                 | 544,883             |
| <b>Capital Assets:</b>                                       |   |                     |                   |                     |
| Land   | 55,123                                      | -                   | -                 | 55,123              |
| Buildings  | 138,136                                     | 152,370             | -                 | 290,506             |
| Improvements   | 516,064                                     | 3,666,769           | 10,254            | 4,193,087           |
| Machinery and Equipment                                      | 2,243,344                                   | 262,504             | 470,981           | 2,976,829           |
| Construction in Progress                                     | -   | -                   | -                 | -                   |
| Less Accumulated Depreciation                                | (2,141,444)                                 | (663,037)           | (405,189)         | (3,209,670)         |
| <b>Total Capital Assets, Net</b>                             | <b>811,223</b>                              | <b>3,418,606</b>    | <b>76,046</b>     | <b>4,305,875</b>    |
| <b>Total Noncurrent Assets</b>                               | <b>1,356,106</b>                            | <b>3,418,606</b>    | <b>76,046</b>     | <b>4,850,758</b>    |
| <b>Total Assets</b>  | <b>2,114,181</b>                            | <b>4,366,447</b>    | <b>771,597</b>    | <b>7,252,225</b>    |
| <b>Liabilities</b>   |   |                     |                   |                     |
| <b>Current Liabilities:</b>                                  |   |                     |                   |                     |
| Accrued Liabilities  | 28,619                                      | 23,441              | 19,315            | 71,375              |
| Due to Other Funds   | -   | -                   | -                 | -                   |
| Compensated Absences Payable                                 | 58,288                                      | 28,797              | -                 | 87,085              |
| Capital Leases Payable                                       | 44,372                                      | -                   | -                 | 44,372              |
| <b>Total Current Liabilities</b>                             | <b>131,279</b>                              | <b>52,238</b>       | <b>19,315</b>     | <b>202,832</b>      |
| <b>Long-Term Liabilities:</b>                                |   |                     |                   |                     |
| Capital Leases Payable (net of current portion)              | 92,506                                      | -                   | -                 | 92,506              |
| Closure and Postclosure Liability                            | 952,107                                     | -                   | -                 | 952,107             |
| <b>Total Long-Term Liabilities</b>                           | <b>1,044,613</b>                            | <b>-</b>            | <b>-</b>          | <b>1,044,613</b>    |
| <b>Total Liabilities</b>                                     | <b>1,175,892</b>                            | <b>52,238</b>       | <b>19,315</b>     | <b>1,247,445</b>    |
| <b>Net Assets</b>  |   |                     |                   |                     |
| Invested in Capital Assets, Net of Related Debt              | 674,345                                     | 3,418,606           | 76,046            | 4,168,997           |
| <b>Restricted for:</b>                                       |   |                     |                   |                     |
| Landfill Closure Costs                                       | 544,883                                     | -                   | -                 | 544,883             |
| Unrestricted   | (280,939)                                   | 895,603             | 676,236           | 1,290,900           |
| <b>Total Net Assets</b>                                      | <b>\$ 938,289</b>                           | <b>\$ 4,314,209</b> | <b>\$ 752,282</b> | <b>\$ 6,004,780</b> |

**PAYSON CITY CORPORATION**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2012**

|   | Business Type Activities - Enterprise Funds |                     |                   |                     |
|---|---|---------------------|-------------------|---------------------|
|   | Solid<br>Waste                              | Storm<br>Drain      | Ambulance         | Total               |
| <b>Operating Revenues</b>                                       |   |                     |                   |                     |
| Charges for Services  | \$ 1,636,983                                | \$ 582,578          | \$ 310,260        | \$ 2,529,821        |
| Miscellaneous   | 99,857                                      | 0                   | -                 | 99,857              |
| <b>Total Operating Revenues</b>                                 | <u>1,736,840</u>                            | <u>582,578</u>      | <u>310,260</u>    | <u>2,629,678</u>    |
| <b>Operating Expenses</b>                                       |   |                     |                   |                     |
| Costs of Sales and Services                                     | 489,089                                     | 69,229              | 248,686           | 807,004             |
| Maintenance Operations and Contractual Services                 | 246,003                                     | 91,173              | 49,528            | 386,704             |
| Materials and Supplies  | 77,734                                      | 11,273              | 38,456            | 127,463             |
| Depreciation  | 185,057                                     | 125,569             | 16,302            | 326,928             |
| <b>Total Operating Expenses</b>                                 | <u>997,883</u>                              | <u>297,244</u>      | <u>352,972</u>    | <u>1,648,099</u>    |
| <b>Operating Income (Loss)</b>                                  | <u>738,957</u>                              | <u>285,334</u>      | <u>(42,712)</u>   | <u>981,579</u>      |
| <b>Non-Operating Revenues (Expenses)</b>                        |   |                     |                   |                     |
| Interest Income   | 3,827                                       | 4,080               | -                 | 7,907               |
| Grant Revenue   | -   | -                   | 8,185             | 8,185               |
| Gain (Loss) on Sale of Fixed Assets                             | -   | -                   | -                 | -                   |
| Interest and Fiscal Charges                                     | (5,549)                                     | -                   | -                 | (5,549)             |
| <b>Total Non-Operating Revenues (Expenses)</b>                  | <u>(1,722)</u>                              | <u>4,080</u>        | <u>8,185</u>      | <u>10,543</u>       |
| <b>Income (Loss) before Capital Contributions and Transfers</b> | <u>737,235</u>                              | <u>289,414</u>      | <u>(34,527)</u>   | <u>992,122</u>      |
| Capital Contributions   | -   | 30,713              | -                 | 30,713              |
| Transfers In  | -   | -                   | -                 | -                   |
| Transfers Out   | (573,550)                                   | 0                   | (23,922)          | (597,472)           |
| <b>Change in Net Assets</b>                                     | <u>163,685</u>                              | <u>320,127</u>      | <u>(58,449)</u>   | <u>425,363</u>      |
| <b>Net Assets Beginning of Year</b>                             | <u>774,604</u>                              | <u>3,994,082</u>    | <u>810,731</u>    | <u>5,579,417</u>    |
| <b>Net Assets End of Year</b>                                   | <u>\$ 938,289</u>                           | <u>\$ 4,314,209</u> | <u>\$ 752,282</u> | <u>\$ 6,004,780</u> |

**PAYSON CITY CORPORATION**  
**Combining Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

|   | Business Type Activities - Enterprise Funds |                   |                  |                     |
|---|---|-------------------|------------------|---------------------|
|   | Solid<br>Waste                              | Storm<br>Drain    | Ambulance        | Total               |
| <b>Cash Flows from Operating Activities</b>   |   |                   |                  |                     |
| Receipts from Customers and Users   | \$ 1,782,145                                | \$ 575,111        | \$ 367,980       | \$ 2,725,236        |
| Receipts from Interfund Services Provided   |   |                   |                  | -                   |
| Payments to Employees for Services  | (292,368)                                   | (37,664)          | (152,432)        | (482,464)           |
| Payments for Goods and Services   | (651,474)                                   | (386,091)         | (173,895)        | (1,211,460)         |
| Net Cash Provided by (Used in) Operating Activities   | <u>838,303</u>                              | <u>151,356</u>    | <u>41,653</u>    | <u>1,031,312</u>    |
| <b>Cash Flows from Noncapital Financing Activities</b>  |   |                   |                  |                     |
| Operating Grants Received   | -   | -                 | 8,185            | 8,185               |
| Transfers to Other Funds  | (573,550)                                   | -                 | (23,922)         | (597,472)           |
| Transfers from Other Funds  | -   | -                 | -                | -                   |
| Net Cash Provided by (Used in) Noncapital Financing Activities  | <u>(573,550)</u>                            | <u>-</u>          | <u>(15,737)</u>  | <u>(589,287)</u>    |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                       |   |                   |                  |                     |
| Proceeds from Capital Leases  | 181,000                                     | -                 | -                | 181,000             |
| Principal Paid on Capital Leases  | (138,071)                                   | -                 | -                | (138,071)           |
| Interest Paid on Capital Leases   | (5,549)                                     | -                 | -                | (5,549)             |
| Payments for Capital Acquisitions   | (302,133)                                   | (151,356)         | (25,916)         | (479,405)           |
| Net Cash Provided by (Used in) Capital and Related Financing Activities                               | <u>(264,753)</u>                            | <u>(151,356)</u>  | <u>(25,916)</u>  | <u>(442,025)</u>    |
| <b>Cash Flows from Investing Activities</b>   |   |                   |                  |                     |
| Interest Income Received  | 3,827                                       | 4,080             | -                | 7,907               |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 3,827                                       | 4,080             | -                | 7,907               |
| Cash and Cash Equivalents Beginning of Year   | <u>541,056</u>                              | <u>576,884</u>    | <u>-</u>         | <u>1,117,940</u>    |
| Cash and Cash Equivalents End of Year   | <u>\$ 544,883</u>                           | <u>\$ 580,964</u> | <u>\$ -</u>      | <u>\$ 1,125,847</u> |
| <b>Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities</b> |   |                   |                  |                     |
| Operating Income (Loss)   | \$ 738,957                                  | \$ 285,334        | \$ (42,712)      | \$ 981,579          |
| Adjustments:  |   |                   |                  |                     |
| Depreciation  | 185,057                                     | 125,569           | 16,302           | 326,928             |
| (Increase) Decrease in Assets:  |   |                   |                  |                     |
| Accounts Receivable   | 45,305                                      | (7,467)           | 57,720           | 95,558              |
| Allowance for Uncollectable Accounts  | -   | -                 | -                | -                   |
| Due From Other Funds  | (155,133)                                   | (218,490)         | (5,220)          | (378,843)           |
| Increase (Decrease) in Liabilities:   |   |                   |                  |                     |
| Accrued Liabilities   | 12,227                                      | (35,279)          | 15,563           | (7,489)             |
| Performance Bond  |   |                   |                  |                     |
| Compensated Absences Payable  | 11,890                                      | 1,689             | -                | 13,579              |
| Due to Other Funds  | -   | -                 | -                | -                   |
| Net Cash Provided by (Used in) Operating Activities   | <u>\$ 838,303</u>                           | <u>\$ 151,356</u> | <u>\$ 41,653</u> | <u>\$ 1,031,312</u> |
| Noncash investing, capital, and financing activities:   |   |                   |                  |                     |
| Contributions of capital assets from developers   | \$ -  | \$ 30,713         | \$ -             | \$ 30,713           |

**GOVERNMENT AUDITING STANDARDS REPORT**  
**STATE COMPLIANCE REPORT**



# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION  
ESTABLISHED 1974

RANDEL A. HEATON, CPA  
LYNN A. GILBERT, CPA  
JAMES A. GILBERT, CPA  
BEN H. PROBST, CPA  
RONALD J. STEWART, CPA

SIDNEY S. GILBERT, CPA  
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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 19, 2012

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, 2012, which collectively comprise Payson City's basic financial statements and have issued our report thereon dated December 19, 2012. 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 19, 2012.

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, 2012**

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.

3. Payroll Liabilites.

**Finding:** As we were reviewing the payroll liabilities, particularly the retirement and health insurance liabilities, it came to our attention that these accounts are not being reconciled in a timely manner, and it was difficult to trace to source documents. The auditor, with oversight from management, recommended additional adjusting journal entries to the City to adjust these accounts. We recommend that the City review and reconcile these accounts in a timely manner to increase the internal controls to avoid misstatements and misappropriation of funds.

**City's Response:** Management will review the transactions of these accounts and provide additional training to staff for proper internal controls.



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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 19, 2012

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, 2012. 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

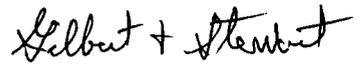
test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance 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, 2012.

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 19, 2012 as items 12-1 through 12-2.

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



**GILBERT & STEWART**  
CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION  
ESTABLISHED 1974

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Honorable Mayor and City Council  
City of Payson, Utah

December 19, 2012

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, 2012. 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 September 26, 2012. 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 19, 2012.

*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**

12-1 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, 2012.

|                                      |             |
|--------------------------------------|-------------|
| Redevelopment Agency – Business Park | (\$545,684) |
| Golf Course Fund                     | (\$385,144) |

**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.

## 12-2 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     | \$ 15,896 |
| Debt Service | \$ 1,027  |

**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:

### 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:** City is in compliance in the current year.

### 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:** See current year finding 12-1.

### 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 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:** All reports were filed on time, City is in compliance.

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 |
|----------|-----------|

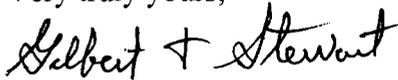
**Recommendation:** We recommend that the City keep expenditures within the approved budget.

**Current Status:** See current year finding 12-2.

Additional findings and recommendations have been addressed in the financial audit on page 54 titled Schedule of Significant Deficiencies.

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*