

PAYSON CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2014

PAYSON CITY CORPORATION
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Payson City
Payson, Utah

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Payson City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Payson City's internal control over financial reporting and compliance.

Gilbert & Stewart

GILBERT & STEWART, CPA, PC
Certified Public Accountants
Provo, UT 84601
December 22, 2014

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, 2014. 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 position of Payson City increased from \$63,939,852 to \$66,341,385. Of this, the governmental net position increased by \$887,691 and the business-type net position increased by \$1,513,842. (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net position of \$66,341,385 is made up of \$53,076,847 in net investment in capital assets and \$8,271,245 in unrestricted and \$4,993,293 restricted net position.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$20,687.
- Total long-term liabilities of the City went down from \$26,852,416 to \$26,484,052, which includes all debt owing (bonds, leases, compensated absences, water share liability, bond premiums and Landfill post-closure liability), as of June 30, 2014.

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 position* presents information on all of Payson City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the fiscal year reported. All changes in net position 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 position 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, 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 position may serve over time as a useful indicator of a government's financial position. In the case of Payson City, assets exceed liabilities by \$66,341,385.

By far the largest portion of Payson City's net position, (82%) 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 Position:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 9,875,898	\$ 9,253,070	\$ 7,863,891	\$ 8,207,318	\$ 17,739,789	\$ 17,460,388
Capital assets	29,708,081	29,596,421	47,730,460	47,290,839	77,438,541	76,887,260
Total assets	<u>39,583,979</u>	<u>38,849,491</u>	<u>55,594,351</u>	<u>55,498,157</u>	<u>95,178,330</u>	<u>94,347,648</u>
Deferred outflow of resources	481,668	-	820,985	585,582	1,302,653	585,582
Liabilities						
Other liabilities	1,315,407	1,588,597	1,515,331	1,137,080	2,830,738	2,725,677
Long-term liabilities outstanding	7,108,172	6,524,559	19,375,880	20,327,857	26,484,052	26,852,416
Total liabilities	<u>8,423,579</u>	<u>8,113,156</u>	<u>20,891,211</u>	<u>21,464,937</u>	<u>29,314,790</u>	<u>29,578,093</u>
Deferred inflow of resources	824,808	806,766	-	-	824,808	806,766
Net position:						
Net investment in						
capital assets	23,187,134	23,646,302	29,889,713	28,625,553	53,076,847	52,271,855
Restricted	758,877	602,434	4,234,416	4,271,444	4,993,293	4,873,878
Unrestricted	6,871,249	5,680,833	1,399,996	1,721,805	8,271,245	7,402,638
Total net position	<u>\$ 30,817,260</u>	<u>\$ 29,929,569</u>	<u>\$ 35,524,125</u>	<u>\$ 34,618,802</u>	<u>\$ 66,341,385</u>	<u>\$ 64,548,371</u>

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 1,698,478	\$ 1,659,133	\$ 20,041,063	\$ 21,047,030	\$ 21,739,541	\$ 22,706,163
Operating grants and contribs	375,048	381,575	-	-	375,048	381,575
Capital grants and contribs	787,251	1,248,003	634,844	796,172	1,422,095	2,044,175
General revenues:						
Taxes	5,604,631	5,478,769	-	-	5,604,631	5,478,769
Gain (Loss) on Sale of Assets	6,613	6,200	10,576	5,151	17,189	11,351
Special Assessments	-	-	-	-	-	-
Unrestricted investment earnings	42,165	33,183	-	-	42,165	33,183
Transfers	1,874,390	2,252,269	(1,874,390)	(2,252,269)	-	-
Misc.	80,781	32,365	-	-	80,781	32,365
Total revenues	<u>10,469,357</u>	<u>11,091,497</u>	<u>18,812,093</u>	<u>19,596,084</u>	<u>29,281,450</u>	<u>30,687,581</u>
Expenses:						
General government	2,692,795	2,598,884	-	-	2,692,795	2,598,884
Public safety	2,888,948	2,695,255	-	-	2,888,948	2,695,255
Highways and public works	892,763	975,625	-	-	892,763	975,625
Parks and recreation	2,419,945	2,318,301	-	-	2,419,945	2,318,301
Economic Development	215,119	453,350	-	-	215,119	453,350
Cemetery	263,592	163,434	-	-	263,592	163,434
Interest on long-term debt	208,504	430,213	-	-	208,504	430,213
Water	-	-	1,768,093	1,943,051	1,768,093	1,943,051
Electric	-	-	11,073,389	11,977,933	11,073,389	11,977,933
Sewer	-	-	1,853,251	1,556,249	1,853,251	1,556,249
Solid Waste	-	-	1,102,555	983,943	1,102,555	983,943
Golf	-	-	788,319	916,833	788,319	916,833
Storm Drain	-	-	305,579	380,120	305,579	380,120
Ambulance	-	-	407,065	367,978	407,065	367,978
Total expenses	<u>9,581,666</u>	<u>9,635,062</u>	<u>17,298,251</u>	<u>18,126,107</u>	<u>26,879,917</u>	<u>27,761,169</u>
Increase in net position	887,691	1,456,435	1,513,842	1,469,977	2,401,533	2,926,412
Net position - beginning (restated)	<u>29,929,569</u>	<u>28,473,134</u>	<u>34,010,283</u>	<u>32,540,306</u>	<u>63,939,852</u>	<u>61,013,440</u>
Net position - ending	<u>\$ 30,817,260</u>	<u>\$ 29,929,569</u>	<u>\$ 35,524,125</u>	<u>\$ 34,010,283</u>	<u>\$ 66,341,385</u>	<u>\$ 63,939,852</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, 2014, the City's governmental funds (General, Capital Projects, & Special Revenue) reported combined fund balance of \$7,607,202 up from \$6,790,333 last year. This represents an increase/decrease of \$816,869 from last year's ending balances, with the General Fund portion increasing by \$20,687.

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 54% of total tax revenues and represents \$2,704,658 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 \$10,704,444 to a final budget of \$10,988,608 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, 2014, amounts to \$77,438,542 (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 2014 fiscal year included the following:

- Improvements in Facilities \$23,733
 - Replacing 2nd floor carpet
- Machinery in Facilities \$ 8,200
 - Tables at Banquet Hall
 - Projector Screen at Banquet Hall
 - Flammable closet (gasoline)
 - Replace walk-in cooler equipment
- Peteetneet Amphitheater \$46,000
- Disaster Preparedness \$26,660
 - Radios for all city departments
- Lease Purchase increased \$80,000
 - To cover 1 year payment for purchase of fire truck
- Budgeted 930 west completion in Class C roads \$120,000
- Machinery increased \$ 17,500
 - Weed mowers
- Lease payment increased \$ 32,000
 - Cover 1st payment on new 10-wheeler out of revolving loan
- Improvements for parks \$ 10,000
 - Included Walmart Grant for Improvements at Memorial Park
- Lease Purchase increased \$ 30,170
 - Payments for purchase of Bobtail & Trails utility vehicle
- 328-D Mower for City grounds \$ 6,357

- Repair and Maintenance \$ 17,480
 - Paint the pool fixtures
- Repair & Maintenance increased \$ 14,720
 - Remodel Restrooms at old ballfields
- Improvements \$ 67,602
 - Preparation for new cemetery area
- Improvements other than buildings \$ 63,000
 - Hospital Rebuild, East & West side voltage cutover, lighting
- Lease Purchase \$ 12,234
 - New Golf Cart lease through revolving loan
- Buildings \$ 7,500
 - Installation of window coverings for pro shop
- Improvements \$ 37,000
 - Cart Path completion
 - Sand replacement for traps
- General Supplies \$ 1,000
 - Purchase trees to start nursery again
- Repair & Maintenance \$246,505
 - Electrical overhaul at sewer plant
 - Trickling Filter repair
- Repair & Maintenance \$ 50,000
 - Land purchase for storm drain pond
- Repair & Maintenance water \$ 32,903
 - Purchase 15 2” meters for businesses & Churches
- Building Improvement water \$ 5,000
 - Heaters, insulation and plywood
- Added funds for new reservoir testing \$ 30,000

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Invested in capital assets, net						
Land	\$ 3,518,221	\$ 3,518,221	\$ 7,873,757	\$ 7,873,757	\$ 11,391,978	\$ 11,391,978
Building	6,353,492	6,571,703	448,220	465,092	6,801,712	7,036,795
Equipment	845,762	374,983	2,023,113	2,024,081	2,868,875	2,399,064
Water Shares	-	-	198,400	198,400	198,400	198,400
Improvements	2,408,413	2,638,774	36,893,242	34,202,900	39,301,655	36,841,674
Infrastructure	16,582,193	16,492,740	-	-	16,582,193	16,492,740
Construction in progress			293,728	2,526,609	293,728	2,526,609
Total net assets	\$ 29,708,081	\$ 29,596,421	\$ 47,730,460	\$ 47,290,839	\$ 77,438,541	\$ 76,887,260

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 87% having a pavement condition with service life of 12 years or better and .28% 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>
2010	\$416,832	\$384,700
2011	161,390	158,999
2012	392,160	366,866
2013	533,148	538,565
2014	446,620	439,389

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, 2014, the City had total bonded debt outstanding of \$23,508,000. Also the following revenue bonds; the Sewer Revenue Bonds, for the eastside sewer line for \$4,500,000 (with the remaining amount owing \$3,720,000); Sales Tax Bonds for swimming pool for \$8,865,000 (with the remaining amount owing \$6,152,000). The Sewer Revenue Refunding Bond of \$5,301,000 (with the remaining amount owing \$3,756,000). The Water Revenue & Refunding Bond of \$9,445,000 (with the remaining owing \$7,315,000), and the Water Revenue Bond of \$3,404,000 for the water tank (with the remaining owing \$2,250,000).

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Bonds Payable	\$ 6,152,000	\$ 5,940,000	\$ 17,587,021	\$ 18,270,802	\$ 23,739,021	\$ 24,210,802
Capital Lease	368,947	10,119	301,829	424,833	670,776	434,952
Accrued Compensated Absences	587,225	574,440	381,499	417,663	968,724	992,103
Water Share Liability	-	-	153,424	262,452	153,424	262,452
Closure and Postclosure Liability	-	-	952,107	952,107	952,107	952,107
Total Long Term Debt	<u>\$ 7,108,172</u>	<u>\$ 6,524,559</u>	<u>\$ 19,375,880</u>	<u>\$ 20,327,857</u>	<u>\$ 26,484,052</u>	<u>\$ 26,852,416</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 County unemployment rate was 3.5% in September 2014. This compares with the national rate of 5.9%. (Source: Utah Dept of Workforce Services). The State unemployment rate was 7.3% in October 2013.
- 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 64 permits in 2009, 59 in 2010, 48 in 2011, 36 in 2012, 64 in 2013, and so far in 2014 we have issued 33 permits for new residential units.
- The General Fund budget for fiscal year ending June 30, 2014 reflects an increase in expenditures of \$284,164 over the final budget for the fiscal year ended June 30, 2014.
- The City Council also voted the Certified Tax Rate at .001353 for FY 2014 and .001268 for FY 2015.
- Some capital improvements planned for and budgeted in the FY 2015 budget include:

Facilities:	Electric Doors	\$4,000
	Replace Steam Coil 2 nd floor	\$8,000
	New LED lighting in Banquet Hall	\$4,200
Cemetery:	Purchase a Mini-X	
	Complete new area of Cemetery	35,928
EDA:	Reimburse Payson Business Center	\$165,000
Electrical:	Change out street lighting	\$30,000
	West side cutover	\$5,000
	Cameras in substations	\$4,680
	½ ton pickup for electrical	\$ 21,868
Fire:	Purchase Fire Truck	\$548,190
Golf Course	Change out sprinklers heads	\$21,040
	Golf Course Equipment	\$76,200
IT:	Replacement of computer equip	\$50,300
Library	Books for children & young adults	\$17,500
Vehicles:	Front Load Garbage Truck	\$180,000
Storm Drain:	Pickup truck for new employee	\$25,000
	Liberty Safe storm drain project	\$224,543
	780 West	\$100,000
	300 North Main line	\$40,000
Water:	Finish Improvements (Patterson water line, well by golf course)	\$87,500

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

PAYSON CITY CORPORATION
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 5,219,142	\$ 2,277,869	\$ 7,497,011
Accounts Receivable (Net of Allowance for Uncollectables)	1,637,921	2,204,144	3,842,065
Prepaid Items		136,000	136,000
Notes Receivable	753,798	-	753,798
Internal Balances	777,559	(777,559)	-
Restricted Assets:			
Cash and Cash Equivalents	1,487,478	3,198,280	4,685,758
Equity in Joint Venture		825,157	825,157
Capital Assets (Net of Accumulated Depreciation)			
Water Shares	-	198,400	198,400
Land	3,518,221	7,873,757	11,391,978
Buildings	6,353,492	448,220	6,801,712
Improvements	2,408,413	36,893,242	39,301,655
Machinery and Equipment	845,762	2,023,113	2,868,875
Infrastructure	16,582,193	-	16,582,193
Construction in Progress	-	293,728	293,728
Total Assets	<u>39,583,979</u>	<u>55,594,351</u>	<u>95,178,330</u>
Deferred Outflows of Resources:			
Deferred Charge on Refunding (Net)	<u>481,668</u>	<u>820,985</u>	<u>1,302,653</u>
Liabilities			
Accounts Payable	667,758	914,799	1,582,557
Interest Payable	23,212	131,775	154,987
Other Current Liabilities	624,437	468,757	1,093,194
Long-Term Liabilities:			
Due Within One Year	523,827	1,336,304	1,860,131
Due In More Than One Year	6,584,345	18,039,576	24,623,921
Total Liabilities	<u>8,423,579</u>	<u>20,891,211</u>	<u>29,314,790</u>
Deferred Inflows of Resources			
Property Taxes Levied for Future Year	<u>824,808</u>	<u>-</u>	<u>824,808</u>
Net Position			
Net Investment in Capital Assets	23,187,134	29,889,713	53,076,847
Restricted for:			
Capital Projects	-	1,201,084	1,201,084
Debt Service	-	348,213	348,213
Class "C" Roads	261,396	-	261,396
Impact Fees	497,481	2,133,882	2,631,363
Landfill Closure Costs	-	551,237	551,237
Unrestricted	<u>6,871,249</u>	<u>1,399,996</u>	<u>8,271,245</u>
Total Net Position	<u>\$ 30,817,260</u>	<u>\$ 35,524,125</u>	<u>\$ 66,341,385</u>

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, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 2,692,795	\$ 295,004	\$ 63,564	-	\$ (2,334,227)	-	\$ (2,334,227)
Public Safety	2,888,948	430,701	298,166	31,511	(2,128,570)	-	(2,128,570)
Highways and Streets	892,763	-	-	587,147	(305,616)	-	(305,616)
Parks and Recreation	2,419,945	1,012,038	13,318	168,593	(1,225,996)	-	(1,225,996)
Economic Development	215,119	9,532	-	-	(205,587)	-	(205,587)
Cemetery	263,592	31,984	-	-	(231,608)	-	(231,608)
Interest on Long-Term Debt	208,504	-	-	-	(208,504)	-	(208,504)
Total Governmental Activities	<u>9,581,666</u>	<u>1,779,259</u>	<u>375,048</u>	<u>787,251</u>	<u>(6,640,108)</u>	<u>-</u>	<u>(6,640,108)</u>
Business-Type Activities:							
Water	1,768,093	2,623,143	-	105,710	-	\$ 960,760	960,760
Electric	11,073,389	11,788,121	-	276,288	-	991,020	991,020
Sewer	1,853,251	1,963,972	-	252,846	-	363,567	363,567
Solid Waste	1,102,555	1,991,357	-	-	-	888,802	888,802
Golf	788,319	668,823	-	-	-	(119,496)	(119,496)
Storm Drain	305,579	604,554	-	-	-	298,975	298,975
Ambulance	407,065	401,093	-	-	-	(5,972)	(5,972)
Total Business-Type Activities	<u>17,298,251</u>	<u>20,041,063</u>	<u>-</u>	<u>634,844</u>	<u>-</u>	<u>3,377,656</u>	<u>3,377,656</u>
Total Primary Government	<u>\$ 26,879,917</u>	<u>\$ 21,820,322</u>	<u>\$ 375,048</u>	<u>\$ 1,422,095</u>	<u>(6,640,108)</u>	<u>3,377,656</u>	<u>(3,262,452)</u>
General Revenues							
Taxes:							
Property Taxes					1,484,883	-	1,484,883
General Sales Taxes					2,704,658	-	2,704,658
Motor Vehicle Taxes					99,533	-	99,533
Utility Taxes					1,019,442	-	1,019,442
Other Taxes					296,115	-	296,115
Gain (Loss) on Sale of Capital Asset					6,613	10,576	17,189
Investment Earnings					42,165	-	42,165
Transfers					1,874,390	(1,874,390)	-
Total General Revenues and Transfers					<u>7,527,799</u>	<u>(1,863,814)</u>	<u>5,663,985</u>
Change in Net Assets					887,691	1,513,842	2,401,533
Net Position Beginning of Year (as restated see note 18)					<u>29,929,569</u>	<u>34,010,283</u>	<u>63,939,852</u>
Net Position End of Year					<u>\$ 30,817,260</u>	<u>\$ 35,524,125</u>	<u>\$ 66,341,385</u>

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

PAYSON CITY CORPORATION
Balance Sheet
Governmental Funds
June 30, 2014

	General	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 1,095,176	\$ 4,123,966	\$ -	\$ 5,219,142
Accounts Receivable (Net of Allowance for Uncollectables)	1,637,921	-	-	1,637,921
Due From Other Funds	617,383	-	712,610	1,329,993
Notes Receivable	-	-	753,798	753,798
Restricted Assets:				
Cash and Cash Equivalents	412,861	-	1,074,617	1,487,478
Total Assets	\$ 3,763,341	\$ 4,123,966	\$ 2,541,025	\$ 10,428,332
Liabilities				
Accrued Liabilities	\$ 655,440	\$ 1,001	\$ -	\$ 656,441
Due To Other Funds	-	680,398	-	680,398
Deposits	624,437	-	-	624,437
Total Liabilities	1,279,877	681,399	-	1,961,276
Deferred Inflows of Resources				
Property Taxes Levied for Future Year	824,808	-	-	824,808
Unavailable Property Taxes	35,046	-	-	35,046
Total Inflows	859,854	-	-	859,854
Fund Balances				
Restricted for:				
RDA	-	-	655,922	655,922
Class "C" Roads	261,396	-	-	261,396
Impact Fees	-	-	497,481	497,481
Committed for:				
Perpetual Care	-	-	331,172	331,172
Assigned for:				
Community Events	319,477	-	-	319,477
Capital Projects	-	3,442,567	1,056,450	4,499,017
Unassigned	1,042,737	-	-	1,042,737
Total Fund Balances (Deficits)	1,623,610	3,442,567	2,541,025	7,607,202
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 3,763,341	\$ 4,123,966	\$ 2,541,025	\$ 10,428,332

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

PAYSON CITY CORPORATION
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Total Governmental Funds Balances	\$ 7,607,202
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	29,708,082
Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	35,046
An internal service fund is used by management to charge the costs of vehicle repairs and maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	106,527
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>(6,639,597)</u>
Net Position of Governmental Activities	<u><u>\$ 30,817,260</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, 2014

	General	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Property Taxes	\$ 875,064	\$ -	\$611,340	\$ 1,486,404
General Sales Taxes	2,704,658	-	-	2,704,658
Motor Vehicle Taxes	99,533	-	-	99,533
Utility Taxes	1,019,442	-	-	1,019,442
Other Taxes	296,115	-	-	296,115
Licenses and Permits	223,093	-	-	223,093
Intergovernmental	962,195	-	-	962,195
Charges for Services	1,171,629	-	31,984	1,203,613
Fines and Forfeitures	284,687	-	-	284,687
Interest	4,247	19,129	18,789	42,165
Miscellaneous	67,866	-	-	67,866
Total Revenues	7,708,529	19,129	662,113	8,389,771
Expenditures				
Current:				
General Government	2,545,236	-	-	2,545,236
Public Safety	2,843,689	-	-	2,843,689
Highways and Streets	830,037	-	-	830,037
Parks and Recreation	2,040,129	-	-	2,040,129
Economic Development	184,425	-	13,511	197,936
Cemetery	263,592	-	-	263,592
Debt Service:				
Principal Retirement	409,940	-	-	409,940
Interest and Fiscal Charges	217,501	-	58,000	275,501
Capital Outlay:				
Highways and Streets	432,870	89,453	-	522,323
Public Safety	45,606	-	-	45,606
Parks and Recreation	118,351	-	-	118,351
Economic Development	53,985	-	-	53,985
Total Expenditures	9,985,361	89,453	71,511	10,146,325
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,276,832)</u>	<u>(70,324)</u>	<u>590,602</u>	<u>(1,756,554)</u>
Other Financing Sources (Uses)				
Impact Fees	-	-	200,104	200,104
Sale of Fixed Assets	6,613	-	-	6,613
Capital Lease Proceeds	458,768	-	-	458,768
Bonds Issued	5,142,000	-	-	5,142,000
Payments Made to Escrow Agents	(5,108,452)	-	-	(5,108,452)
Transfers In	1,798,590	128,000	638,000	2,564,590
Transfers Out	-	(675,200)	(15,000)	(690,200)
Total Other Financing Sources (Uses)	2,297,519	(547,200)	823,104	2,573,423
Net Change in Fund Balances	20,687	(617,524)	1,413,706	816,869
Fund Balances Beginning of Year	1,602,923	4,060,091	1,127,319	6,790,333
Fund Balances End of Year	\$ 1,623,610	\$ 3,442,567	\$ 2,541,025	\$ 7,607,202

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, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 816,869
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	111,661
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(28,162)
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.	(1,521)
The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	<u>(11,156)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 887,691</u></u>

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

PAYSON CITY CORPORATION
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Major				Non Major		
	Water	Electric	Sewer	Golf Course	Enterprise Funds	Total	
Assets							
Current Assets:							
Cash and Cash Equivalents	\$ 1,057,329	\$ 530,125	\$ -	\$ 2,022	\$ 688,393	\$ 2,277,869	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	415,140	1,012,715	252,984	-	523,305	2,204,144	-
Due From Other Funds	-	1,003,009	-	-	1,920,217	2,923,226	127,964
Prepaid Items	-	136,000	-	-	-	136,000	-
Total Current Assets	1,472,469	2,681,849	252,984	2,022	3,131,915	7,541,239	127,964
Noncurrent Assets:							
Restricted Assets:							
Cash and Cash Equivalents	634,200	1,355,404	657,439	-	551,237	3,198,280	-
Equity in Joint Venture	-	-	825,157	-	-	825,157	-
Capital Assets:							
Water Shares	198,400	-	-	-	-	198,400	-
Land	6,711,439	116,337	157,482	833,376	55,123	7,873,757	-
Buildings	-	279,792	13,199	245,950	290,506	829,447	-
Improvements	19,569,384	18,300,161	21,794,993	4,337,896	5,047,635	69,050,069	-
Machinery and Equipment	344,865	2,072,799	1,329,882	1,309,843	3,054,018	8,111,407	1,336,900
Construction in Progress	293,728	-	-	-	-	293,728	-
Less Accumulated Depreciation	(8,717,783)	(12,709,015)	(9,728,409)	(3,789,139)	(3,682,002)	(38,626,348)	(1,299,914)
Total Capital Assets, Net	18,400,033	8,060,074	13,567,147	2,937,926	4,765,280	47,730,460	36,986
Total Noncurrent Assets	19,034,233	9,415,478	15,049,743	2,937,926	5,316,517	51,753,897	36,986
Total Assets	20,506,702	12,097,327	15,302,727	2,939,948	8,448,432	59,295,136	164,950
Deferred Outflows of Resources:							
Deferred Charge on Refunding (Net)	550,447	-	270,538	-	-	820,985	-
Liabilities							
Current Liabilities:							
Accrued Liabilities	18,480	826,180	15,192	21,653	33,294	914,799	11,317
Due to Other Funds	-	-	322,623	3,378,162	-	3,700,785	-
Compensated Absences Payable	13,057	181,600	41,465	75,697	69,680	381,499	52,306
Bonds Payable	525,000	-	679,000	-	-	1,204,000	-
Interest Payable	65,019	-	66,756	-	-	131,775	-
Capital Leases Payable	-	-	-	54,805	77,499	132,304	1,904
Total Current Liabilities	621,556	1,007,780	1,125,036	3,530,317	180,473	6,465,162	65,527
Current Liabilities Payable from Restricted Assets:							
Customer Deposits Payable	-	468,757	-	-	-	468,757	-
Total Current Liabilities Payable from Restricted Assets	-	468,757	-	-	-	468,757	-
Long-Term Liabilities:							
Unamortized Bond Premiums (Net)	231,022	-	-	-	-	231,022	-
Revenue Bonds Payable (net of current portion)	9,355,000	-	6,797,000	-	-	16,152,000	-
Capital Leases Payable (net of current portion)	-	-	-	72,035	97,490	169,525	8,215
Closure and Postclosure Liability	-	-	-	-	952,107	952,107	-
Water Share Liability	153,423	-	-	-	-	153,423	-
Total Long-Term Liabilities	9,739,445	-	6,797,000	72,035	1,049,597	17,658,077	8,215
Total Liabilities	10,361,001	1,476,537	7,922,036	3,602,352	1,230,070	24,591,996	73,742
Net Position							
Net Investment in Capital Assets	8,337,115	8,060,074	6,091,147	2,811,086	4,590,291	29,889,713	26,867
Restricted for:							
Bond and Lease Requirements	48,102	-	300,111	-	-	348,213	-
Capital Projects	1,201,084	-	-	-	-	1,201,084	-
Landfill Closure Costs	-	-	-	-	551,237	551,237	-
Impact Fees	370,976	1,389,112	373,794	-	-	2,133,882	-
Unrestricted	738,871	1,171,604	886,177	(3,473,490)	2,076,834	1,399,996	64,341
Total Net Position	\$ 10,696,148	\$ 10,620,790	\$ 7,651,229	\$ (662,404)	\$ 7,218,362	\$ 35,524,125	\$ 91,208

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 Position
Proprietary Funds
For the Year Ended June 30, 2014

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
Operating Revenues							
Charges for Services	\$ -	\$ 11,471,639	\$ -	\$ 644,815	\$ 2,834,304	\$ 14,950,758	\$ 659,181
Charges Pledged as Security for Revenue Bond	2,596,013	-	1,940,857	-	-	4,536,870	-
Miscellaneous	3,158	143,625	19,551	23,998	156,647	346,979	-
Total Operating Revenues	2,599,171	11,615,264	1,960,408	668,813	2,990,951	19,834,607	659,181
Operating Expenses							
Costs of Sales and Services	443,853	9,480,075	416,858	376,645	843,122	11,560,553	345,747
Maintenance Operations and Contractual Services	277,123	1,021,284	582,465	70,350	565,216	2,516,438	86,240
Materials and Supplies	285,407	110,061	67,899	164,476	135,284	763,127	228,076
Depreciation	433,101	460,451	530,099	171,937	264,190	1,859,778	16,969
Amortization	-	-	20,651	-	-	20,651	-
Total Operating Expenses	1,439,484	11,071,871	1,617,972	783,408	1,807,812	16,720,547	677,032
Operating Income (Loss)	1,159,687	543,393	342,436	(114,595)	1,183,139	3,114,060	(17,851)
Non-Operating Revenues (Expenses)							
Interest Income	23,972	172,857	3,564	10	6,053	206,456	-
Impact Fees	105,710	276,288	252,846	-	-	634,844	-
Bond Refunding Cost Amortization	(35,135)	-	(3,810)	-	-	(38,945)	-
Gain (Loss) on Sale of Fixed Assets	-	-	-	3,265	7,311	10,576	-
Interest and Fiscal Charges	(293,474)	(1,518)	(231,469)	(4,911)	(7,387)	(538,759)	-
Total Non-Operating Revenues (Expenses)	(198,927)	447,627	21,131	(1,636)	5,977	274,172	-
Income (Loss) before Capital Contributions and Transfers	960,760	991,020	363,567	(116,231)	1,189,116	3,388,232	(17,851)
Capital Contributions	-	-	-	-	-	-	-
Transfers In	-	-	-	37,200	-	37,200	-
Transfers Out	(398,255)	(874,558)	(49,935)	-	(588,842)	(1,911,590)	-
Change in Net Position	562,505	116,462	313,632	(79,031)	600,274	1,513,842	(17,851)
Net Position Beginning of Year (as restated see note 18)	10,133,643	10,504,328	7,337,597	(583,373)	6,618,088	34,010,283	109,059
Net Position End of Year	\$ 10,696,148	\$ 10,620,790	\$ 7,651,229	\$ (662,404)	\$ 7,218,362	\$ 35,524,125	\$ 91,208

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, 2014

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
Cash Flows from Operating Activities							
Receipts from Customers and Users	\$ 2,502,040	\$ 11,562,643	\$ 1,935,586	\$ 668,813	\$ 3,037,230	\$ 19,706,312	\$ 659,181
Payments from Interfund Services Provided	-	-	-	-	-	-	-
Payments to Employees for Services	(252,892)	(902,971)	(231,058)	(241,391)	(546,542)	(2,174,854)	(345,747)
Payments for Goods and Services	(1,111,764)	(9,041,755)	(785,568)	(408,225)	(1,026,139)	(12,373,451)	(313,434)
Net Cash Provided by (Used in) Operating Activities	1,137,384	1,617,917	918,960	19,197	1,464,549	5,158,007	-
Cash Flows from Noncapital Financing Activities							
Operating Grants Received	-	-	-	-	-	-	-
Transfers to Other Funds	(398,255)	(874,558)	(49,935)	-	(588,842)	(1,911,590)	-
Transfers from Other Funds	-	-	-	37,200	-	37,200	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(398,255)	(874,558)	(49,935)	37,200	(588,842)	(1,874,390)	-
Cash Flows from Capital and Related Financing Activities							
Insurance Proceeds	-	-	-	-	-	-	-
Impact Fees	105,710	276,288	252,846	-	-	634,844	-
Proceeds from Bonds & Capital Leases	-	-	-	54,760	-	54,760	-
Proceeds from Sale of Assets	-	-	-	3,265	7,311	10,576	-
Increase in Joint Venture	-	-	(110,210)	-	-	(110,210)	-
Principal Paid on Revenue Bonds	(496,000)	-	(589,000)	-	-	(1,085,000)	-
Interest Paid on Revenue Bonds	(281,583)	-	(231,469)	-	-	(513,052)	-
Principal Paid on Capital Leases	-	(47,696)	-	(54,751)	(75,317)	(177,764)	-
Interest Paid on Capital Leases	-	(1,518)	-	(4,911)	(7,387)	(13,816)	-
Payments for Capital Acquisitions	(641,309)	(637,649)	(165,004)	(54,760)	(699,994)	(2,198,716)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,313,182)	(410,575)	(842,837)	(56,397)	(775,387)	(3,398,378)	-
Cash Flows from Investing Activities							
Interest Income Received	17,623	172,857	3,564	10	6,053	200,107	-
Net Increase (Decrease) in Cash and Cash Equivalents	(556,430)	505,641	29,752	10	106,373	85,346	-
Cash and Cash Equivalents Beginning of Year	2,247,959	1,379,888	627,687	2,012	1,133,257	5,390,803	-
Cash and Cash Equivalents End of Year	\$ 1,691,529	\$ 1,885,529	\$ 657,439	\$ 2,022	\$ 1,239,630	\$ 5,476,149	\$ -
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating Income (Loss)	\$ 1,159,687	\$ 543,393	\$ 342,436	\$ (114,595)	\$ 1,183,139	\$ 3,114,060	\$ (17,851)
Adjustments:							
Depreciation	433,101	460,451	530,099	171,937	264,190	1,859,778	16,969
Amortization	-	-	20,651	-	-	20,651	-
(Increase) Decrease in Assets:							
Accounts Receivable	(97,131)	(85,568)	(24,822)	-	46,279	(161,242)	-
Due From Other Funds	-	523,459	-	-	65,797	589,256	10,897
Increase (Decrease) in Liabilities:							
Accrued Liabilities	(237,565)	145,955	(45,616)	201	(69,495)	(206,520)	256
Customer Deposits	-	32,947	-	-	-	32,947	-
Compensated Absences Payable	(10,376)	(2,720)	3,221	(929)	(25,361)	(36,165)	(10,271)
Water Share Liability	(109,029)	-	-	-	-	(109,029)	-
Accrued Interest	(1,303)	-	(54,012)	-	-	(55,315)	-
Due to Other Funds	-	-	147,003	(37,417)	0	109,586	-
Net Cash Provided by (Used in) Operating Activities	\$ 1,137,384	\$ 1,617,917	\$ 918,960	\$ 19,197	\$ 1,464,549	\$ 5,158,007	\$ -
Noncash investing, capital, and financing activities:							
Contributions of capital assets from developers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PAYSON CITY CORPORATION
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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
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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 Position and the statements of changes in Net Position) 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
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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, and golf course fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

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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 Position 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".

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.

PAYSON CITY CORPORATION
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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 Position 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

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.

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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, 2014, the total liability for compensated absences is \$969,054.

7. Taxes

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

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

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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.

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. Deferred Outflows/inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will

PAYSON CITY CORPORATION
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not be recognized as an outflow of resources (expense/expenditure) until then. The City has one deferred outflow, deferred charge on refunding reported in the government-wide statement of net position. The deferred charge on refunding resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *revenue for future year*, is reported in both the statement of net position and the governmental funds balance sheet. These amounts account for property taxes levied on January 1, 2014 for the 2014-2015 fiscal year.

10. Fund Equity

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

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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.

- **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.

11. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

12. 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 position

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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This difference primarily results from the long-term economic focus of the statement of net position 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 costs of these assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$40,388,704
Accumulated depreciation	<u>(10,680,622)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$29,708,082</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 position.

Accrued interest payable	\$ 23,212
Compensated absences	587,225
Deferred Charge on Refunding	(481,668)
Bonds, notes payable, and lease payable	<u>6,510,828</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 6,639,597</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 position 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	\$ 740,265
Depreciation expense	<u>(628,604)</u>
Net adjustment to increase <i>net changes in fund balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 111,661</u>

PAYSON CITY CORPORATION
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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 position. 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.

Bond and Note Payments	\$ 4,930,000
Bond Proceeds	(5,142,000)
Lease Payment	99,940
Lease Proceeds	(458,768)
Compensated absence	(12,783)
Decrease in Accrued Interest	73,781
Bond Refunding Charge Cost (net amortization 6,784)	<u>481,668</u>

Net adjustments to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ (28,162)</u></u>
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NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.

PAYSON CITY CORPORATION
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- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.

- E. Budget appropriations for any department may be reduced by resolution.

- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and 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, 2014, the City's custodial credit risk for deposits were as follows:

PAYSON CITY CORPORATION
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<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance</u> <u>June 30, 2014</u>
Regular Checking Account	Insured	\$250,000
Regular Checking Account	Uninsured	622,429

B. Investments

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

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 GASB fair value factor at June 30, 2014 for the PTIF investment pool is 1.00550620. The fair value of the PTIF investment is approximately equal to the value of the pool shares with a difference of \$64,299 which is immaterial.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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As of June 30, 2014 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	\$ 11,677,495	\$ 11,677,495	\$ -	\$ -	\$ -
Total Fair Value	\$ 11,677,495	\$ 11,677,495	\$ -	\$ -	\$ -

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

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

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

Deposits and Investments	\$ 504,274
Investments	11,677,495
Cash on Hand	<u>1,000</u>
Total Cash	<u>\$12,182,769</u>
Government-Wide	
Cash and Cash Equivalents	\$ 7,497,011
Restricted Cash and Cash Equivalents	4,067,339
Fiduciary Restricted Cash	<u>618,419</u>
Total Cash	<u>\$12,182,769</u>
Net Cash on Statement of Net Position	<u>\$12,182,769</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:

	General	Water	Electric	Sewer	Non Major Business Type	Total
Receivables:						
Accounts	\$ 7,177	\$ 415,140	\$ 1,170,415	\$ 252,984	\$ 576,499	\$ 2,422,215
Property tax	899,650	-	-	-	-	899,650
Other taxes	622,156	-	-	-	-	622,156
Intergovernmental	108,938	-	-	-	-	108,938
Less allowance for uncollectible accts	-	-	(157,700)	-	(53,194)	(210,894)
	<u>\$ 1,637,921</u>	<u>\$ 415,140</u>	<u>\$ 1,012,715</u>	<u>\$ 252,984</u>	<u>\$ 523,305</u>	<u>\$ 3,842,065</u>

Governmental funds report *deferred inflows* 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 inflows* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	<u>\$ 35,046</u>	<u>\$ 824,808</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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, 2014 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Project	\$ 617,383
Non Major Governmental	Golf Course	649,595
	Capital Project	63,015
	Non Major Governmental	
Electric	Sewer	322,623
	Golf Course	680,386
Non Major Enterprise	Golf Course	1,920,217
	Non Major Governmental	
Internal Service Fund	Golf Course	<u>127,964</u>
Total		<u>\$4,381,183</u>

Inter-fund Transfers:

Transfer Out:	<u>General</u>	<u>Capital Projects</u>	<u>Golf Course</u>	<u>Non Major Governmental</u>	<u>Total</u>
General	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Projects	-	-	37,200	638,000	675,200
Water	398,255	-	-	-	398,255
Electric	874,558	-	-	-	874,558
Sewer	49,935	-	-	-	49,935
Non Major Enterprise	460,842	128,000	-	-	588,842
Perpetual Care	15,000	-	-	-	15,000
Total Transfers In	<u>\$1,798,590</u>	<u>\$ 128,000</u>	<u>\$ 37,200</u>	<u>\$ 638,000</u>	<u>\$ 2,601,790</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.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,518,221	\$ -	\$ -	\$ 3,518,221
Infrastructure	16,492,740	89,453	-	16,582,193
Total capital assets not being depreciated	<u>20,010,961</u>	<u>89,453</u>	<u>-</u>	<u>20,100,414</u>
Capital assets being depreciated:				
Buildings	8,728,456	-	-	8,728,456
Improvements	6,831,420	53,985	-	6,885,405
Machinery and equipment	4,077,601	596,828	-	4,674,429
Total capital assets being depreciated	<u>19,637,477</u>	<u>650,813</u>	<u>-</u>	<u>20,288,290</u>
Less accumulated depreciation for:				
Buildings	(2,156,753)	(218,211)	-	(2,374,964)
Improvements	(4,192,647)	(284,345)	-	(4,476,992)
Machinery and equipment	(3,702,618)	(126,048)	-	(3,828,666)
Total accumulated depreciation	<u>(10,052,018)</u>	<u>(628,604)</u>	<u>-</u>	<u>(10,680,622)</u>
Total capital assets, being depreciated, net	<u>9,585,459</u>	<u>22,209</u>	<u>-</u>	<u>9,607,668</u>
Governmental activities capital assets, net	<u>\$ 29,596,420</u>	<u>\$ 111,662</u>	<u>\$ -</u>	<u>\$ 29,708,082</u>
Business-type activities:	Beginning			Ending
Capital assets not being depreciated:	Balance	Increases	Decreases	Balance
Land	\$ 7,873,757	\$ -	\$ -	\$ 7,873,757
Water Shares	198,400	-	-	198,400
Construction in Progress	2,526,609	293,728	2,526,609	293,728
Total capital assets not being depreciated	<u>10,598,766</u>	<u>293,728</u>	<u>2,526,609</u>	<u>8,365,885</u>
Capital assets being depreciated:				
Buildings	829,447	-	-	829,447
Improvements	65,003,573	4,046,496	-	69,050,069
Machinery and equipment	7,666,024	485,783	40,400	8,111,407
Total capital assets being depreciated	<u>73,499,044</u>	<u>4,532,279</u>	<u>40,400</u>	<u>77,990,923</u>
Less accumulated depreciation for:				
Buildings	(364,355)	(16,872)	-	(381,227)
Improvements	(30,800,673)	(1,356,154)	-	(32,156,827)
Machinery and equipment	(5,641,942)	(486,752)	(40,400)	(6,088,294)
Total accumulated depreciation	<u>(36,806,970)</u>	<u>(1,859,778)</u>	<u>(40,400)</u>	<u>(38,626,348)</u>
Total capital assets, being depreciated, net	<u>36,692,074</u>	<u>2,672,501</u>	<u>-</u>	<u>39,364,575</u>
Business-type activities capital assets, net	<u>\$ 47,290,840</u>	<u>\$ 2,966,229</u>	<u>\$ 2,526,609</u>	<u>\$ 47,730,460</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

Governmental activities:	
General government	\$ 124,504
Public safety	27,406
Highways and public improvements	62,726
Economic Development	17,183
Parks and recreation	379,816
Capital assets held by the government's Internal Service Fund are charged to various functions based on their usage of assets	16,969
Total depreciation expense - governmental activities	<u>\$ 628,604</u>
Business-type activities:	
Water	\$ 433,101
Electric	460,451
Sewer	530,099
Solid Waste	80,506
Golf Course	171,937
Storm Drain	135,751
Ambulance	47,933
Total depreciation expense - Business-Type Activities	<u>\$ 1,859,778</u>
Total depreciation expense	<u>\$ 2,488,382</u>

NOTE 8 - LEASE COMMITMENTS

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

The assets acquired through capital leases are as follows:

Asset:	<u>Business</u>
	<u>Type</u>
Machinery and Equipment	\$1,325,264
Less: Accumulated Amortization	(629,233)
Total	<u>\$ 692,031</u>

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

The present value of future minimum capital lease payments under these leases as of June 30, 2014 are:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$249,334
2016	188,546
2017	174,454
2018	151,488
2019	<u>2,751</u>
Total minimum lease payments	766,573
Less amounts representing interest	(95,797)
Present value of minimum lease payments	<u>\$ 670,776</u>

At June 30, 2014, 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	\$ 368,947	\$ 301,829
Current Portion Capital Leases Payable	<u>(95,827)</u>	<u>(132,304)</u>
Long Term Capital Leases Payable	<u>\$ 273,120</u>	<u>\$ 169,525</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, 2014, the governmental long-term debt of the financial reporting entity consisted of the following:

Sales Tax Revenue Bonds Series 2007B, Dated July 26, 2007 5.0% to 5.8% (original amount \$7,300,000)	<u>\$ 1,010,000</u>
Sales Tax Revenue Refunding Bonds Series 2014, Dated May 8, 2014 0.90% to 4.0% (original amount \$5,142,000)	<u>5,142,000</u>
Total Bonds and Notes	6,152,000
Less Noncurrent	<u>(5,724,000)</u>
Current Portion	<u>\$ 428,000</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Capital Leases

2013 Copier 3.04% Revolving Loan Fund (original amount \$10,119)	\$ 10,119
2013 Paver & Roller 3.04% Revolving Loan Fund (org. amt \$123,004)	93,743
2013 Mower 3.04% Revolving Loan Fund (original amount \$13,635)	11,050
2013 Utility Vehicle 3.04% Revolving Loan Fund (org. amt \$9,456)	7,744
2013 Toro Mower 3.04% Revolving Loan Fund (org. amt \$32,125)	26,102
2014 Snow Plow 3.04% Revolving Loan Fund (org. amt \$185,454)	145,454
2014 Dump Truck 3.04% Revolving Loan Fund (org. amt \$95,094)	<u>74,735</u>
Total Capital lease	368,947
Less Noncurrent	(<u>273,120</u>)
Current portion	<u>\$ 95,827</u>

Business-type Activities:

As of June 30, 2014, the long-term debt payable from proprietary fund resources consisted of the following:

Sewer Revenue Refunding Bonds, Series 2010, dated June 21, 2010 3.64% (original amount \$5,301,000)	\$ 3,756,000
Water revenue Bond, Series 2012, dated April 1, 2012 3.46% (original amount \$3,404,000)	2,250,000
Sewer Revenue Bond, Series 2007, dated August 8, 2007 4.0%-4.5% (original amount \$4,500,000)	405,000
Water Revenue Refunding, Series 2013, dated March 13, 2013 2.0% - 3.0% (original amount \$7,385,000)	7,315,000
Water Revenue and Refunding Series 2008, dated Feb. 1, 2007 3-5% (original amount \$9,445,000)	315,000
Sewer Sales Tax Refunding Series 2014, dated May 8, 2014 0.90% to 4.0% (original amount \$5,142,000)	<u>3,315,000</u>
Total Bonds & Notes	17,356,000
Less non-current	(<u>16,152,000</u>)
Current portion	<u>\$ 1,204,000</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

Capital Leases

2011 Golf Carts, 3.05% (original amount \$52,300)	\$ 26,935
2010 Golf Equipment, 3.69% (original amount \$58,000)	12,135
2014 Golf Carts, 3.042% (original amount \$56,760) Revolving Loan Fund	40,925
2013 Ambulance, 3.04% (original amount \$157,800)	128,097
From Revolving Loan Fund	
2013 Golf Equipment, 3.04% (original amount \$75,820)	46,845
From Revolving Loan Fund	
2009 Line Truck, 4.23% (original amount \$220,196)	
2011 Garbage Truck, 2.8% (original amount \$181,000)	<u>46,892</u>
 Total Capital lease	 301,829
Less Noncurrent	(169,525)
Current portion	<u>\$ 132,304</u>

The future annual requirements for all outstanding bond and note obligations as of June 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>All Bonds and Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,632,000	\$ 746,503	\$ 2,378,503
2016	1,624,000	750,756	2,374,756
2017	1,686,000	551,920	2,237,920
2018	1,730,000	474,969	2,204,969
2019	1,772,000	435,047	2,207,047
2020-2024	8,476,000	1,611,792	10,087,792
2025-2029	6,018,000	506,411	6,524,411
2030	570,000	8,550	578,550
	<u>\$ 23,508,000</u>	<u>\$ 5,085,948</u>	<u>\$ 28,593,948</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Changes in Long Term Debt

Government Type Activities	2013	Additions	Reductions	2014	One Year
Bonds Payable					
2014 Sales Tax Revenue Refunding	\$ -	\$ 5,142,000	\$ -	\$ 5,142,000	\$ 108,000
Sales Tax Revenue Bond 2006B	5,940,000	-	4,930,000	1,010,000	320,000
Total Bonds Payable	5,940,000	5,142,000	4,930,000	6,152,000	428,000
Capital Lease	10,119	458,768	99,940	368,947	95,827
Accrued Compensated Absences	574,440	12,785	-	587,225	-
Govt Activities Long-Term Debt	\$ 6,524,559	\$ 5,613,553	\$ 5,029,940	\$ 7,108,172	\$ 523,827

Business Type Activities	2013	Additions	Reductions	2014	One Year
Bonds Payable					
2008 Water Rev & Refunding Bond	\$ 620,000	\$ -	\$ 305,000	\$ 315,000	\$ 315,000
2014 Sewer Sales Tax Refunding	-	3,315,000	-	3,315,000	66,000
2013 Water Refunding Bond	7,385,000	-	70,000	7,315,000	85,000
2006 Sewer Revenue Bond	3,615,000	-	3,210,000	405,000	200,000
2012 Water Revenue Bond	2,250,000	121,000	121,000	2,250,000	125,000
2010 Sewer Refunding	4,155,000	-	399,000	3,756,000	413,000
Unamortized Bond Premium	245,802	-	14,781	231,021	-
Total Bonds Payable	18,270,802	3,436,000	4,119,781	17,587,021	1,204,000
Capital Lease	424,833	54,760	177,764	301,829	132,304
Accrued Compensated Absence	417,663	-	36,164	381,499	-
Water Share Liability	262,453	-	109,029	153,424	-
Closure and Postclosure Liability	952,107	-	-	952,107	-
Business activities long- term debt	\$ 20,327,858	\$ 3,490,760	\$ 4,442,738	\$ 19,375,880	\$ 1,336,304

Advance Refunding. In 2014 the City issued \$8,457,000 in sales tax revenue bonds with an interest rate ranging between 0.9 -4.0%. The proceeds were used to advance refund \$3,020,000 of outstanding 2006 Sewer Revenue & Refunding Bonds with interest rates ranging from 4.0% to 4.5%, and \$4,620,000 of the outstanding 2006B sales tax revenue bond with interest ranging from 5.0%–5.8%. The net proceeds of \$8,402,801 (after payment of \$54,199 in issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2006 sewer revenue bonds and the 2006 sales tax revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. As of the balance sheet date, \$7,640,000 of the original debt is still outstanding

The reacquisition price exceeded the net carrying amount of the old debt by \$762,801. This amount is reported as a deferred outflow and amortized over the remaining life of the refunding debt. The City advance refunded the 2006 Sewer Revenue & Refunding Bonds and Sales Tax Revenue Bond

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

to reduce its total debt service payments by \$360,700 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$310,664.

In 2013 the City issued \$7,385,000 in revenue bonds with an interest rate ranging between 2.0 - 3.0%. The proceeds were used to advance refund \$6,820,000 of outstanding 2008 Water Revenue & Refunding Bonds with interest rates ranging from 3.0% to 5.0%. The net proceeds of \$7,417,294 (after payment of \$209,672 in issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2008 water revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. As of the balance sheet date \$6,820,000 of the original debt is still outstanding.

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, 2014, 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, 2014, 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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah, 84102 or by calling 1-800-365-8772.

Funding Policy. Payson City Corporation is required to contribute a percent of covered salary to the respective systems, 13.99% to the Contributory Tier 2, 17.29% to the Noncontributory, 20.85% to the Public Safety Contributory Tier 2, 32.14% to the Public Safety Noncontributory and 15.05% to the Firefighters Retirement System, respectively. In addition the City contributes 2.96% to the Firefighters Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Payson City Corporation contributions to the Contributory Retirement System (Tier 2) for June 30, 2014, 2013 and 2012 were \$30,695, \$14,535, and \$3,747 respectively, and for the Noncontributory Retirement System for June 30, 2014, 2013 and 2012, were \$661,737, \$586,115, and \$549,138 respectively, and for the Public Safety Retirement System the contributions for June 30, 2014 (Tier 2) is \$3,681 and for the Tier 1 as of June 30, 2014, 2013, and 2012 were \$251,997, \$221,501, and \$210,367, respectively. For the Firefighter System the contributions for June 30, 2014, 2013 and 2012 were \$14,756 \$13,016, and \$13,532, 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, 2014, 2013, and 2012 were \$37,197,\$20,431, and \$21,205, respectively.

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.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 – DEFICIT FUND BALANCES

The following funds had a deficit fund balance/net position balance at June 30, 2014:

Golf Course	\$ (662,404)
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NOTE 14 - RISK MANAGEMENT

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

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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 \$714,946 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 \$2,143,000 as of June 30, 2014.

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

NOTE 16 – REDEVELOPMENT AGENCY

The Payson City Redevelopment Agencies were established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2014, the following activity occurred in the City’s redevelopment agencies.

Business Park

Tax increment collection from other taxing agencies for various project areas	\$611,340
Amounts expended for site improvements and preparation costs	1,593
Outstanding loans to finance RDA projects	-

Down Town

Tax increment collection from other taxing agencies for various project areas	\$ -
Amounts expended for site improvements and preparation costs	10,565
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 22, 2014, the date the financial statements were available to be issued.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 18 – RESTATED NET POSITION

The beginning net position in the electric fund statement of revenues, expenses and changes in Fund net position, and the government –wide statement of net position for business activities has been restated to reflect the change in accrual of utility payments in the electric fund.

	<u>Government -Wide Financial Statement Business - Type Activities</u>	<u>Statement of Revenues, Expenses and Change in Fund Net Position Business - Type Activities Electric Fund</u>
Net Position, as originally stated - June 30, 2013	\$ 34,618,802	\$ 11,112,847
Restate utility expense in proper period	<u>(608,519)</u>	<u>(608,519)</u>
Net Position as restated - June 30, 2013	<u>\$ 34,010,283</u>	<u>\$ 10,504,328</u>

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, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Favorable (Unfavorable)
Revenues				
Taxes:				
Property Taxes	\$ 806,766	\$ 830,000	\$ 875,064	\$ 45,064
General Sales Taxes	2,600,000	2,600,000	2,704,658	104,658
Motor Vehicle Taxes	95,000	95,000	99,533	4,533
Utility Taxes	1,005,000	1,005,000	1,019,442	14,442
Other Taxes	345,500	344,500	296,115	(48,385)
Licenses and Permits	114,261	207,500	223,093	15,593
Intergovernmental	884,994	899,255	962,195	62,940
Charges for Services	1,164,790	1,255,306	1,171,629	(83,677)
Fines and Forfeitures	239,000	251,300	284,687	33,387
Interest	4,500	4,000	4,247	247
Miscellaneous	18,000	88,041	67,866	(20,175)
Total Revenues	7,277,811	7,579,902	7,708,529	128,627
Expenditures				
Current:				
General Government:				
Administrative	1,094,079	1,108,079	1,066,106	41,973
Planning and Zoning	543,755	548,655	510,661	37,994
Building Maintenance	353,389	396,193	353,656	42,537
Judicial	517,115	537,115	474,977	62,138
Non-Departmental	178,680	178,680	139,836	38,844
Total General Government	2,687,018	2,768,722	2,545,236	223,486
Public Safety:				
Police Administration	2,322,390	2,332,850	2,372,421	(39,571)
Fire Administration	498,281	437,326	323,865	113,461
Victims Advocate	69,242	69,242	71,294	(2,052)
Animal Control	79,393	79,393	76,109	3,284
Total Public Safety	2,969,306	2,918,811	2,843,689	75,122
Highways and Streets:				
Streets and Sidewalks	368,167	368,167	342,736	25,431
Class "C" Road	588,993	513,993	487,301	26,692
Total Highways and Streets	957,160	882,160	830,037	52,123
Economic Development:				
Senior Citizens	152,736	157,622	121,296	36,326
Community Events	48,801	73,902	63,129	10,773
Total Economic Development	201,537	231,524	184,425	47,099
Parks and Recreation:				
Parks	405,445	394,775	359,976	34,799
Swimming Pool	873,763	368,763	342,760	26,003
Library	306,926	316,244	310,039	6,205
Ground Mowing	196,818	189,818	89,177	100,641
Recreation and Culture	533,622	594,450	552,718	41,732
Youth Sports	219,011	244,011	257,615	(13,604)
Adult Sports	80,941	80,941	65,320	15,621
Snack Shack	86,749	86,749	62,524	24,225
Total Culture and Recreation	2,703,275	2,275,751	2,040,129	235,622
Cemetery	294,541	309,363	263,592	45,771
Debt Service:				
Principal, Interest and Fiscal Charges	-	710,670	627,441	83,229
Capital Outlay	891,607	891,607	650,812	240,795
Total Expenditures	10,704,444	10,988,608	9,985,361	1,003,247
Excess of Revenues Over (Under) Expenditures	(3,426,633)	(3,408,706)	(2,276,832)	1,131,874
Other Financing Sources (Uses)				
Proceeds of Bonds & Leases		-	5,600,768	5,600,768
Payments Made to Escrow Agent			(5,108,452)	(5,108,452)
Sale of Assets	-	-	6,613	6,613
Transfers In	2,535,107	2,659,793	1,798,590	(861,203)
Transfers Out	-	7,000	-	(7,000)
Total Other Financing Sources (Uses)	2,535,107	2,666,793	2,297,519	(369,274)
Net Change in Fund Balance	(891,526)	(741,913)	20,687	762,600
Fund Balance Beginning of Year	1,602,923	1,602,923	1,602,923	-
Fund Balance End of Year	<u>\$ 711,397</u>	<u>\$ 861,010</u>	<u>\$ 1,623,610</u>	<u>\$ 762,600</u>

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

PAYSON CITY

Ratings for the City's Road System For the Year Ended June 30, 2014

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, 2014, 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>
2010	\$416,832	\$384,700
2011	161,390	158,999
2012	392,160	366,866
2013	533,148	538,563
2014	446,620	439,389

SUPPLEMENTAL INFORMATION

PAYSON CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds						Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	Perpetual Care	Revolving Loan	
Assets							
Due From Other Funds	\$ 256,656	\$ 399,266	\$ 33,199	\$ 8,084	\$ 4,711	\$ 10,694	\$ 712,610
Notes Receivable	-	-	-	-	-	753,798	753,798
Restricted Assets:							
Cash and Cash Equivalents	-	-	193,767	262,431	326,461	291,958	1,074,617
Total Assets	\$ 256,656	\$ 399,266	\$ 226,966	\$ 270,515	\$ 331,172	\$ 1,056,450	\$ 2,541,025
Liabilities							
Accrued Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due To Other Funds	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-
Fund Balances							
Restricted for:							
RDA	256,656	399,266	-	-	-	-	655,922
Impact Fees	-	-	226,966	270,515	-	-	497,481
Committed for:							
Perpetual Care	-	-	-	-	331,172	-	331,172
Assigned for:							
Capital Projects	-	-	-	-	-	1,056,450	1,056,450
Special Revenue	-	-	-	-	-	-	-
Unassigned:	-	-	-	-	-	-	-
Total Fund Balances (Deficits)	256,656	399,266	226,966	270,515	331,172	1,056,450	2,541,025
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 256,656	\$ 399,266	\$ 226,966	\$ 270,515	\$ 331,172	\$ 1,056,450	\$ 2,541,025

PAYSON CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue Funds					Perpetual Care	Revolving Loan	Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	Impact Fee			
Revenues								
Taxes:								
Property	\$ -	\$ 611,340	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 611,340
Charges for Services	-	-	-	-	31,984	-	-	31,984
Misc	-	-	-	-	-	-	-	-
Interest	-	-	947	1,264	1,603	14,975	-	18,789
Total Revenues	-	611,340	947	1,264	33,587	14,975	-	662,113
Expenditures								
Current:								
General Government	-	-	-	-	-	-	-	-
Economic Development	10,565	1,593	22	1,331	-	-	-	13,511
Debt Service:								
Principal Retirement	-	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	58,000	-	-	-	-	58,000
Total Expenditures	10,565	1,593	58,022	1,331	-	-	-	71,511
Excess of Revenues Over (Under) Expenditures	(10,565)	609,747	(57,075)	(67)	33,587	14,975	-	590,602
Other Financing Sources (Uses)								
Impact Fees	-	-	168,593	31,511	-	-	-	200,104
Transfer In (Out)	-	-	-	-	(15,000)	638,000	-	623,000
Total Other Financing Sources (Uses)	-	-	168,593	31,511	(15,000)	638,000	-	823,104
Net Change in Fund Balances	(10,565)	609,747	111,518	31,444	18,587	652,975	-	1,413,706
Fund Balances (Deficits) Beginning of Year	267,221	(210,481)	115,448	239,071	312,585	403,475	-	1,127,319
Fund Balances (Deficits) End of Year	\$ 256,656	\$ 399,266	\$ 226,966	\$ 270,515	\$ 331,172	\$ 1,056,450	\$ -	\$ 2,541,025

PAYSON CITY CORPORATION
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2014

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 688,393	\$ -	\$ 688,393
Accounts Receivable (Net of Allowance for Uncollectables)	187,951	122,577	212,777	523,305
Due From Other Funds	<u>1,295,918</u>	<u>93,146</u>	<u>531,153</u>	<u>1,920,217</u>
Total Current Assets	<u>1,483,869</u>	<u>904,116</u>	<u>743,930</u>	<u>3,131,915</u>
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	<u>551,237</u>	<u>-</u>	<u>-</u>	<u>551,237</u>
Capital Assets:				
Land	55,123	-	-	55,123
Buildings	138,136	152,370	-	290,506
Improvements	516,064	4,521,317	10,254	5,047,635
Machinery and Equipment	2,244,403	261,385	548,230	3,054,018
Less Accumulated Depreciation	<u>(2,343,676)</u>	<u>(936,673)</u>	<u>(401,653)</u>	<u>(3,682,002)</u>
Total Capital Assets, Net	<u>610,050</u>	<u>3,998,399</u>	<u>156,831</u>	<u>4,765,280</u>
Total Noncurrent Assets	<u>1,161,287</u>	<u>3,998,399</u>	<u>156,831</u>	<u>5,316,517</u>
Total Assets	<u>2,645,156</u>	<u>4,902,515</u>	<u>900,761</u>	<u>8,448,432</u>
Liabilities				
Current Liabilities:				
Accrued Liabilities	12,972	7,361	12,961	33,294
Compensated Absences Payable	44,396	25,284	-	69,680
Capital Leases Payable	<u>46,892</u>	<u>-</u>	<u>30,607</u>	<u>77,499</u>
Total Current Liabilities	<u>104,260</u>	<u>32,645</u>	<u>43,568</u>	<u>180,473</u>
Long-Term Liabilities:				
Capital Leases Payable (net of current portion)	-	-	97,490	97,490
Closure and Postclosure Liability	<u>952,107</u>	<u>-</u>	<u>-</u>	<u>952,107</u>
Total Long-Term Liabilities	<u>952,107</u>	<u>-</u>	<u>97,490</u>	<u>1,049,597</u>
Total Liabilities	<u>1,056,367</u>	<u>32,645</u>	<u>141,058</u>	<u>1,230,070</u>
Net Position				
Net Investment in Capital Assets	563,158	3,998,399	28,734	4,590,291
Restricted for:				
Landfill Closure Costs	551,237	-	-	551,237
Unrestricted	<u>474,394</u>	<u>871,471</u>	<u>730,969</u>	<u>2,076,834</u>
Total Net Position	<u>\$ 1,588,789</u>	<u>\$ 4,869,870</u>	<u>\$ 759,703</u>	<u>\$ 7,218,362</u>

PAYSON CITY CORPORATION
Combining Statement of Revenues,
Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2014

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Operating Revenues				
Charges for Services	\$ 1,831,941	\$ 601,270	\$ 401,093	\$ 2,834,304
Miscellaneous	156,647	0	-	156,647
Total Operating Revenues	<u>1,988,588</u>	<u>601,270</u>	<u>401,093</u>	<u>2,990,951</u>
Operating Expenses				
Costs of Sales and Services	504,172	73,849	265,101	843,122
Maintenance Operations and Contractual Services	430,997	79,055	55,164	565,216
Materials and Supplies	84,290	16,924	34,070	135,284
Depreciation	80,506	135,751	47,933	264,190
Total Operating Expenses	<u>1,099,965</u>	<u>305,579</u>	<u>402,268</u>	<u>1,807,812</u>
Operating Income (Loss)	<u>888,623</u>	<u>295,691</u>	<u>(1,175)</u>	<u>1,183,139</u>
Non-Operating Revenues (Expenses)				
Interest Income	2,769	3,284	-	6,053
Gain (Loss) on Sale of Fixed Assets	7,311	-	-	7,311
Interest and Fiscal Charges	(2,590)	-	(4,797)	(7,387)
Total Non-Operating Revenues (Expenses)	<u>7,490</u>	<u>3,284</u>	<u>(4,797)</u>	<u>5,977</u>
Income (Loss) before Capital Contributions and Transfers	896,113	298,975	(5,972)	1,189,116
Capital Contributions	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	(563,070)	0	(25,772)	(588,842)
Change in Net Position	333,043	298,975	(31,744)	600,274
Net Position Beginning of Year	<u>1,255,746</u>	<u>4,570,895</u>	<u>791,447</u>	<u>6,618,088</u>
Net Position End of Year	<u>\$ 1,588,789</u>	<u>\$ 4,869,870</u>	<u>\$ 759,703</u>	<u>\$ 7,218,362</u>

PAYSON CITY CORPORATION
Combining Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 2,001,101	\$ 596,907	\$ 439,222	\$ 3,037,230
Receipts from Interfund Services Provided				-
Payments to Employees for Services	(338,548)	(43,857)	(164,137)	(546,542)
Payments for Goods and Services	(1,057,532)	246,206	(214,813)	(1,026,139)
Net Cash Provided by (Used in) Operating Activities	<u>605,021</u>	<u>799,256</u>	<u>60,272</u>	<u>1,464,549</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	-	-	-	-
Transfers to Other Funds	(563,070)	-	(25,772)	(588,842)
Transfers from Other Funds	-	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(563,070)</u>	<u>-</u>	<u>(25,772)</u>	<u>(588,842)</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Capital Leases	-	-	-	-
Proceeds from Sale of Assets	7,311	-	-	7,311
Principal Paid on Capital Leases	(45,614)	-	(29,703)	(75,317)
Interest Paid on Capital Leases	(2,590)	-	(4,797)	(7,387)
Payments for Capital Acquisitions	(1,059)	(698,935)	-	(699,994)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(41,952)</u>	<u>(698,935)</u>	<u>(34,500)</u>	<u>(775,387)</u>
Cash Flows from Investing Activities				
Interest Income Received	<u>2,769</u>	<u>3,284</u>	<u>-</u>	<u>6,053</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,768	103,605	-	106,373
Cash and Cash Equivalents Beginning of Year	<u>548,469</u>	<u>584,788</u>	<u>-</u>	<u>1,133,257</u>
Cash and Cash Equivalents End of Year	<u>\$ 551,237</u>	<u>\$ 688,393</u>	<u>\$ -</u>	<u>\$ 1,239,630</u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 888,623	\$ 295,691	\$ (1,175)	\$ 1,183,139
Adjustments:				
Depreciation	80,506	135,751	47,933	264,190
(Increase) Decrease in Assets:				
Accounts Receivable	12,513	(4,363)	38,129	46,279
Allowance for Uncollectable Accounts	-	-	-	-
Due From Other Funds	(351,430)	443,379	(26,152)	65,797
Increase (Decrease) in Liabilities:				
Accrued Liabilities	(4,194)	(66,838)	1,537	(69,495)
Performance Bond				
Compensated Absences Payable	(20,997)	(4,364)	-	(25,361)
Due to Other Funds	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 605,021</u>	<u>\$ 799,256</u>	<u>\$ 60,272</u>	<u>\$ 1,464,549</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	\$ -	\$ -	\$ -	\$ -

GOVERNMENT AUDITING STANDARDS REPORT
STATE COMPLIANCE REPORT



GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
ESTABLISHED 1974

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
Payson City
Payson, Utah

We have audited, in accordance with the 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, the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Payson City, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Payson City's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Payson City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Payson City's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and response that we consider to be a significant deficiency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City's financial statements are free from 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 no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Payson City's Response to Findings

Payson City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Payson City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants
December 22, 2014

PAYSON CITY CORPORATION
SCHEDULE OF FINDINGS & RESPONSE
JUNE 30, 2014

1. Adjustments to Accrual Basis of Accounting

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

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



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**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH THE
STATE COMPLIANCE AUDIT GUIDE ON:
COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS
COMPLIANCE FOR EACH MAJOR STATE PROGRAM
INTERNAL CONTROL OVER COMPLIANCE AND
SCHEDULE OF EXPENDITURES OF STATE AWARDS**

Honorable Mayor and City Council
Payson City
Payson, Utah

***REPORT ON COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS AND
FOR EACH MAJOR STATE PROGRAM***

We have audited Payson City's compliance with applicable general state and major state program compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on Payson City or each of its major state programs for the year ended June 30, 2014.

State compliance requirements were tested for the year ended June 30, 2014 in the following areas:

- Budgetary Compliance
- Fund Balance
- Justice Courts
- Utah Retirement Systems
- Transfers from Utility Enterprise Funds
- Conflicts of Interest
- Budget Notice and Format

The City received state funding from the following programs classified as major programs for the year ended June 30, 2014:

B&C Road funds

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on Payson City's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to

financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City or its major state programs occurred. 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 on compliance with general state compliance requirements and for each major state program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on General State Compliance Requirements and Each Major State Program

In our opinion, Payson City complied, in all material respects, with the compliance requirements identified above that could have a direct and material effect on the City or on its major state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in a separate letter to management dated December 22, 2014. Our opinion on compliance is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in a separate letter to management. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City or on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state or major state program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

REPORT ON SCHEDULE OF EXPENDITURES OF STATE AWARDS AS REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 22, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State Compliance Audit Guide* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants
December 22, 2014

Payson City
Schedule of Expenditures of State Grants, Contracts, and Loan Funds
For the Year Ended June 30, 2014

Grant Name	Award/Contract # (if applicable)	Year of Last Audit	Expenditures
<u>Department of Heritage and Arts</u>			
DHA Library Resources			\$ 13,318
Subtotal – Department of Heritage and Arts			\$ 13,318
<u>Govenor's Office</u>			
Crime Victim Reparations			\$ 45,584
Subtotal – Govenor's Office			\$ 45,584
<u>Department of Transportation</u>			
B&C Roads		2013	\$ 560,301
Subtotal – Department of Transporation			\$ 560,301
<u>Department of Alcoholic Beverage Control</u>			
State Liquor Funds Allotment			\$ 21,625
Subtotal – Department of Alcoholic Beverage Control			\$ 21,625
<u>Department of Natural Resources</u>			
Forestry, Fire and State Lands			\$ 15,000
Subtotal – Department of Natrual Resources			\$ 15,000
TOTAL GRANT, CONTRACT, AND LOAN FUND EXPENDITURES			\$ 655,828

PAYSON CITY

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE



Honorable Mayor and City Council
City of Payson, Utah

December 22, 2014

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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 16, 2014. 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. 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.

The financial statement disclosures are neutral, consistent and clear.

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 22, 2014.

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

14-1 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative net position as of June 30, 2014.

Golf Course Fund	(\$662,404)
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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: We will take appropriate actions to bring the respective fund into compliance with state law.

Utah State Legal Compliance Findings – Prior Year:

13-1 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, 2013.

Redevelopment Agency – Business Park	(\$210,481)
Golf Course Fund	(\$583,373)

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 14-1

13-2 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:

Debt Service	\$ 1,990
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Recommendation: We recommend that the City keep expenditures within the approved budget.

City’s Response: City is in compliance.

Additional findings and recommendations have been addressed in the financial audit on page 54 titled Schedule of Findings & Response.

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

GILBERT & STEWART
Certified Public Accountants