

**PAYSON CITY CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**PAYSON CITY CORPORATION**  
**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis.....	3-10
 <b><u>Basic Financial Statements</u></b>	
Statement of Net Assets.....	11
Statement of Activities.....	12
 <b>Governmental Funds</b>	
Balance Sheet.....	13
Balance Sheet Reconciliation to Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances.....	15
Reconciliation Statement of Changes in Fund Balances to Statement of Activities	16
 <b>Proprietary Funds</b>	
Statement of Net Assets.....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	18
Statement of Cash Flows.....	19
Notes to the Financial Statements .....	20-43
 <b>Required Supplementary Information</b>	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -	
General Fund.....	44
Redevelopment Agency - Business Park.....	45
Ratings for the City's Road System.....	46
 <b>Supplemental Information</b>	
<b>Non-Major Governmental Funds</b>	
Combining Balance Sheet.....	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	48

**PAYSON CITY CORPORATION**  
**TABLE OF CONTENTS** *(Continued)*

	<u>Page</u>
Non-Major Proprietary Funds	
Combining Statement of Net Assets.....	49
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.....	50
Combining Statement of Cash Flows.....	51
<b>Governmental Auditing Standards Report and State Compliance Report</b>	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	52-53
Schedule of Significant Deficiencies .....	54
Independent Auditor's Report on Legal Compliance With Applicable Utah State Laws and Regulations.....	55-56



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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Payson, Utah

December 15, 2010

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Payson City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, on our consideration of Payson City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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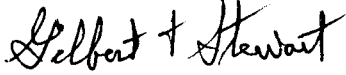
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Payson City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for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

  
GILBERT & STEWART  
Certified Public Accountant

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Payson City, we offer readers of the Payson City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. The narrative is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and the City's financial statements.

### FINANCIAL HIGHLIGHTS

- The total net assets of Payson City increased from \$55,219,232 to \$57,106,136. Of this, the governmental net assets increased by \$1,537,492 and the business-type net assets increased by \$349,412. (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net assets of \$57,106,136 is made up of \$50,050,464 in capital assets net of related debt and \$5,447,878 in unrestricted and \$1,607,794 restricted net assets.
- The General Fund (the primary operating fund) had a decrease in its fund balance of \$561,449. Because Payson City recognized that the General Fund Balance was higher than allowed by State Statute, we transferred approximately \$2 million to the Capital Projects Fund last year hoping that this would bring us more in compliance.
- Total long-term liabilities of the City went down from \$32,640,064 to \$30,785,077, which includes all debt owing (bonds, leases, compensated absences, and Landfill Post-closure liability), as of June 30, 2010.

### REPORTING THE CITY AS A WHOLE

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

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

- *The statement of net assets* presents information on all of Payson City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Payson City is improving or deteriorating. However, you will also need to consider other non-financial factors.

- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

The major governmental fund (as determined by generally accepted accounting principles) is the General Fund and Special Revenue Fund (RDA Business Park). Also listed separately is 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 fund for maintenance of its vehicles and equipment. Because this service primarily benefits governmental activities, it has been included with governmental activities in the government-wide financial statements.

As determined by generally accepted accounting principles, the Electric, Water, and Sewer, and Golf Course enterprise funds satisfy the criteria for major fund classification. The other enterprise funds are classified as non-major and are included in the combining statements within this report.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Payson City, assets exceed liabilities by \$57,106,136.

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

The following table summarizes Payson City’s Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 8,142,315	\$ 7,635,233	\$ 4,579,113	\$ 4,316,683	\$ 12,721,428	\$ 11,951,916
Capital assets	31,032,493	31,127,699	46,425,194	47,323,756	77,457,687	78,451,455
Total assets	<u>39,174,808</u>	<u>38,762,932</u>	<u>51,004,307</u>	<u>51,640,439</u>	<u>90,179,115</u>	<u>90,403,371</u>
Other liabilities	1,524,132	1,750,601	763,770	793,474	2,287,902	2,544,075
Long-term liabilities outstanding	9,430,400	10,329,547	21,354,677	22,310,517	30,785,077	32,640,064
Total liabilities	<u>10,954,532</u>	<u>12,080,148</u>	<u>22,118,447</u>	<u>23,103,991</u>	<u>33,072,979</u>	<u>35,184,139</u>
Net assets:						
Invested in capital assets, net of related debt	22,223,141	21,456,000	27,827,323	27,976,548	50,050,464	49,432,548
Restricted	457,254	495,715	1,150,540	2,103,768	1,607,794	2,599,483
Unrestricted	5,539,881	4,731,069	(92,003)	(1,543,868)	5,447,878	3,187,201
Total net assets	<u>\$ 28,220,276</u>	<u>\$ 26,682,784</u>	<u>\$ 28,885,860</u>	<u>\$ 28,536,448</u>	<u>\$ 57,106,136</u>	<u>\$ 55,219,232</u>



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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,533,845	\$ 1,406,152	\$ 17,607,115	\$ 17,511,163	\$ 19,140,960	\$ 18,917,315
Operating grants and contribs	266,075	262,553	-	27,960	266,075	290,513
Capital grants and contribs	985,277	685,443	369,958	443,174	1,355,235	1,128,617
<b>General revenues:</b>						
Taxes	4,910,788	5,030,552			4,910,788	5,030,552
Impact Fees	184,333	82,970	574,967	542,069	759,300	625,039
Gain (Loss) on Sale of Assets	137,097	(231,405)	21,550	(3,000)	158,647	(234,405)
Special Assessments	300,792	98,233			300,792	98,233
Unrestricted investment earnings	34,767	87,431	166,544	135,927	201,311	223,358
Transfers	2,127,962	2,599,354	(2,127,962)	(2,599,354)	-	-
Misc.	21,634	226,215			21,634	226,215
<b>Total revenues</b>	<b>\$ 10,502,570</b>	<b>\$ 10,247,498</b>	<b>\$ 16,612,172</b>	<b>\$ 16,057,939</b>	<b>\$ 27,114,742</b>	<b>\$ 26,305,437</b>
<b>Expenses:</b>						
General government	\$ 2,767,547	\$ 2,984,706			\$ 2,767,547	\$ 2,984,706
Public safety	2,188,390	2,648,552			2,188,390	2,648,552
Highways and public works	997,959	1,235,772			997,959	1,235,772
Parks and recreation	2,127,784	2,415,250			2,127,784	2,415,250
Economic Development	261,140	289,191			261,140	289,191
Cemetery	163,689	111,055			163,689	111,055
Interest on long-term debt	458,569	391,007			458,569	391,007
Water			1,725,862	1,779,914	1,725,862	1,779,914
Electric			10,310,594	10,229,035	10,310,594	10,229,035
Sewer			1,560,036	1,491,874	1,560,036	1,491,874
Solid Waste			1,032,848	1,171,473	1,032,848	1,171,473
Golf			960,985	1,041,049	960,985	1,041,049
Storm Drain			317,499	235,466	317,499	235,466
Ambulance			354,936	316,858	354,936	316,858
<b>Total expenses</b>	<b>8,965,078</b>	<b>10,075,533</b>	<b>16,262,760</b>	<b>16,265,669</b>	<b>25,227,838</b>	<b>26,341,202</b>
Increase in net assets	1,537,492	171,965	349,412	(207,730)	1,886,904	(35,765)
Net assets - beginning	26,682,784	26,510,819	28,536,448	28,744,178	55,219,232	55,254,997
<b>Net assets - ending</b>	<b>\$ 28,220,276</b>	<b>\$ 26,682,784</b>	<b>\$ 28,885,860</b>	<b>\$ 28,536,448</b>	<b>\$ 57,106,136</b>	<b>\$ 55,219,232</b>

## 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, 2010, the City's governmental funds (General, Debt Service, & Special Revenue) reported combined fund balance of \$6,181,879 up from \$5,393,659 last year. This represents an increase of \$788,220 from last year's ending balances, with the General Fund portion decreasing by \$561,449.

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 51% of total tax revenues and represents \$2,183,496 of total general fund revenues.

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

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund budget was amended from an original budget expenditure total of \$8,518,772 to a final budget of \$8,793,418 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, 2010, amounts to \$77,457,687 (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 2010 fiscal year included the following:

- Grates at Swimming Pool \$50,000
- Electrical Upgrades \$29,000
- Solid Waste Containers \$50,500
- Repair Retention Basin \$33,500
- Water Meters \$12,500
- Fire Hydrants \$7,500
- Sealing of Street Shop Floors \$3,000
- Golf Course Ponds approximately \$50,000
- 200 North Street Improvements \$232,800
- IT Upgrade \$164,000

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Invested in capital assets, net						
Land	\$ 3,606,477	\$ 3,606,477	\$ 7,873,757	\$ 7,873,757	\$ 11,480,234	\$ 11,480,234
Building	7,226,336	7,444,547	538,949	564,272	7,765,285	8,008,819
Equipment	660,754	807,468	2,040,686	2,189,107	2,701,440	2,996,575
Water Shares	-	-	198,400	198,400	198,400	198,400
Improvements	3,523,881	3,712,818	35,773,402	36,498,220	39,297,283	40,211,038
Infrastructure	16,015,045	15,556,389	-	-	16,015,045	15,556,389
Total net assets	<u>\$ 31,032,493</u>	<u>\$ 31,127,699</u>	<u>\$ 46,425,194</u>	<u>\$ 47,323,756</u>	<u>\$ 77,457,687</u>	<u>\$ 78,451,455</u>

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

The City Level of Service Policy for streets is:

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

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

L.O.S. 2 (residential)

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

L.O.S. 3 (arterial)

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

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

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

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2006	\$ 82,500	\$ 181,189
2007	138,000	137,768
2008	483,880	434,851
2009	470,949	478,883
2010	416,832	384,700

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, 2010, the City had total bonded debt outstanding of \$27,561,000. Of this, the amount considered to be general obligation debt backed by the full faith and credit of the City, includes the Pit SID of which Payson City put in infrastructure, for \$2,405,000 (with the remaining amount owing \$1,550,000). Also included in the outstanding debt is a Property Lease Payments for the Hwy 198/UDOT Project \$305,000 (with remaining amount owing \$67,220), and the following revenue bonds; the Sewer Revenue Bonds, for the eastside sewer line for \$4,500,000 (with the remaining amount owing \$4,135,000); Sales Tax Bonds for swimming pool and golf course improvements for \$8,865,000 (with the remaining amount owing \$7,950,000).

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Bonds Payable	\$ 8,675,000	\$ 9,406,000	\$ 18,886,000	\$ 19,639,000	\$ 27,561,000	\$ 29,045,000
Notes Payable	67,220	131,175	-	-	67,220	131,175
Capital Lease	202,739	278,562	784,222	1,020,678	986,961	1,299,240
Accrued Compensated Absences	485,441	513,810	384,058	391,803	869,499	905,613
Post Retirement Benefit			2,173	25,835	2,173	25,835
Water Share Liability			346,117	281,094	346,117	281,094
Closure and Postclosure Liability			952,107	952,107	952,107	952,107
Total Long Term Debt	<u>\$ 9,430,400</u>	<u>\$ 10,329,547</u>	<u>\$ 21,354,677</u>	<u>\$ 22,310,517</u>	<u>\$ 30,785,077</u>	<u>\$ 32,640,064</u>

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

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

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Utah State unemployment rate was 7.2% June 2010 and a national rate of 9.5%. (Source: Utah Dept of Workforce Services). This reflects the economic downturn that has been reflected in all areas.
- Payson City saw a dramatic drop in building permits for new homes from 2006 to 2008, with 77 permits issued in Calendar Year 2006, 64 in 2007, 20 in 2008, and 52 in 2009. So far in 2010 we have issued 46 permits for new homes. We do not believe we will issue as many as we did in 2009.
- The General Fund budget for fiscal year ending June 30, 2011 reflects a decrease in expenditures of \$198,580 over the final budget for the fiscal year ended June 30, 2010.
- The City Council also voted the Certified Tax Rate at .001272 for FY 2011.
- Some capital improvements planned for and budgeted in the FY 2011 budget include:
  - Fire Equipment \$10,077
  - Street - Sander/Snow Plow \$15,000
  - Cemetery – Backhoe Lease \$6,000
  - Class C Roads - Chip seal/seal coating \$96,090; 900 E project \$146,200
  - Water – Winegar Development Filter & Meter \$50,000; Backhoe lease \$6,000
  - Electric – Eastside voltage cutover \$21,800; Improvements (reimbursed) \$25,000; Miscellaneous Equipment \$8,949; Air Quality Testing \$2,800; SCADA Upgrades \$2,950
  - Sewer – Jet Truck \$300,000 (Bond money & \$50,000 Cap Proj Fund); Screw Press Building \$329,000 (Bond money)
  - Ambulance – Miscellaneous Equipment \$5,935
  - GC Restaurant Equipment \$3,500
  - 300 S 400 W Project \$60,000; Remainder of 900 E Project \$477,266; Office Furnishings \$1,900
  - Vehicle Maintenance – System Solvent Tank \$1,500; Shop Tools \$3,000
  - IT – Replacement Desktops, Laptops, Printers \$18,600

## REQUESTS FOR INFORMATION

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

## **BASIC FINANCIAL STATEMENTS**

**PAYSON CITY CORPORATION**  
**Statement of Net Assets**  
**June 30, 2010**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,216,135	\$ 1,078,767	\$ 2,294,902
Accounts Receivable (Net of Allowance for Uncollectables)	1,525,522	1,859,596	3,385,118
Prepaid Items		136,000	136,000
Notes Receivable	191,468	-	191,468
Internal Balances	972,442	(972,442)	-
Restricted Assets:			
Cash and Cash Equivalents	4,101,141	1,743,253	5,844,394
Bond Issuance Costs (Net of Accumulated Amortization)	135,607	349,608	485,215
Equity in Joint Venture		384,331	384,331
Capital Assets (Net of Accumulated Depreciation)			
Water Shares	-	198,400	198,400
Land	3,606,477	7,873,757	11,480,234
Buildings	7,226,336	538,949	7,765,285
Improvements	3,523,881	35,773,402	39,297,283
Machinery and Equipment	660,754	2,040,686	2,701,440
Infrastructure	16,015,045	-	16,015,045
<b>Total Assets</b>	<b>39,174,808</b>	<b>51,004,307</b>	<b>90,179,115</b>
<b>Liabilities</b>			
Accounts Payable	276,476	163,639	440,115
Interest Payable	183,072	143,002	326,074
Other Current Liabilities	292,043	332,798	624,841
Deferred Revenue	772,541	-	772,541
Bond Premiums (Net)	-	124,331	124,331
Long-Term Liabilities:			
Due Within One Year	675,998	1,288,794	1,964,792
Due In More Than One Year	8,754,402	20,065,883	28,820,285
<b>Total Liabilities</b>	<b>10,954,532</b>	<b>22,118,447</b>	<b>33,072,979</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	22,223,141	27,827,323	50,050,464
Restricted for:			
Debt Service	58,793	149,437	208,230
Impact Fees	390,354	462,909	853,263
Grant Funds	8,107	-	8,107
Landfill Closure Costs	-	538,194	538,194
Unrestricted (Deficit)	5,539,881	(92,003)	5,447,878
<b>Total Net Assets</b>	<b>\$ 28,220,276</b>	<b>\$ 28,885,860</b>	<b>\$ 57,106,136</b>

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

**PAYSON CITY CORPORATION**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		Primary Government		
			Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>							
Governmental Activities:							
General Government	\$ 2,767,547	\$ 203,657	\$ 36,076	-	\$ (2,527,814)		\$ (2,527,814)
Public Safety	2,188,390	343,874	223,835	-	(1,620,681)		(1,620,681)
Highways and Streets	997,959	-	-	985,277	(12,682)		(12,682)
Parks and Recreation	2,127,784	962,970	6,164	-	(1,158,650)		(1,158,650)
Economic Development	261,140	-	-	-	(261,140)		(261,140)
Cemetery	163,689	23,344	-	-	(140,345)		(140,345)
Interest on Long-Term Debt	458,569	-	-	-	(458,569)		(458,569)
<b>Total Governmental Activities</b>	<b>8,965,078</b>	<b>1,533,845</b>	<b>266,075</b>	<b>985,277</b>	<b>(6,179,881)</b>		<b>(6,179,881)</b>
Business-Type Activities:							
Water	1,725,862	1,952,391	-	164,466	-	\$ 390,995	390,995
Electric	10,310,594	10,770,435	-	-	-	459,841	459,841
Sewer	1,560,036	1,794,192	-	95,954	-	330,110	330,110
Solid Waste	1,032,848	1,589,780	-	-	-	556,932	556,932
Golf	960,985	558,457	-	-	-	(402,528)	(402,528)
Storm Drain	317,499	546,639	-	109,538	-	338,678	338,678
Ambulance	354,936	395,221	-	-	-	40,285	40,285
<b>Total Business-Type Activities</b>	<b>16,262,760</b>	<b>17,607,115</b>	<b>-</b>	<b>369,958</b>	<b>-</b>	<b>1,714,313</b>	<b>1,714,313</b>
<b>Total Primary Government</b>	<b>\$ 25,227,838</b>	<b>\$ 19,140,960</b>	<b>\$ 266,075</b>	<b>\$ 1,355,235</b>	<b>(6,179,881)</b>	<b>1,714,313</b>	<b>(4,465,568)</b>

**General Revenues**

Taxes:			
Property Taxes	1,385,177	-	1,385,177
General Sales Taxes	2,183,496	-	2,183,496
Motor Vehicle Taxes	117,975	-	117,975
Utility Taxes	906,289	-	906,289
Other Taxes	317,851	-	317,851
Special Assessments	300,792	-	300,792
Gain (Loss) on Sale of Capital Asset	137,097	21,550	158,647
Impact Fees	184,333	574,967	759,300
Investment Earnings	34,767	166,544	201,311
Miscellaneous	21,634	-	21,634
Transfers	2,127,962	(2,127,962)	-
<b>Total General Revenues and Transfers</b>	<b>7,717,373</b>	<b>(1,364,901)</b>	<b>6,352,472</b>
Change in Net Assets	1,537,492	349,412	1,886,904
Net Assets Beginning of Year	26,682,784	28,536,448	55,219,232
Net Assets End of Year	<b>\$ 28,220,276</b>	<b>\$ 28,885,860</b>	<b>\$ 57,106,136</b>

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



**PAYSON CITY CORPORATION**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General	Special Revenue Fund RDA Business Park	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and Cash Equivalents	\$ 1,216,135	\$ -	\$ -	\$ -	\$ 1,216,135
Accounts Receivable (Net of Allowance for Uncollectables)	1,525,522	-	-	-	1,525,522
Due From Other Funds	-	-	1,630,451	390,761	2,021,212
Notes Receivable	-	-	-	191,468	191,468
Restricted Assets:					
Cash and Cash Equivalents	47,258	-	3,211,453	842,430	4,101,141
<b>Total Assets</b>	<b>\$ 2,788,915</b>	<b>\$ -</b>	<b>\$ 4,841,904</b>	<b>\$ 1,424,659</b>	<b>\$ 9,055,478</b>
<b>Liabilities</b>					
Accrued Liabilities	\$ 213,708	\$ -	\$ 1,001	\$ -	\$ 214,709
Due To Other Funds	193,085	1,013,371	-	-	1,206,456
Deposits	292,043	-	-	-	292,043
Interest Payable	-	5,058	-	-	5,058
Deferred Revenue	820,333	-	-	-	820,333
Bonds Payable	-	335,000	-	-	335,000
<b>Total Liabilities</b>	<b>1,519,169</b>	<b>1,353,429</b>	<b>1,001</b>	<b>-</b>	<b>2,873,599</b>
<b>Fund Balances</b>					
Reserved for:					
Debt Service	-	-	-	58,793	58,793
Impact Fees	-	-	-	390,354	390,354
Grant Funds	-	-	-	8,107	8,107
Unreserved:					
Designated:					
General Fund	12,055	-	-	-	12,055
Undesignated (Deficit), Reported in:					
General Fund	1,257,691	-	-	-	1,257,691
Permanent Fund	-	-	-	669,208	669,208
Capital Project Fund	-	-	4,840,903	-	4,840,903
Special Revenue Funds	-	(1,353,429)	-	298,197	(1,055,232)
<b>Total Fund Balances (Deficits)</b>	<b>1,269,746</b>	<b>(1,353,429)</b>	<b>4,840,903</b>	<b>1,424,659</b>	<b>6,181,879</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,788,915</b>	<b>\$ -</b>	<b>\$ 4,841,904</b>	<b>\$ 1,424,659</b>	<b>\$ 9,055,478</b>

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

**PAYSON CITY CORPORATION**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2010**

Total Governmental Funds Balances	\$ 6,181,879
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	31,032,493
Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	47,792
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.	100,977
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>(9,142,865)</u>
Net Assets of Governmental Activities	<u>\$ 28,220,276</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, 2010**

	General	Special Revenue Fund RDA Business Park	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes:					
Property Taxes	\$ 773,606	\$ 370,073	\$ -	\$ 235,389	\$ 1,379,068
General Sales Taxes	2,183,496	-	-	-	2,183,496
Motor Vehicle Taxes	117,975	-	-	-	117,975
Utility Taxes	906,289	-	-	-	906,289
Other Taxes	317,851	-	-	-	317,851
Licenses and Permits	195,325	-	-	-	195,325
Intergovernmental	792,696	-	-	-	792,696
Charges for Services	1,080,827	-	-	23,344	1,104,171
Fines and Forfeitures	234,349	-	-	-	234,349
Special Assessments	-	-	-	300,792	300,792
Interest	6,882	-	16,843	11,042	34,767
Miscellaneous	21,634	-	-	-	21,634
<b>Total Revenues</b>	<b>6,630,930</b>	<b>370,073</b>	<b>16,843</b>	<b>570,567</b>	<b>7,588,413</b>
<b>Expenditures</b>					
Current:					
General Government	2,637,909	-	-	14,681	2,652,590
Public Safety	2,339,355	-	-	-	2,339,355
Highways and Streets	958,661	-	-	-	958,661
Parks and Recreation	1,715,793	-	-	-	1,715,793
Economic Development	167,251	8,528	-	6,269	182,048
Cemetery	163,689	-	-	-	163,689
Debt Service:					
Principal Retirement	-	-	145,000	356,000	501,000
Interest and Fiscal Charges	443,780	22,143	100,570	169,956	736,449
<b>Total Expenditures</b>	<b>8,426,438</b>	<b>30,671</b>	<b>245,570</b>	<b>546,906</b>	<b>9,249,585</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,795,508)	339,402	(228,727)	23,661	(1,661,172)
<b>Other Financing Sources (Uses)</b>					
Impact Fees	-	-	-	184,333	184,333
Sale of Fixed Assets	137,097	-	-	-	137,097
Transfers In	2,212,212	-	1,046,000	-	3,258,212
Transfers Out	(1,115,250)	-	-	(15,000)	(1,130,250)
<b>Total Other Financing Sources (Uses)</b>	<b>1,234,059</b>	<b>-</b>	<b>1,046,000</b>	<b>169,333</b>	<b>2,449,392</b>
<b>Net Change in Fund Balances</b>	<b>(561,449)</b>	<b>339,402</b>	<b>817,273</b>	<b>192,994</b>	<b>788,220</b>
Fund Balances (Deficits) Beginning of Year	1,831,195	(1,692,831)	4,023,630	1,231,665	5,393,659
<b>Fund Balances (Deficits) End of Year</b>	<b>\$ 1,269,746</b>	<b>\$ (1,353,429)</b>	<b>\$ 4,840,903</b>	<b>\$ 1,424,659</b>	<b>\$ 6,181,879</b>

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

**PAYSON CITY CORPORATION**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds	\$ 788,220
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	(553,861)
<p>The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase (decrease) net assets.</p>	458,656
<p>The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	807,249
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	6,109
<p>The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.</p>	<u>31,119</u>
<p>Change in Net Assets of Governmental Activities</p>	<u><u>\$ 1,537,492</u></u>

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

**PAYSON CITY CORPORATION**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
<b>Assets</b>							
<b>Current Assets:</b>							
Cash and Cash Equivalents	\$ -	\$ 122,390	\$ 956,276	\$ 101	\$ -	\$ 1,078,767	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	314,294	911,175	118,281	-	515,846	1,859,596	-
Due From Other Funds	1,294,331	346,821	-	-	854,648	2,495,800	157,686
Prepaid Items	-	136,000	-	-	-	136,000	-
<b>Total Current Assets</b>	<b>1,608,625</b>	<b>1,516,386</b>	<b>1,074,557</b>	<b>101</b>	<b>1,370,494</b>	<b>5,570,163</b>	<b>157,686</b>
<b>Noncurrent Assets:</b>							
<b>Restricted Assets:</b>							
Cash and Cash Equivalents	45,836	401,230	757,993	-	538,194	1,743,253	-
Bond Issuance Costs	271,946	106,405	156,045	-	-	534,396	-
Less Accumulated Amortization	(58,922)	(106,405)	(19,461)	-	-	(184,788)	-
Equity in Joint Venture	-	-	384,331	-	-	384,331	-
<b>Capital Assets:</b>							
Water Shares	198,400	-	-	-	-	198,400	-
Land	6,711,439	116,337	157,482	833,376	55,123	7,873,757	-
Buildings	-	279,792	13,199	245,950	290,506	829,447	-
Improvements	16,113,274	17,720,064	20,938,676	4,337,896	3,206,954	62,316,864	-
Machinery and Equipment	188,280	1,428,404	927,623	1,182,559	2,676,296	6,403,162	1,535,305
Construction in Progress	-	-	-	-	-	-	-
Less Accumulated Depreciation	(7,269,993)	(10,529,571)	(7,798,392)	(2,881,431)	(2,717,049)	(31,196,436)	(1,489,034)
<b>Total Capital Assets, Net</b>	<b>15,941,400</b>	<b>9,015,026</b>	<b>14,238,588</b>	<b>3,718,350</b>	<b>3,511,830</b>	<b>46,425,194</b>	<b>46,271</b>
<b>Total Noncurrent Assets</b>	<b>16,200,260</b>	<b>9,416,256</b>	<b>15,517,496</b>	<b>3,718,350</b>	<b>4,050,024</b>	<b>48,902,386</b>	<b>46,271</b>
<b>Total Assets</b>	<b>17,808,885</b>	<b>10,932,642</b>	<b>16,592,053</b>	<b>3,718,451</b>	<b>5,420,518</b>	<b>54,472,549</b>	<b>203,957</b>
<b>Liabilities</b>							
<b>Current Liabilities:</b>							
Accrued Liabilities	26,256	8,506	20,613	70,997	37,267	163,639	61,767
Due to Other Funds	-	-	141,644	3,260,176	66,422	3,468,242	-
Compensated Absences Payable	53,581	155,464	31,504	61,517	81,992	384,058	40,770
Performance Bond	-	-	-	-	-	-	-
Bonds Payable	275,000	-	555,000	150,000	-	980,000	-
Interest Payable	51,784	-	72,277	18,941	-	143,002	-
Capital Leases Payable	-	87,538	-	75,317	145,939	308,794	-
<b>Total Current Liabilities</b>	<b>406,621</b>	<b>251,508</b>	<b>821,038</b>	<b>3,636,948</b>	<b>331,620</b>	<b>5,447,735</b>	<b>102,537</b>
<b>Current Liabilities Payable from Restricted Assets:</b>							
Customer Deposits Payable	-	332,798	-	-	-	332,798	-
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>-</b>	<b>332,798</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>332,798</b>	<b>-</b>
<b>Long-Term Liabilities:</b>							
Unamortized Bond Premiums (Net)	124,331	-	-	-	-	124,331	-
Revenue Bonds Payable (net of current portion)	8,015,000	-	8,881,000	1,010,000	-	17,906,000	-
Post Retirement Benefits Payable	-	-	2,173	-	-	2,173	-
Capital Leases Payable (net of current portion)	-	232,527	-	148,951	93,950	475,428	-
Closure and Postclosure Liability	-	-	-	-	952,107	952,107	-
Water Share Liability	346,117	-	-	-	-	346,117	-
<b>Total Long-Term Liabilities</b>	<b>8,485,448</b>	<b>232,527</b>	<b>8,883,173</b>	<b>1,158,951</b>	<b>1,046,057</b>	<b>19,806,156</b>	<b>-</b>
<b>Total Liabilities</b>	<b>8,892,069</b>	<b>816,833</b>	<b>9,704,211</b>	<b>4,795,899</b>	<b>1,377,677</b>	<b>25,586,689</b>	<b>102,537</b>
<b>Net Assets</b>							
Invested in Capital Assets, Net of Related Debt	7,688,309	8,927,488	5,475,493	2,464,092	3,271,941	27,827,323	46,271
<b>Restricted for:</b>							
Bond and Lease Requirements	42	-	149,395	-	-	149,437	-
Landfill Closure Costs	-	-	-	-	538,194	538,194	-
Impact Fees	62,587	400,322	-	-	-	462,909	-
Unrestricted	1,165,878	787,999	1,262,954	(3,541,540)	232,706	(92,003)	55,149
<b>Total Net Assets</b>	<b>\$ 8,916,816</b>	<b>\$ 10,115,809</b>	<b>\$ 6,887,842</b>	<b>\$ (1,077,448)</b>	<b>\$ 4,042,841</b>	<b>\$ 28,885,860</b>	<b>\$ 101,420</b>

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

**PAYSON CITY CORPORATION**  
**Statement of Revenues,**  
**Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
<b>Operating Revenues</b>							
Charges for Services	\$ -	\$ 10,515,432	\$ -	\$ 535,433	\$ 2,338,990	\$ 13,389,855	\$ 650,058
Charges Pledged as Security for Revenue Bond	1,950,352		1,736,194			3,686,546	
Miscellaneous	2,039	255,003	57,998	23,024	192,650	530,714	-
Total Operating Revenues	1,952,391	10,770,435	1,794,192	558,457	2,531,640	17,607,115	650,058
<b>Operating Expenses</b>							
Costs of Sales and Services	483,731	8,820,619	385,611	456,491	778,182	10,924,634	292,454
Maintenance Operations and Contractual Services	319,645	740,400	256,150	33,246	479,219	1,828,660	97,345
Materials and Supplies	187,510	99,491	37,576	150,671	84,150	559,398	232,748
Depreciation	347,711	634,400	461,812	269,236	350,707	2,063,866	31,818
Amortization	10,878	-	4,969	-	-	15,847	-
Total Operating Expenses	1,349,475	10,294,910	1,146,118	909,644	1,692,258	15,392,405	654,365
Operating Income (Loss)	602,916	475,525	648,074	(351,187)	839,382	2,214,710	(4,307)
<b>Non-Operating Revenues (Expenses)</b>							
Interest Income	7,015	142,758	13,211	-	3,560	166,544	-
Impact Fees	102,329	309,864	162,774	-	-	574,967	-
Gain (Loss) on Sale of Fixed Assets	-	-	-	21,550	-	21,550	12,000
Interest and Fiscal Charges	(376,387)	(15,684)	(413,918)	(51,341)	(13,025)	(870,355)	-
Total Non-Operating Revenues (Expenses)	(267,043)	436,938	(237,933)	(29,791)	(9,465)	(107,294)	12,000
Income (Loss) before Capital Contributions and Transfers	335,873	912,463	410,141	(380,978)	829,917	2,107,416	7,693
Capital Contributions	164,466	-	95,954	-	109,538	369,958	-
Transfers In	-	-	-	315,250	-	315,250	-
Transfers Out	(598,007)	(783,690)	(288,591)	-	(772,924)	(2,443,212)	-
Change in Net Assets	(97,668)	128,773	217,504	(65,728)	166,531	349,412	7,693
Net Assets Beginning of Year	9,014,484	9,987,036	6,670,338	(1,011,720)	3,876,310	28,536,448	93,727
Net Assets End of Year	\$ 8,916,816	\$ 10,115,809	\$ 6,887,842	\$ (1,077,448)	\$ 4,042,841	\$ 28,885,860	\$ 101,420

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, 2010**

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	
<b>Cash Flows from Operating Activities</b>							
Receipts from Customers and Users	\$ 1,879,567	\$ 10,816,043	\$ 1,843,785	\$ 558,457	\$ 2,620,429	\$ 17,718,281	\$ 650,057
Payments from Interfund Services Provided	-	-	-	61,194	148,282	209,476	-
Payments to Employees for Services	(276,695)	(862,187)	(214,988)	(314,123)	(492,569)	(2,160,562)	(228,574)
Payments for Goods and Services	(584,720)	(9,111,088)	(829,808)	(293,845)	(1,020,046)	(11,839,507)	(433,483)
Net Cash Provided by (Used in) Operating Activities	<u>1,018,152</u>	<u>842,768</u>	<u>798,989</u>	<u>11,683</u>	<u>1,256,096</u>	<u>3,927,688</u>	<u>(12,000)</u>
<b>Cash Flows from Noncapital Financing Activities</b>							
Transfers to Other Funds	(598,007)	(783,690)	(288,591)	-	(772,924)	(2,443,212)	-
Transfers from Other Funds	-	-	-	315,250	-	315,250	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(598,007)</u>	<u>(783,690)</u>	<u>(288,591)</u>	<u>315,250</u>	<u>(772,924)</u>	<u>(2,127,962)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>							
Impact Fees	102,329	309,864	162,774	-	-	574,967	-
Proceeds from Bonds & Capital Leases	-	-	5,301,000	113,372	-	5,414,372	-
Proceeds from Sale of Assets	-	-	(56,671)	1,750	-	(54,921)	12,000
Increase in Joint Venture	-	-	(110,152)	-	-	-	-
Principal Paid on Revenue Bonds	(260,000)	-	(5,654,000)	(140,000)	-	(6,054,000)	-
Interest Paid on Revenue Bonds	(376,387)	-	(413,918)	-	-	(790,305)	-
Principal Paid on Capital Leases	-	(84,573)	-	(86,077)	(179,178)	(349,828)	-
Interest Paid on Capital Leases	-	(15,684)	-	(53,627)	(13,025)	(82,336)	-
Payments for Capital Acquisitions	-	(247,043)	(75,279)	(162,252)	(290,970)	(775,544)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(534,058)</u>	<u>(37,436)</u>	<u>(846,246)</u>	<u>(326,834)</u>	<u>(483,173)</u>	<u>(2,117,595)</u>	<u>12,000</u>
<b>Cash Flows from Investing Activities</b>							
Interest Income Received	666	142,758	13,211	-	3,560	160,195	-
Net Increase (Decrease) in Cash and Cash Equivalents	(113,247)	164,400	(322,637)	99	3,559	(157,674)	-
Cash and Cash Equivalents Beginning of Year	159,083	359,220	2,036,906	2	534,635	3,089,846	-
Cash and Cash Equivalents End of Year	<u>\$ 45,836</u>	<u>\$ 523,620</u>	<u>\$ 1,714,269</u>	<u>\$ 101</u>	<u>\$ 538,194</u>	<u>\$ 2,932,172</u>	<u>\$ -</u>
<b>Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities</b>							
Operating Income (Loss)	\$ 602,916	\$ 475,525	\$ 648,074	\$ (351,187)	\$ 839,382	\$ 2,214,710	\$ (4,307)
Adjustments:							
Depreciation	347,711	634,400	461,812	269,236	350,707	2,063,866	31,818
Amortization	10,878	-	4,969	-	-	15,847	-
(Increase) Decrease in Assets:							
Accounts Receivable	(72,824)	(5,969)	49,593	-	88,789	59,589	-
Due From Other Funds	85,819	(296,326)	-	-	(103,666)	(314,173)	(81,298)
Increase (Decrease) in Liabilities:							
Accrued Liabilities	(18,114)	389	(33,580)	33,771	10,413	(7,121)	50,178
Customer Deposits	-	51,577	-	-	-	51,577	-
Compensated Absences Payable	(1,633)	(16,828)	7,998	(1,331)	4,049	(7,745)	(8,391)
Water Share Liability	65,023	-	-	-	-	65,023	-
Accrued Interest	(1,624)	-	(87,565)	-	-	(89,189)	-
Due to Other Funds	-	-	(252,312)	61,194	66,422	(124,696)	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,018,152</u>	<u>\$ 842,768</u>	<u>\$ 798,989</u>	<u>\$ 11,683</u>	<u>\$ 1,256,096</u>	<u>\$ 3,927,688</u>	<u>\$ (12,000)</u>
Noncash investing, capital, and financing activities:							
Contributions of capital assets from developers	\$ 164,466	\$ -	\$ 95,954	\$ -	\$ 109,538	\$ 369,958	\$ -

**PAYSON CITY CORPORATION**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

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

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

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

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

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

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

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

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

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



**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

---

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

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

**B. Government-Wide and Fund Financial Statements**

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

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

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

**C. Measurement Focus, Basis of Accounting and Presentation**

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

**PAYSON CITY CORPORATION**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

---

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 *special revenue fund (RDA Business Park)* accounts for revenue and expenditures of promoting economic development in the City’s business park area.

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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accumulation of resources for, and the payment of, long-term debt principal and interest for all water, sewer, sewer and golf course fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Cash and cash equivalents**

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

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

**2. Receivables and payables**

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2010

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**3. Inventories and prepaid items**

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

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

**4. Restricted Assets**

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

**5. Capital assets**

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

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

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

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

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

**PAYSON CITY CORPORATION**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

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**Capital Assets (Continued)**

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

**6. Compensated Absences**

Payson City Corporation’s personnel policy permits employees to accumulate earned, but unused, vacation time which will be paid to employees upon termination. At June 30, 2010, the total liability for compensated absences is \$869,499.

**7. Taxes**

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

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

**8. Long-term Obligations**

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**9. Fund Equity**

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

**10. Net assets**

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

**11. Use of Estimates**

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

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

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

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

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Capital related items:**

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

Cost of capital assets	\$39,278,206
Accumulated depreciation	<u>( 8,245,713)</u>
Net adjustment to increase <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i> )	<u>\$31,032,493</u>

Long-term debt transactions

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

Accrued interest payable	\$ 183,072
Compensated absences	485,441
Bonds, notes payable, and lease payable	8,609,959
Less Bond Cost net of amortization	<u>( 135,607)</u>
Net adjustment to reduce <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i>	<u>\$ 9,142,865</u>

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

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

Capital outlay	\$ 326,163
Depreciation expense	<u>( 880,024)</u>
Net adjustment to increase <i>net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>(\$ 553,861)</u>

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.”

The statement of activities reports *capital contributions* from developers as revenue. Conversely, governmental funds do not report any capital contributions from developers as revenue. \$ 458,656

Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities* \$ 458,656

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

Bond and Note Payments	\$ 694,956
Lease Payment and Proceeds	75,823
Compensated absence	28,369
Decrease in Accrued Interest	16,532
Less: Amortization of Bond Cost	<u>( 8,431)</u>

Net adjustments to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities* \$807,249

**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:



**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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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, 2010, the City’s custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2010</u>
Regular Checking Account	Insured	\$250,000
Regular Checking Account	Uninsured	424,844

**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.

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

As of June 30, 2010 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	\$ 8,027,259	\$ 8,027,259	\$ -	\$ -	\$ -
<b>Total Fair Value</b>	<b>\$ 8,027,259</b>	<b>\$ 8,027,259</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

Deposits and Investments	\$ 111,037
Investments	8,027,259
Cash on Hand	<u>1,000</u>
Total Cash	<u>\$8,139,296</u>
Government-Wide	
Cash and Cash Equivalents	\$ 2,294,902
Restricted Cash and Cash Equivalents	5,372,208
Fiduciary Restricted Cash	<u>472,186</u>
Total Cash	<u>\$8,139,296</u>
Net Cash on Statement of Net Assets	<u>\$8,139,296</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	\$ 1,840	\$ 314,294	\$ 1,068,875	\$ 118,281	\$ 515,846	\$ 2,019,136
Property tax	877,017	-	-	-	-	877,017
Other taxes	530,233	-	-	-	-	530,233
Intergovernmental	116,432	-	-	-	-	116,432
Less allowance for uncollectible accts	-	-	(157,700)	-	-	(157,700)
	<u>\$ 1,525,522</u>	<u>\$ 314,294</u>	<u>\$ 911,175</u>	<u>\$ 118,281</u>	<u>\$ 515,846</u>	<u>\$ 3,385,118</u>

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

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

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	<u>\$ 47,792</u>	<u>\$ 772,541</u>

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010 is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	RDA Business Park	\$ 1,013,371
	General	193,085
	Golf Course	423,995
Water	Sewer	141,644
	Golf Course	1,152,687
Electric	Golf Course	346,821
Non Major Governmental	Golf Course	390,761
Non Major Enterprise	Non Major Enterprise	66,422
	Golf Course	788,226
Internal Service Fund	Golf Course	157,686
Total		<u>\$4,674,698</u>

**Inter-fund Transfers:**

<b>Transfer Out:</b>	<u>General</u>	<u>Capital Projects</u>	<u>Golf Course</u>	<u>Total</u>
General	\$ -	\$ 800,000	\$ 315,250	\$ 1,115,250
Water	598,007	-	-	598,007
Electric	783,690	-	-	783,690
Sewer	288,591	-	-	288,591
Non Major Enterprise	526,924	246,000	-	772,924
Perpetual Care	15,000	-	-	15,000
Total Transfers In	<u>\$2,212,212</u>	<u>\$ 1,046,000</u>	<u>\$ 315,250</u>	<u>\$ 3,573,462</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, 2010**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, was as follows:

<b>Primary Government</b>	<b>Beginning</b>			<b>Ending</b>
<b>Governmental activities:</b>	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 3,606,477			\$ 3,606,477
Infrastructure	15,556,389	458,656		16,015,045
Total capital assets not being depreciated	<u>19,162,866</u>	<u>458,656</u>	<u>-</u>	<u>19,621,522</u>
Capital assets being depreciated:				
Buildings	8,728,456	-		8,728,456
Improvements	6,413,183	228,550	-	6,641,733
Machinery and equipment	4,188,882	97,613	-	4,286,495
Total capital assets being depreciated	<u>19,330,521</u>	<u>326,163</u>	<u>-</u>	<u>19,656,684</u>
Less accumulated depreciation for:				
Buildings	(1,283,909)	(218,211)		(1,502,120)
Improvements	(2,700,365)	(417,487)		(3,117,852)
Machinery and equipment	(3,381,414)	(244,327)	-	(3,625,741)
Total accumulated depreciation	<u>(7,365,688)</u>	<u>(880,025)</u>	<u>-</u>	<u>(8,245,713)</u>
Total capital assets, being depreciated, net	<u>11,964,833</u>	<u>(553,862)</u>	<u>-</u>	<u>11,410,971</u>
Governmental activities capital assets, net	<u>\$ 31,127,699</u>	<u>\$ (95,206)</u>	<u>\$ -</u>	<u>\$ 31,032,493</u>
<b>Business-type activities:</b>	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 7,873,757	\$ -	\$ -	\$ 7,873,757
Water Shares	198,400			198,400
Total capital assets not being depreciated	<u>8,072,157</u>	<u>-</u>	<u>-</u>	<u>8,072,157</u>
Capital assets being depreciated:				
Buildings	829,447	-	-	829,447
Improvements	61,566,772	750,092	-	62,316,864
Machinery and equipment	6,272,843	415,212	284,893	6,403,162
Total capital assets being depreciated	<u>68,669,062</u>	<u>1,165,304</u>	<u>284,893</u>	<u>69,549,473</u>
Less accumulated depreciation for:				
Buildings	(265,175)	(25,323)		(290,498)
Improvements	(25,068,552)	(1,474,910)		(26,543,462)
Machinery and equipment	(4,083,736)	(563,633)	(284,893)	(4,362,476)
Total accumulated depreciation	<u>(29,417,463)</u>	<u>(2,063,866)</u>	<u>(284,893)</u>	<u>(31,196,436)</u>
Total capital assets, being depreciated, net	<u>39,251,599</u>	<u>(898,562)</u>	<u>-</u>	<u>38,353,037</u>
Business-type activities capital assets, net	<u>\$ 47,323,756</u>	<u>\$ (898,562)</u>	<u>\$ -</u>	<u>\$ 46,425,194</u>

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

Governmental activities:	
General government	\$ 134,935
Public safety	101,935
Highways and public improvements	72,776
Economic Development	79,092
Parks and recreation	459,469
Capital assets held by the government's Internal Service Fund are charged to various functions based on their usage of assets	31,818
Total depreciation expense - governmental activities	<u>\$ 880,025</u>
Business-type activities:	
Water	\$ 347,711
Electric	634,400
Sewer	461,812
Solid Waste	215,721
Golf Course	269,236
Storm Drain	108,122
Ambulance	26,864
Total depreciation expense - Business-Type Activities	<u>\$ 2,063,866</u>
Total depreciation expense	<u>\$ 2,943,891</u>

**NOTE 8 - LEASE COMMITMENTS**

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

The assets acquired through capital leases are as follows:

	Business Type
Asset:	
Machinery and Equipment	\$2,346,496
Less: Accumulated Amortization	( 1,260,855)
Total	<u>\$1,085,641</u>

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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

The present value of future minimum capital lease payments under these leases as of June 30, 2010 are:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 421,562
2012	343,126
2013	202,503
2014	76,801
2015	<u>12,583</u>
Total minimum lease payments	1,056,575
Less amounts representing interest	( <u>69,614</u> )
Present value of minimum lease payments	<u>\$ 986,961</u>

At June 30, 2010, the City's capital leases payable balance consisted of the following:

	<u>Total Capital Leases Payable</u> <u>All Fund Types</u>
Capital Leases Payable	\$ 986,961
Current Portion Capital Leases Payable	( <u>387,572</u> )
Long Term Capital Leases Payable	<u>\$ 599,389</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, 2010, the governmental long-term debt of the financial reporting entity consisted of the following:

Special Revenue Fund – RDA	
Tax Increment Revenue Bonds, Series 1998, 5.15%	
Dated March 1, 1997 (original amount \$1,130,000)	\$ 335,000
Special Improvement District No. 2001-1	
5.8%, (original amount \$2,500,000)	1,550,000
Sales Tax Revenue Bonds Series 2007B, Dated July 26, 2007	
5.0% to 5.8% (original amount \$7,300,000)	6,790,000



**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

Real Property Note, 5.01% (original \$305,000)	<u>67,220</u>
Total Bonds and Notes	8,742,220
Less Noncurrent	( 8,145,000)
Current Portion	<u>\$ 597,220</u>

***Capital Leases***

2008 Loader Sweeper 3.86% (original amount \$315,400)	<u>\$ 202,739</u>
Total Capital lease	202,739
Less Noncurrent	( 123,961)
Current portion	<u>\$ 78,778</u>

***Business-type Activities:***

As of June 30, 2010, 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)	\$ 5,301,000
Sales Tax revenue Bond, Series 2007A, Dated July 26, 2007 4.0%-4.38% (original amount \$1,565,000)	1,160,000
Sewer Revenue Bond, Series 2007, Dated August 8, 2007 4.0%-4.5% (original amount \$4,500,000)	4,135,000
Water Revenue and Refunding Series 2008, dated Feb. 1, 2007 3-5% (original amount \$9,445,000)	<u>8,290,000</u>
Total Bonds & Notes	18,886,000
Less non-current	( 18,296,000)
Current portion	<u>\$ 590,000</u>

***Capital Leases***

2007 Golf Carts, 3.92% (original amount \$108,100)	\$ 4,026
2000 Grinder/screen/loader, 5.6% (original amount \$347,500)	14,979
2000 Grinder, 6.65% (original amount \$153,000)	10,775
2007 Golf Equipment, 4.8% (original amount \$83,485)	16,839
2007 Garbage Truck, 4.7% (original amount \$183,023)	49,902
2008 Golf Cart, 4.67% (original amount \$29,380)	22,530
2010 Golf Equipment, 3.69% (original amount \$58,000)	58,000
2010 Golf Carts, 3.42% (original amount \$56,500)	56,500
2007 Golf Equipment, 4.75% (original amount \$40,400)	25,218
2008 Golf Equipment, 3.93% (original amount \$66,894)	41,155
2008 Bucket Equipment, 3.93% (original amount \$231,950)	140,692

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

2009 Line Truck, 4.23% (original amount \$220,196)	179,372
2007 Cat Dozer, 4.29% (original amount \$393,788)	<u>164,234</u>
Total Capital lease	784,222
Less Noncurrent	<u>( 475,428)</u>
Current portion	<u><u>\$ 308,794</u></u>

The future annual requirements for all outstanding bond and note obligations as of June 30, 2010 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2011	\$ 1,577,220	\$ 1,129,327	\$ 2,706,547
2012	1,536,000	1,139,694	2,675,694
2013	1,610,000	1,066,950	2,676,950
2014	1,554,000	1,002,989	2,556,989
2015	1,613,000	936,753	2,549,753
2016-2020	8,091,000	3,620,044	11,711,044
2021-2025	7,027,000	1,955,472	8,982,472
2026-2030	4,620,000	442,275	5,062,275
	<u><u>\$ 27,628,220</u></u>	<u><u>\$ 11,293,504</u></u>	<u><u>\$ 38,921,724</u></u>

On June 21, 2010, the City issued \$5,301,000 of Sewer Revenue Refunding Bonds, Series 2010. The bond proceeds were used to pay off the Sewer Revenue Bonds, Series 2001. The refunding was undertaken to release cash reserves associated with the Series 2001. This refunding will result in a savings of debt service payments and create an economic gain of \$47,722.

**Changes in Long Term Debt**

Government Type Activities	2009	Additions	Reductions	2010	One Year
Bonds Payable					
Special Revenue - RDA	\$ 435,000	\$ -	\$ 100,000	\$ 335,000	\$ 105,000
SID No. 200101	1,695,000	-	145,000	1,550,000	155,000
Special Assessment Bond 1999	226,000	-	226,000	-	-
Sales Tax Revenue Bond 2006B	7,050,000	-	260,000	6,790,000	270,000
Notes Payables	131,175	-	63,955	67,220	67,220
Capital Lease	278,562	-	75,823	202,739	78,778
Accrued Compensated Absences	513,810	-	28,369	485,441	-
Govt Activities Long-Term Debt	<u><u>\$ 10,329,547</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 899,147</u></u>	<u><u>\$ 9,430,400</u></u>	<u><u>\$ 675,998</u></u>

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

Business Type Activities	2009	Additions	Reductions	2010	One Year
<b>Bonds Payable</b>					
2005 Water Rev & Refunding Bond	\$ 8,550,000	\$ -	\$ 260,000	\$ 8,290,000	\$ 275,000
2006 Sales Tax Revenue Bond	1,300,000	-	140,000	1,160,000	150,000
2006 Sewer Revenue Bond	4,295,000	-	160,000	4,135,000	165,000
2000 Sewer Bond	5,494,000	-	5,494,000	-	-
2010 Sewer Refunding	-	5,301,000	-	5,301,000	390,000
Capital Lease	1,020,678	114,500	350,956	784,222	308,794
Accrued Compensated Absence	391,803	-	7,745	384,058	-
Post Retirement Benefits Payable	25,835	-	23,662	2,173	-
Water Share Liability	281,094	65,023	-	346,117	-
Closure and Postclosure Liability	952,107	-	-	952,107	-
Business activities long- term debt	<u>\$ 22,310,517</u>	<u>\$ 5,480,523</u>	<u>\$ 6,436,363</u>	<u>\$ 21,354,677</u>	<u>\$ 1,288,794</u>

**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, 2010, 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, 2010, 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

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

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

Funding Policy. Payson City Corporation is required to contribute a percent of covered salary to the respective systems, 11.66% to the Noncontributory, and 23.34% to the Public Safety Noncontributory and 13.49% to the Firefighters Retirement System, respectively. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Payson City Corporation contributions to Noncontributory Retirement System for June 30, 2010, 2009 and 2008, were \$457,763, \$474,848 and \$459,285 respectively, and for the Public Safety Retirement System the contributions for June 30, 2010, 2009, and 2008 were \$171,645, \$182,968 and \$177,177 respectively. For the Firefighter System the contributions for June 30, 2010, 2009 and 2008 were \$10,516, \$10,244 and \$9,633 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, 2010, 2009, and 2008 were \$18,932, \$7,682 and \$6,005 respectively.

Post Retirement Benefits

The City in previous years had established a post retirement benefit package for their employees. The City provides certain medical benefits to retiring employees. The medical benefits include the payment of health insurance premiums for the employee up to five years (or until the plan expires on January 1, 2011) or until the date the employee is eligible for Medicare. Since the plan will expire on January 1, 2011, the liability is recorded on the financial statement as a long-term liability.

**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, 2010**

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**NOTE 13 - RESERVED FUND BALANCES**

The City has reserved fund balance amounts for impact fees. The City has reserved net assets in the Proprietary Fund for unspent impact fees. These fees will be used to construct appropriate projects as designated by the impact fee ordinance. The City has reserved net assets in the Water Fund and fund balance in the Debt Service fund for the Debt Service requirement of the bonds acquired.

**NOTE 14 – DEFICIT FUND BALANCES**

The following funds had a deficit fund balance/retained earnings balance at June 30, 2010:

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

**NOTE 15 - 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 16 – 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.

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

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

**South Utah Valley Municipal Water Association (SUVMWA)**

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

SUVMWA purchased land for the wastewater treatment facility. Payson is a 19.29% participant and paid \$384,331 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 \$4,093,000 as of June 30, 2010.

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

**NOTE 17 – 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, 2010, the following activity occurred in the City's redevelopment agencies.

**Business Park**

Tax increment collection from other taxing agencies for various project areas	\$370,073
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	335,000
Amounts expended for site improvements and preparation costs	-
Amounts expended for administrative costs	8,528

**PAYSON CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Down Town**

Tax increment collection from other taxing agencies for various project areas	\$235,389
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	-
Amounts expended for site improvements and preparation costs	6,269
Amounts expended for administrative costs	-

**NOTE 18 – SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 15, 2010, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



**PAYSON CITY CORPORATION**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes:				
Property Taxes	\$ 783,084	\$ 783,084	\$ 773,606	\$ (9,478)
General Sales Taxes	2,417,000	2,120,000	2,183,496	63,496
Motor Vehicle Taxes	115,690	115,690	117,975	2,285
Utility Taxes	-	915,000	906,289	(8,711)
Other Taxes	1,249,000	311,000	317,851	6,851
Licenses and Permits	94,011	161,300	195,325	34,025
Intergovernmental	748,726	750,387	792,696	42,309
Charges for Services	1,009,253	1,094,423	1,080,827	(13,596)
Fines and Forfeitures	171,000	197,700	234,349	36,649
Interest	60,000	6,000	6,882	882
Miscellaneous	44,457	24,522	21,634	(2,888)
<b>Total Revenues</b>	<b>6,692,221</b>	<b>6,479,106</b>	<b>6,630,930</b>	<b>151,824</b>
<b>Expenditures</b>				
Current:				
General Government:				
Administrative	1,426,392	1,375,393	1,340,370	35,023
Planning and Zoning	755,024	757,525	731,014	26,511
Building Maintenance	276,462	276,461	266,686	9,775
Judicial	180,351	180,352	173,220	7,132
Non-Departmental	151,673	151,673	126,619	25,054
<b>Total General Government</b>	<b>2,789,902</b>	<b>2,741,404</b>	<b>2,637,909</b>	<b>103,495</b>
Public Safety:				
Police Administration	1,907,997	1,930,873	1,885,548	45,325
Fire Administration	334,571	334,571	326,113	8,458
Victims Advocate	63,117	64,959	60,963	3,996
Animal Control	74,169	74,169	66,731	7,438
<b>Total Public Safety</b>	<b>2,379,854</b>	<b>2,404,572</b>	<b>2,339,355</b>	<b>65,217</b>
Highways and Streets:				
Streets and Sidewalks	484,855	563,355	524,275	39,080
Class "C" Road	254,310	435,311	434,386	925
<b>Total Highways and Streets</b>	<b>739,165</b>	<b>998,666</b>	<b>958,661</b>	<b>40,005</b>
Economic Development:				
Senior Citizens	129,602	131,102	117,967	13,135
Community Events	53,760	53,978	49,284	4,694
<b>Total Economic Development</b>	<b>183,362</b>	<b>185,080</b>	<b>167,251</b>	<b>17,829</b>
Parks and Recreation:				
Parks	160,895	170,894	162,681	8,213
Swimming Pool	387,989	377,989	374,574	3,415
Library	294,039	300,203	275,240	24,963
Ground Mowing	198,616	198,616	162,041	36,575
Recreation and Culture	438,467	464,113	417,818	46,295
Youth Sports	164,645	170,044	169,583	461
Adult Sports	80,000	79,999	75,226	4,773
Snack Shack	92,813	92,813	78,630	14,183
<b>Total Culture and Recreation</b>	<b>1,817,464</b>	<b>1,854,671</b>	<b>1,715,793</b>	<b>138,878</b>
Cemetery	165,245	165,245	163,689	1,556
Debt Service:				
Interest and Fiscal Charges	443,780	443,780	443,780	-
Capital Outlay	-	-	-	-
<b>Total Expenditures</b>	<b>8,518,772</b>	<b>8,793,418</b>	<b>8,426,438</b>	<b>366,980</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,826,551)</b>	<b>(2,314,312)</b>	<b>(1,795,508)</b>	<b>518,804</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Notes	-	-	-	-
Sale of Assets	-	137,097	137,097	-
Transfers In	2,124,007	2,220,678	2,212,212	(8,466)
Transfers Out	(266,000)	(1,115,250)	(1,115,250)	-
<b>Total Other Financing Sources (Uses)</b>	<b>1,858,007</b>	<b>1,242,525</b>	<b>1,234,059</b>	<b>(8,466)</b>
<b>Net Change in Fund Balance</b>	<b>31,456</b>	<b>(1,071,787)</b>	<b>(561,449)</b>	<b>510,338</b>
Fund Balance Beginning of Year	1,831,195	1,831,195	1,831,195	-
<b>Fund Balance End of Year</b>	<b>\$ 1,862,651</b>	<b>\$ 759,408</b>	<b>\$ 1,269,746</b>	<b>\$ 510,338</b>

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

**PAYSON CITY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget to Actual**  
**Redevelopment Agency**  
**Business Park**  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Totals	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property Taxes	\$ 328,475	\$ 328,475	\$ 370,073	\$ 41,598
Total Revenues	328,475	328,475	370,073	41,598
<b>EXPENDITURES</b>				
Economic Development	14,500	14,500	8,528	5,972
Debt Service	127,545	127,545	22,143	105,402
Total Expenditures	142,045	142,045	30,671	111,374
Excess (deficit) of revenues over (under) expenditures	186,430	186,430	339,402	152,972
<b>OTHER FINANCING SOURCES (USES)</b>				
Net Change in Fund Balance	186,430	186,430	339,402	152,972
Fund balances - beginning	(1,692,831)	(1,692,831)	(1,692,831)	-
Fund balances - ending	\$ (1,506,401)	\$ (1,506,401)	\$ (1,353,429)	\$ 152,972

*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, 2010

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.

On June 30, 2010, the City has 79.54 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>
2006	\$ 82,500	\$ 181,189
2007	138,000	137,768
2008	483,880	434,851
2009	470,949	478,883
2010	416,832	384,700

## **SUPPLEMENTAL INFORMATION**

**PAYSON CITY CORPORATION**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2010**

	Special Revenue Funds						Debt Service	Perpetual Care	Revolving Loan	Total Nonmajor Governmental Funds
	RDA Downtown	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant						
<b>Assets</b>										
Due From Other Funds	\$ 298,197	\$ 11,200	\$ 8,910	\$ 8,107	\$ 58,793	\$ 290	\$ 5,264	\$ 390,761		
Notes Receivable	-	-	-	-	-	-	191,468	191,468		
Restricted Assets:										
Cash and Cash Equivalents	-	273,065	97,179	-	-	271,721	200,465	842,430		
<b>Total Assets</b>	<b>\$ 298,197</b>	<b>\$ 284,265</b>	<b>\$ 106,089</b>	<b>\$ 8,107</b>	<b>\$ 58,793</b>	<b>\$ 272,011</b>	<b>\$ 397,197</b>	<b>\$ 1,424,659</b>		
<b>Liabilities</b>										
Total Liabilities	-	-	-	-	-	-	-	-		
<b>Fund Balances</b>										
Reserved for:										
Debt Service	-	-	-	-	58,793	-	-	58,793		
Impact Fees	-	284,265	106,089	-	-	-	-	390,354		
Grant Funds	-	-	-	8,107	-	-	-	8,107		
Unreserved:										
Undesignated (Deficit), Reported in:										
Permanent Fund	-	-	-	-	-	272,011	397,197	669,208		
Special Revenue Funds	298,197	-	-	-	-	-	-	298,197		
<b>Total Fund Balances (Deficits)</b>	<b>298,197</b>	<b>284,265</b>	<b>106,089</b>	<b>8,107</b>	<b>58,793</b>	<b>272,011</b>	<b>397,197</b>	<b>1,424,659</b>		
<b>Total Liabilities and Fund Balances</b>	<b>\$ 298,197</b>	<b>\$ 284,265</b>	<b>\$ 106,089</b>	<b>\$ 8,107</b>	<b>\$ 58,793</b>	<b>\$ 272,011</b>	<b>\$ 397,197</b>	<b>\$ 1,424,659</b>		

**PAYSON CITY CORPORATION**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2010**

	Special Revenue Funds						Debt Service	Perpetual Care	Revolving Loan	Total Nonmajor Governmental Funds
	RDA Downtown	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant						
<b>Revenues</b>										
Taxes:										
Property	\$ 235,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,389
Special Assessments	-	-	-	-	-	300,792	-	-	-	300,792
Charges for Services	-	-	-	-	-	-	23,344	-	-	23,344
Interest	-	1,900	470	-	-	-	1,753	6,919	-	11,042
<b>Total Revenues</b>	<b>235,389</b>	<b>1,900</b>	<b>470</b>	<b>-</b>	<b>-</b>	<b>300,792</b>	<b>25,097</b>	<b>6,919</b>	<b>-</b>	<b>570,567</b>
<b>Expenditures</b>										
Current:										
General Government	-	-	-	-	-	-	-	14,681	-	14,681
Economic Development	6,269	-	-	-	-	-	-	-	-	6,269
Debt Service:										
Principal Retirement	-	130,000	-	-	-	226,000	-	-	-	356,000
Interest and Fiscal Charges	-	156,848	-	-	-	13,108	-	-	-	169,956
<b>Total Expenditures</b>	<b>6,269</b>	<b>286,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>239,108</b>	<b>-</b>	<b>14,681</b>	<b>-</b>	<b>546,906</b>
Excess of Revenues Over (Under) Expenditures	229,120	(284,948)	470	-	-	61,684	25,097	(7,762)	-	23,661
<b>Other Financing Sources (Uses)</b>										
Impact Fees	-	135,733	48,600	-	-	-	-	-	-	184,333
Transfer In (Out)	-	-	-	-	-	-	(15,000)	-	-	(15,000)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>135,733</b>	<b>48,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>169,333</b>
<b>Net Change in Fund Balances</b>	<b>229,120</b>	<b>(149,215)</b>	<b>49,070</b>	<b>-</b>	<b>-</b>	<b>61,684</b>	<b>10,097</b>	<b>(7,762)</b>	<b>-</b>	<b>192,994</b>
<b>Fund Balances (Deficits) Beginning of Year -</b>	<b>69,077</b>	<b>433,480</b>	<b>57,019</b>	<b>8,107</b>	<b>(2,891)</b>	<b>261,914</b>	<b>404,959</b>	<b>1,231,665</b>	<b>-</b>	<b>1,231,665</b>
<b>Fund Balances (Deficits) End of Year</b>	<b>\$ 298,197</b>	<b>\$ 284,265</b>	<b>\$ 106,089</b>	<b>\$ 8,107</b>	<b>\$ 58,793</b>	<b>\$ 272,011</b>	<b>\$ 397,197</b>	<b>\$ 1,424,659</b>	<b>\$ -</b>	<b>\$ 1,424,659</b>

**PAYSON CITY CORPORATION**  
**Combining Statement of Net Assets**  
**Nonmajor Proprietary Funds**  
**June 30, 2010**

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
<b>Assets</b>				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	187,900	69,877	258,069	515,846
Due From Other Funds	399,858	-	454,790	854,648
<b>Total Current Assets</b>	<b>587,758</b>	<b>69,877</b>	<b>712,859</b>	<b>1,370,494</b>
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	538,194	-	-	538,194
Capital Assets:				
Land	55,123	-	-	55,123
Buildings	138,136	152,370	-	290,506
Improvements	516,064	2,680,636	10,254	3,206,954
Machinery and Equipment	2,026,811	207,686	441,799	2,676,296
Less Accumulated Depreciation	(1,878,973)	(417,126)	(420,950)	(2,717,049)
<b>Total Capital Assets, Net</b>	<b>857,161</b>	<b>2,623,566</b>	<b>31,103</b>	<b>3,511,830</b>
<b>Total Noncurrent Assets</b>	<b>1,395,355</b>	<b>2,623,566</b>	<b>31,103</b>	<b>4,050,024</b>
<b>Total Assets</b>	<b>1,983,113</b>	<b>2,693,443</b>	<b>743,962</b>	<b>5,420,518</b>
<b>Liabilities</b>				
Current Liabilities:				
Accrued Liabilities	13,062	1,514	22,691	37,267
Due to Other Funds	-	66,422	-	66,422
Compensated Absences Payable	52,937	29,055	-	81,992
Capital Leases Payable	145,939	-	-	145,939
<b>Total Current Liabilities</b>	<b>211,938</b>	<b>96,991</b>	<b>22,691</b>	<b>331,620</b>
Long-Term Liabilities:				
Capital Leases Payable (net of current portion)	93,950	-	-	93,950
Closure and Postclosure Liability	952,107	-	-	952,107
<b>Total Long-Term Liabilities</b>	<b>1,046,057</b>	<b>-</b>	<b>-</b>	<b>1,046,057</b>
<b>Total Liabilities</b>	<b>1,257,995</b>	<b>96,991</b>	<b>22,691</b>	<b>1,377,677</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	617,272	2,623,566	31,103	3,271,941
Restricted for:				
Landfill Closure Costs	538,194	-	-	538,194
Unrestricted	(430,348)	(27,114)	690,168	232,706
<b>Total Net Assets</b>	<b>\$ 725,118</b>	<b>\$ 2,596,452</b>	<b>\$ 721,271</b>	<b>\$ 4,042,841</b>

**PAYSON CITY CORPORATION**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Fund Net Assets**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2010**

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
<b>Operating Revenues</b>				
Charges for Services	\$ 1,399,343	\$ 544,426	\$ 395,221	\$ 2,338,990
Miscellaneous	190,437	2,213	-	192,650
Total Operating Revenues	<u>1,589,780</u>	<u>546,639</u>	<u>395,221</u>	<u>2,531,640</u>
<b>Operating Expenses</b>				
Costs of Sales and Services	462,428	64,099	251,655	778,182
Maintenance Operations and Contractual Services	294,855	135,803	48,561	479,219
Materials and Supplies	46,819	9,475	27,856	84,150
Depreciation	215,721	108,122	26,864	350,707
Total Operating Expenses	<u>1,019,823</u>	<u>317,499</u>	<u>354,936</u>	<u>1,692,258</u>
Operating Income (Loss)	<u>569,957</u>	<u>229,140</u>	<u>40,285</u>	<u>839,382</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	3,560	-	-	3,560
Grant Revenue	-	-	-	-
Interest and Fiscal Charges	<u>(13,025)</u>	<u>-</u>	<u>-</u>	<u>(13,025)</u>
Total Non-Operating Revenues (Expenses)	<u>(9,465)</u>	<u>-</u>	<u>-</u>	<u>(9,465)</u>
Income (Loss) before Capital Contributions and Transfers	560,492	229,140	40,285	829,917
Capital Contributions	-	109,538	-	109,538
Transfers Out	<u>(560,690)</u>	<u>(190,934)</u>	<u>(21,300)</u>	<u>(772,924)</u>
Change in Net Assets	(198)	147,744	18,985	166,531
Net Assets Beginning of Year	<u>725,316</u>	<u>2,448,708</u>	<u>702,286</u>	<u>3,876,310</u>
Net Assets End of Year	<u>\$ 725,118</u>	<u>\$ 2,596,452</u>	<u>\$ 721,271</u>	<u>\$ 4,042,841</u>



**PAYSON CITY CORPORATION**  
**Combining Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers and Users	\$ 1,689,372	\$ 542,963	\$ 388,094	\$ 2,620,429
Receipts from Interfund Services Provided		148,282		148,282
Payments to Employees for Services	(297,413)	(36,942)	(158,214)	(492,569)
Payments for Goods and Services	(639,067)	(172,399)	(208,580)	(1,020,046)
Net Cash Provided by (Used in) Operating Activities	<u>752,892</u>	<u>481,904</u>	<u>21,300</u>	<u>1,256,096</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	-	-	-	-
Transfers to Other Funds	(560,690)	(190,934)	(21,300)	(772,924)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(560,690)</u>	<u>(190,934)</u>	<u>(21,300)</u>	<u>(772,924)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Principal Paid on Capital Leases	(179,178)	-	-	(179,178)
Interest Paid on Capital Leases	(13,025)	-	-	(13,025)
Payments for Capital Acquisitions	-	(290,970)	-	(290,970)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(192,203)</u>	<u>(290,970)</u>	<u>-</u>	<u>(483,173)</u>
<b>Cash Flows from Investing Activities</b>				
Interest Income Received	3,560	-	-	3,560
Net Increase (Decrease) in Cash and Cash Equivalents	3,559	-	-	3,559
Cash and Cash Equivalents Beginning of Year	534,635	-	-	534,635
Cash and Cash Equivalents End of Year	<u>\$ 538,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538,194</u>
<b>Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating Income (Loss)	\$ 569,957	\$ 229,140	\$ 40,285	\$ 839,382
Adjustments:				
Depreciation	215,721	108,122	26,864	350,707
(Increase) Decrease in Assets:				
Accounts Receivable	99,592	(3,676)	(7,127)	88,789
Allowance for Uncollectable Accounts	-	-	-	-
Due From Other Funds	(135,377)	81,860	(50,149)	(103,666)
Increase (Decrease) in Liabilities:				
Accrued Liabilities	(1,104)	90	11,427	10,413
Performance Bond				
Compensated Absences Payable	4,103	(54)	-	4,049
Due to Other Funds	-	66,422	-	66,422
Net Cash Provided by (Used in) Operating Activities	<u>\$ 752,892</u>	<u>\$ 481,904</u>	<u>\$ 21,300</u>	<u>\$ 1,256,096</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	\$ -	\$ 109,538	\$ -	\$ 109,538

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



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

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

Honorable Mayor and City Council  
City of Payson, Utah

December 15, 2010

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Payson City as of and for the year ended June 30, 2010, which collectively comprise the Payson City's basic financial statements and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Significant Deficiencies that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Significant Deficiencies.

We noted certain matters that we reported to management of Payson City, in a separate letter dated December 15, 2010.

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

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

  
GILBERT & STEWART  
*Certified Public Accountants*

**PAYSON CITY CORPORATION**  
**SCHEDULE OF SIGNIFICANT DEFICIENCIES**  
**JUNE 30, 2010**

1. Draft Financial Statements

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

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

2. Adjustments to Accrual Basis of Accounting

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



# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION  
ESTABLISHED 1974

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## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Honorable Mayor and City Council  
City of Payson, Utah

December 15, 2010

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, Utah for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. As part of our audit, we have audited Payson City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2010. The City received the following major state assistance programs from the State of Utah:

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

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of Payson City's financial statements.)

Library Service Development (State Library)

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

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Other General Compliance Issues  
Uniform Building Code Standards  
Impact Fees  
Justice Court  
Department of Commerce  
Asset Forfeiture  
Utah Retirement System Compliance  
Fund Balance Limitation

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.


Our audit does not provide a legal determination of the City's compliance with these requirements.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

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

The City's written response to the findings identified in our audit is described in the accompanying communication with those charged with governance letter. We did not audit the City's response and, accordingly, we express no opinion on it.

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

  
GILBERT & STEWART  
*Certified Public Accountants*

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**PAYSON CITY**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE





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SIDNEY S. GILBERT, CPA  
JAMES E. STEWART, CPA

Honorable Mayor and City Council  
City of Payson, Utah

December 15, 2010

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, 2010. 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 25, 2010. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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.

##### *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.

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*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 15, 2010.

*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**

**10-1 General Compliance – Other Compliance**

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

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

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

**10-2 General Compliance – Other Compliance**

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

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

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

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

#### 10-3 General Compliance – Department of Commerce

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

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

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

#### 10-4 General Compliance – Justice Courts Compliance

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

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

**City's Response:** We concur with the auditors finding and will make the necessary adjustment.

### Utah State Legal Compliance Findings – Prior Year:

#### 09-1 General Compliance – Other Compliance

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

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

**Current Status:** See current year finding 10-1.

#### 09-2 General Compliance – Other Compliance

**Finding:** State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2009.

Redevelopment Agency – Business Park	(\$1,692,831)
Debt Service	(\$ 2,891)
Golf Course Fund	(\$1,011,720)

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

**City's Status:** See current year finding 10-2.

09-3 General Compliance – Department of Commerce

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

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

**Current Status:** See current year finding 10-3.

09-4 General Compliance – Budgetary Compliance

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

Public Safety	\$ 6,849
Highways and Streets	\$ 19,901
Economic Development	\$ 3,055
Parks & Recreation	\$ 171,026

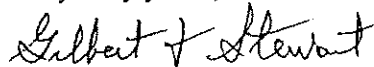
The General Fund incurred total expenditures in excess of budget by \$193,743

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

**Current Status:** City is in compliance.

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

Very truly yours,



GILBERT & STEWART  
*Certified Public Accountants*