

PAYSON CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2013

PAYSON CITY CORPORATION

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GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
ESTABLISHED 1974

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Payson
Payson, Utah

December 26, 2013

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013 on our consideration of the Payson City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Payson City's internal control over financial reporting and compliance.

GILBERT & STEWART, CPA, PC

Gilbert & Stewart

Certified Public Accountants

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, 2013. The narrative is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and the City's financial statements.

FINANCIAL HIGHLIGHTS

- The total net position of Payson City increased from \$61,621,959 to \$64,548,371. Of this, the governmental net position increased by \$1,456,434 and the business-type net position increased by \$1,469,977. (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net position of \$64,548,371 is made up of \$52,271,855 in net investment in capital assets and \$7,402,638 in unrestricted and \$4,873,878 restricted net position.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$112,604.
- Total long-term liabilities of the City went down from \$27,149,491 to \$26,852,416, which includes all debt owing (bonds, leases, compensated absences, water share liability, bond premiums and Landfill post-closure liability), as of June 30, 2013.

REPORTING THE CITY AS A WHOLE

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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

As determined by generally accepted accounting principles, the Electric, Water, 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 position may serve over time as a useful indicator of a government’s financial position. In the case of Payson City, assets exceed liabilities by \$64,548,371.

By far the largest portion of Payson City’s net position, (82%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes Payson City’s Net Position:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 9,253,070	\$ 9,370,912	\$ 8,207,318	\$ 7,952,201	\$ 17,460,388	\$ 17,323,113
Capital assets	29,596,421	29,717,192	47,290,839	45,478,001	76,887,260	75,195,193
Total assets	38,849,491	39,088,104	55,498,157	53,430,202	94,347,648	92,518,306
Deferred outflow of resources	-	-	585,582	-	585,582	-
Other liabilities	1,588,597	2,428,368	1,137,080	1,318,488	2,725,677	3,746,856
Long-term liabilities outstanding	6,524,559	8,186,602	20,327,857	18,962,889	26,852,416	27,149,491
Total liabilities	8,113,156	10,614,970	21,464,937	20,281,377	29,578,093	30,896,347
Deferred inflow of resources	806,766	-	-	-	806,766	-
Net position:						
Net investment in capital assets	23,646,302	22,208,824	28,625,553	29,675,829	52,271,855	51,884,653
Restricted	602,434	574,125	4,271,444	2,787,498	4,873,878	3,361,623
Unrestricted	5,680,833	5,690,185	1,721,805	685,498	7,402,638	6,375,683
Total net position	\$ 29,929,569	\$ 28,473,134	\$ 34,618,802	\$ 33,148,825	\$ 64,548,371	\$ 61,621,959

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,659,133	\$ 1,513,946	\$ 21,047,030	\$ 18,853,093	\$ 22,706,163	\$ 20,367,039
Operating grants and contribs	381,575	351,434	-	-	381,575	351,434
Capital grants and contribs	1,248,003	872,063	796,172	867,866	2,044,175	1,739,929
General revenues:						
Taxes	5,478,769	5,222,384	-	-	5,478,769	5,222,384
Gain (Loss) on Sale of Assets	6,200	448,967	5,151	32,374	11,351	481,341
Special Assessments	-	-	-	-	-	-
Unrestricted investment earnings	33,183	37,735	-	-	33,183	37,735
Trans fers	2,252,269	827,444	(2,252,269)	(827,444)	-	-
Misc.	32,365	67,174	-	784,131	32,365	851,305
Total revenues	11,091,497	9,341,147	19,596,084	19,710,020	30,687,581	29,051,167
Expenses:						
General government	2,598,884	2,463,421	-	-	2,598,884	2,463,421
Public safety	2,695,255	2,701,558	-	-	2,695,255	2,701,558
Highways and public works	975,625	943,130	-	-	975,625	943,130
Parks and recreation	2,318,301	2,272,903	-	-	2,318,301	2,272,903
Economic Development	453,350	288,811	-	-	453,350	288,811
Cemetery	163,434	174,983	-	-	163,434	174,983
Interest on long-term debt	430,213	388,046	-	-	430,213	388,046
Water	-	-	1,943,051	1,683,462	1,943,051	1,683,462
Electric	-	-	11,977,933	10,788,852	11,977,933	10,788,852
Sewer	-	-	1,556,249	1,583,377	1,556,249	1,583,377
Solid Waste	-	-	983,943	1,003,432	983,943	1,003,432
Golf	-	-	916,833	955,475	916,833	955,475
Storm Drain	-	-	380,120	297,244	380,120	297,244
Ambulance	-	-	367,978	352,972	367,978	352,972
Total expenses	9,635,062	9,232,852	18,126,107	16,664,814	27,761,169	25,897,666
Increase in net position	1,456,435	108,295	1,469,977	3,045,206	2,926,412	3,153,501
Net position - beginning	28,473,134	28,364,839	33,148,825	30,103,619	61,621,959	58,468,458
Net position - ending	\$ 29,929,569	\$ 28,473,134	\$ 34,618,802	\$ 33,148,825	\$ 64,548,371	\$ 61,621,959

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, 2013, the City's governmental funds (General, Capital Projects, & Special Revenue) reported combined fund balance of \$6,790,333 up from \$6,708,700 last year. This represents an increase/decrease of \$81,633 from last year's ending balances, with the General Fund portion increasing by \$112,604.

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

Taxes continue to be the largest source of revenue in the General Fund and represent 65% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several years. It represents 54% of total tax revenues and represents \$2,615,537 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 \$8,846,847 to a final budget of \$9,485,449 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, 2013, amounts to \$76,887,260 (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 2013 fiscal year included the following:

- Police – Hand held radios \$4,400
- Fire – Miscellaneous fire equipment \$8,848
- Streets – 930 West \$113,338; Repair & Maintenance \$241,500 (B&C Roads)
- Cemetery – Backhoe lease \$8,000
- Water – Backhoe lease \$8,000
- Solid Waste/Landfill – Garbage Truck lease payments \$133,205
- Electric – Line Truck Lease Payment \$100,259
- Ambulance – New Ambulance Lease Payment \$30,000; Miscellaneous Equipment \$11,315
- Golf – Low Band Radio Equipment \$27,150
- Storm Drain – Retention Pond Repair \$28,200; Curb & Gutter \$60,000; Miscellaneous Storm Projects \$100,000; 930 West \$370,000
- Information Technology – Software Upgrades \$5,000; Building Permit Program \$6,000; Replacement Computers \$21,000

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Invested in capital assets, net						
Land	\$ 3,518,221	\$ 3,518,221	\$ 7,873,757	\$ 7,873,757	\$ 11,391,978	\$ 11,391,978
Building	6,571,703	6,789,914	465,092	488,567	7,036,795	7,278,481
Equipment	374,983	489,666	2,024,081	1,940,436	2,399,064	2,430,102
Water Shares	-	-	198,400	198,400	198,400	198,400
Improvements	2,638,774	2,744,904	34,202,900	34,976,841	36,841,674	37,721,745
Infrastructure	16,492,740	16,174,487	-	-	16,492,740	16,174,487
Construction in progress			2,526,609	558,860	2,526,609	558,860
Total net assets	<u>\$ 29,596,421</u>	<u>\$ 29,717,192</u>	<u>\$ 47,290,839</u>	<u>\$ 46,036,861</u>	<u>\$ 76,887,260</u>	<u>\$ 75,754,053</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 87% having a pavement condition with service life of 12 years or better and .28% of the streets having a pavement condition 2 years service life or less.

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

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2009	\$ 470,949	\$ 478,883
2010	416,832	384,700
2011	161,390	158,999
2012	392,160	366,866
2013	533,148	538,565

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, 2013, the City had total bonded debt outstanding of \$23,965,000. Also the following revenue bonds; the Sewer Revenue Bonds, for the eastside sewer line for \$4,500,000 (with the remaining amount owing \$3,615,000); Sales Tax Bonds for swimming pool and golf course improvements for \$8,865,000 (with the remaining amount owing swimming pool \$5,940,000). The Sewer Revenue Refunding Bond of \$5,301,000 (with the remaining amount owing \$4,155,000) and the Water Revenue & Refunding Bond of \$9,445,000 (with the remaining owing \$8,005,000)

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds Payable	\$ 5,940,000	\$ 7,585,000	\$ 18,270,802	\$ 16,931,634	\$ 24,210,802	\$ 24,516,634
Capital Lease	10,119	42,113	424,833	413,356	434,952	455,469
Accrued Compensated Absences	574,440	559,489	417,663	399,648	992,103	959,137
Water Share Liability	-	-	262,452	266,144	262,452	266,144
Closure and Postclosure Liability	-	-	952,107	952,107	952,107	952,107
Total Long Term Debt	<u>\$ 6,524,559</u>	<u>\$ 8,186,602</u>	<u>\$ 20,327,857</u>	<u>\$ 18,962,889</u>	<u>\$ 26,852,416</u>	<u>\$ 27,149,491</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Utah County unemployment rate was 4.3% in October 2013. This compares with the national rate of 7.3%. (Source: Utah Dept of Workforce Services). The State unemployment rate was 7.9% in October 2012.
- Payson City saw a dramatic drop in building permits for new residential units from 2006 to 2008, and have steadied out since that time with 64 permits in 2009, 59 in 2010, 48 in 2011, 36 in 2012, and so far in 2013 we have issued 62 permits for new residential units.
- The General Fund budget for fiscal year ending June 30, 2013 reflects an increase in expenditures of \$638,602 over the final budget for the fiscal year ended June 30, 2013.
- The City Council also voted the Certified Tax Rate at .001380 for FY 2013 and .001353 for FY 2014.
- Some capital improvements planned for and budgeted in the FY 2014 budget include:
 - Improvements in Facilities \$23,733
 - Replacing 2nd floor carpet, Finish alarm system at city center
 - Machinery in Facilities 8,200
 - Tables at Banquet Hall, Projector Screen at Banquet Hall
 - Flammable closet (gasoline), Replace walk-in cooler equipment
 - Peteetneet Amphitheater 46,000
 - Computer Supplies for Development Services 5,000
 - Citizen Serve software to tie into county business licenses

• Disaster Preparedness	26,660
○ Radios for all city departments	
• Lease Purchase increased	80,000
○ To cover 1 year payment for purchase of fire truck	
• Budgeted 930 west completion in Class C roads	120,000
• Machinery increased	17,500
○ Weed mowers	
• Lease payment increased	32,000
○ Cover 1 st payment on new 10-wheeler out of revolving loan	
• Improvements for parks	\$ 10,000
○ Included Walmart Grant for Improvements at Memorial Park	
• Lease Purchase increased	30,170
○ Payments for purchase of Bobtail & Trails utility vehicle	
• 328-D Mower for City grounds	6,357
• Repair and Maintenance	17,480
○ Paint the pool fixtures	
• Repair & Maintenance increased	14,720
○ Remodel Restrooms at old ballfields	
• Improvements	67,602
○ Preparation for new cemetery area	
• Improvements other than buildings	63,000
○ Hospital Rebuild, East & West side voltage cutover, lighting	
• Lease Purchase	12,234
○ New Golf Cart lease through revolving loan	
• Buildings	7,500
○ Installation of window coverings for pro shop	
• Improvements	37,000
○ Cart Path completion, Sand replacement for traps	
• General Supplies	1,000
○ Purchase trees to start nursery again	
• Repair & Maintenance	246,505
○ Electrical overhaul at sewer plant, Trickling Filter repair	
• Sewer extension to RV Park at golf course	25,000
• Repair & Maintenance	50,000
○ Land purchase for storm drain pond	
• Repair & Maintenance water	32,903
○ Purchase 15 2" meters for businesses & Churches	
• Building Improvement water	5,000
○ Heaters, insulation and plywood	
• Added funds for new reservoir testing	30,000

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

PAYSON CITY CORPORATION
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 6,283,627	\$ 1,160,032	\$ 7,443,659
Accounts Receivable (Net of Allowance for Uncollectables)	1,656,165	2,044,284	3,700,449
Prepaid Items		136,000	136,000
Notes Receivable	398,454	-	398,454
Internal Balances	78,715	(78,715)	-
Restricted Assets:			
Cash and Cash Equivalents	836,109	4,230,771	5,066,880
Equity in Joint Venture		714,946	714,946
Capital Assets (Net of Accumulated Depreciation)			
Water Shares	-	198,400	198,400
Land	3,518,221	7,873,757	11,391,978
Buildings	6,571,703	465,092	7,036,795
Improvements	2,638,774	34,202,900	36,841,674
Machinery and Equipment	374,983	2,024,081	2,399,064
Infrastructure	16,492,740	-	16,492,740
Construction in Progress	-	2,526,609	2,526,609
Total Assets	38,849,491	55,498,157	94,347,648
Deferred Outflows of Resources:			
Deferred Charge on Refunding (Net)	-	585,582	585,582
Liabilities			
Accounts Payable	855,701	514,181	1,369,882
Interest Payable	96,993	187,090	284,083
Other Current Liabilities	635,903	435,809	1,071,712
Long-Term Liabilities:			
Due Within One Year	311,904	1,262,195	1,574,099
Due In More Than One Year	6,212,655	19,065,662	25,278,317
Total Liabilities	8,113,156	21,464,937	29,578,093
Deferred Inflows of Resources			
Property Taxes Levied for Future Year	806,766	-	806,766
Net Position			
Net Investment in Capital Assets	23,646,302	28,625,553	52,271,855
Restricted for:			
Capital Projects	-	1,662,391	1,662,391
Debt Service	-	412,930	412,930
Class "C" Roads	247,915	-	247,915
Impact Fees	354,519	1,647,654	2,002,173
Landfill Closure Costs	-	548,469	548,469
Unrestricted	5,680,833	1,721,805	7,402,638
Total Net Position	\$ 29,929,569	\$ 34,618,802	\$ 64,548,371

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, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 2,598,884	\$ 140,666	\$ 132,476	-	\$ (2,325,742)	-	\$ (2,325,742)
Public Safety	2,695,255	468,880	232,092	29,883	(1,964,400)	-	(1,964,400)
Highways and Streets	975,625	-	-	1,116,959	141,334	-	141,334
Parks and Recreation	2,318,301	1,011,434	17,007	101,161	(1,188,699)	-	(1,188,699)
Economic Development	453,350	-	-	-	(453,350)	-	(453,350)
Cemetery	163,434	38,153	-	-	(125,281)	-	(125,281)
Interest on Long-Term Debt	430,213	-	-	-	(430,213)	-	(430,213)
Total Governmental Activities	9,635,062	1,659,133	381,575	1,248,003	(6,346,351)	-	(6,346,351)
Business-Type Activities:							
Water	1,943,051	2,454,776	-	211,175	-	\$ 722,900	722,900
Electric	11,977,933	13,072,564	-	238,637	-	1,333,268	1,333,268
Sewer	1,556,249	1,948,520	-	271,262	-	663,533	663,533
Solid Waste	983,943	1,913,400	-	-	-	929,457	929,457
Golf	916,833	671,598	-	-	-	(245,235)	(245,235)
Storm Drain	380,120	589,988	-	46,818	-	256,686	256,686
Ambulance	367,978	396,184	-	28,280	-	56,486	56,486
Total Business-Type Activities	18,126,107	21,047,030	-	796,172	-	3,717,095	3,717,095
Total Primary Government	\$ 27,761,169	\$ 22,706,163	\$ 381,575	\$ 2,044,175	(6,346,351)	3,717,095	(2,629,256)
General Revenues							
Taxes:							
Property Taxes					1,464,712	-	1,464,712
General Sales Taxes					2,615,537	-	2,615,537
Motor Vehicle Taxes					102,724	-	102,724
Utility Taxes					992,339	-	992,339
Other Taxes					303,457	-	303,457
Gain (Loss) on Sale of Capital Asset					6,200	5,151	11,351
Investment Earnings					33,183	-	33,183
Miscellaneous					32,365	-	32,365
Transfers					2,252,269	(2,252,269)	-
Total General Revenues and Transfers					7,802,786	(2,247,118)	5,555,668
Change in Net Assets					1,456,435	1,469,977	2,926,412
Net Position Beginning of Year					28,473,134	33,148,825	61,621,959
Net Position End of Year					\$ 29,929,569	\$ 34,618,802	\$ 64,548,371

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

PAYSON CITY CORPORATION
Balance Sheet
Governmental Funds
June 30, 2013

	General	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 2,001,204	\$ 4,282,423	\$ -	\$ 6,283,627
Accounts Receivable (Net of Allowance for Uncollectables)	1,656,165	-	-	1,656,165
Due From Other Funds	125,688	-	285,675	411,363
Notes Receivable	-	-	398,454	398,454
Restricted Assets:				
Cash and Cash Equivalents	103,043	-	733,066	836,109
Total Assets	<u>\$ 3,886,100</u>	<u>\$ 4,282,423</u>	<u>\$ 1,417,195</u>	<u>\$ 9,585,718</u>
Liabilities				
Accrued Liabilities	\$ 803,941	\$ 33,231	\$ 7,468	\$ 844,640
Due To Other Funds	-	189,101	282,408	471,509
Deposits	635,903	-	-	635,903
Total Liabilities	<u>1,439,844</u>	<u>222,332</u>	<u>289,876</u>	<u>1,952,052</u>
Deferred Inflows of Resources				
Property Taxes Levied for Future Year	806,766	-	-	806,766
Unavailable Property Taxes	36,567	-	-	36,567
Total Inflows	<u>843,333</u>	<u>-</u>	<u>-</u>	<u>843,333</u>
Fund Balances				
Restricted for:				
RDA	-	-	670,696	670,696
Class "C" Roads	247,915	-	-	247,915
Impact Fees	-	-	354,519	354,519
Committed for:				
Perpetual Care	-	-	312,585	312,585
Assigned for:				
Community Events	287,547	-	-	287,547
Capital Project Fund	-	4,060,091	-	4,060,091
Unassigned:	1,067,461	-	(210,481)	856,980
Total Fund Balances (Deficits)	<u>1,602,923</u>	<u>4,060,091</u>	<u>1,127,319</u>	<u>6,790,333</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 3,886,100</u>	<u>\$ 4,282,423</u>	<u>\$ 1,417,195</u>	<u>\$ 9,585,718</u>

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

PAYSON CITY CORPORATION
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Total Governmental Funds Balances	\$ 6,790,333
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	29,596,420
Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	36,567
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.	117,682
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,611,433)</u>
Net Position of Governmental Activities	<u><u>\$ 29,929,569</u></u>

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

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Property Taxes	\$ 885,120	\$ -	\$582,398	\$ 1,467,518
General Sales Taxes	2,615,537	-	-	2,615,537
Motor Vehicle Taxes	102,724	-	-	102,724
Utility Taxes	992,339	-	-	992,339
Other Taxes	303,457	-	-	303,457
Licenses and Permits	131,973	-	-	131,973
Intergovernmental	1,180,280	-	-	1,180,280
Charges for Services	1,225,256	-	38,153	1,263,409
Fines and Forfeitures	263,751	-	-	263,751
Interest	1,439	24,236	7,508	33,183
Miscellaneous	32,365	-	-	32,365
Total Revenues	7,734,241	24,236	628,059	8,386,536
Expenditures				
Current:				
General Government	2,445,677	-	-	2,445,677
Public Safety	2,683,216	-	-	2,683,216
Highways and Streets	1,029,277	-	-	1,029,277
Parks and Recreation	1,968,642	-	-	1,968,642
Economic Development	172,374	-	262,126	434,500
Cemetery	163,434	-	-	163,434
Debt Service:				
Principal Retirement	-	165,000	-	165,000
Interest and Fiscal Charges	563,932	1,146,890	61,618	1,772,440
Capital Outlay:				
Economic Development	-	32,230	-	32,230
Total Expenditures	9,026,552	1,344,120	323,744	10,694,416
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,292,311)	(1,319,884)	304,315	(2,307,880)
Other Financing Sources (Uses)				
Impact Fees	-	-	131,044	131,044
Sale of Fixed Assets	6,200	-	-	6,200
Transfers In	2,069,075	868,554	-	2,937,629
Transfers Out	(670,360)	-	(15,000)	(685,360)
Total Other Financing Sources (Uses)	1,404,915	868,554	116,044	2,389,513
Net Change in Fund Balances	112,604	(451,330)	420,359	81,633
Fund Balances (Deficits) Beginning of Year	1,490,319	4,511,421	706,960	6,708,700
Fund Balances (Deficits) End of Year	\$ 1,602,923	\$ 4,060,091	\$ 1,127,319	\$ 6,790,333

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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 81,633
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(454,367)
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase (decrease) net assets. (Contributions by Developers)	318,253
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,492,277
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.	(2,806)
The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	<u>21,445</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,456,435</u></u>

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

PAYSON CITY CORPORATION
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business Type Activities - Enterprise Funds						Internal Service Funds
	Major				Non Major		
	Water	Electric	Sewer	Golf Course	Enterprise Funds	Total	
Assets							
Current Assets:							
Cash and Cash Equivalents	\$ 274,992	\$ 298,240	\$ -	\$ 2,012	\$ 584,788	\$ 1,160,032	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	318,008	928,530	228,162	-	569,584	2,044,284	-
Due From Other Funds	-	1,526,465	-	-	1,986,014	3,512,479	138,861
Prepaid Items	-	136,000	-	-	-	136,000	-
Total Current Assets	593,000	2,889,235	228,162	2,012	3,140,386	6,852,795	138,861
Noncurrent Assets:							
Restricted Assets:							
Cash and Cash Equivalents	1,972,967	1,081,648	627,687	-	548,469	4,230,771	-
Equity in Joint Venture	-	-	714,946	-	-	714,946	-
Capital Assets:							
Water Shares	198,400	-	-	-	-	198,400	-
Land	6,711,439	116,337	157,482	833,376	55,123	7,873,757	-
Buildings	-	279,792	13,199	245,950	290,506	829,447	-
Improvements	16,597,816	17,925,288	21,794,993	4,337,896	4,347,580	65,003,573	-
Machinery and Equipment	341,565	1,810,020	1,164,878	1,295,483	3,054,078	7,666,024	1,336,900
Construction in Progress	2,526,609	-	-	-	-	2,526,609	-
Less Accumulated Depreciation	(8,284,683)	(12,248,562)	(9,198,310)	(3,657,602)	(3,417,814)	(36,806,971)	(1,282,945)
Total Capital Assets, Net	18,091,146	7,882,875	13,932,242	3,055,103	4,329,473	47,290,839	53,955
Total Noncurrent Assets	20,064,113	8,964,523	15,274,875	3,055,103	4,877,942	52,236,556	53,955
Total Assets	20,657,113	11,853,758	15,503,037	3,057,115	8,018,328	59,089,351	192,816
Deferred Outflows of Resources:							
Deferred Charge on Refunding (Net)	585,582	-	-	-	-	585,582	-
Liabilities							
Current Liabilities:							
Accrued Liabilities	256,043	73,086	60,812	21,453	102,787	514,181	11,061
Due to Other Funds	-	-	175,616	3,415,578	-	3,591,194	-
Compensated Absences Payable	23,433	184,320	38,244	76,626	95,040	417,663	62,577
Bonds Payable	496,000	-	589,000	-	-	1,085,000	-
Interest Payable	66,322	-	120,768	-	-	187,090	-
Capital Leases Payable	-	47,696	-	54,181	75,318	177,195	1,904
Total Current Liabilities	841,798	305,102	984,440	3,567,838	273,145	5,972,323	75,542
Current Liabilities Payable from Restricted Assets:							
Customer Deposits Payable	-	435,809	-	-	-	435,809	-
Total Current Liabilities Payable from Restricted Assets	-	435,809	-	-	-	435,809	-
Long-Term Liabilities:							
Unamortized Bond Premiums (Net)	245,802	-	-	-	-	245,802	-
Revenue Bonds Payable (net of current portion)	9,759,000	-	7,181,000	-	-	16,940,000	-
Capital Leases Payable (net of current portion)	-	-	-	72,650	174,988	247,638	8,215
Closure and Postclosure Liability	-	-	-	-	952,107	952,107	-
Water Share Liability	262,452	-	-	-	-	262,452	-
Total Long-Term Liabilities	10,267,254	-	7,181,000	72,650	1,127,095	18,647,999	8,215
Total Liabilities	11,109,052	740,911	8,165,440	3,640,488	1,400,240	25,056,131	83,757
Net Position							
Net Investment in Capital Assets	7,620,693	7,835,179	6,162,242	2,928,272	4,079,167	28,625,553	43,836
Restricted for:							
Bond and Lease Requirements	30,349	-	382,581	-	-	412,930	-
Capital Projects	1,662,391	-	-	-	-	1,662,391	-
Landfill Closure Costs	-	-	-	-	548,469	548,469	-
Impact Fees	295,570	1,112,940	239,144	-	-	1,647,654	-
Unrestricted	524,640	2,164,728	553,630	(3,511,645)	1,990,452	1,721,805	65,223
Total Net Position	\$ 10,133,643	\$ 11,112,847	\$ 7,337,597	\$ (583,373)	\$ 6,618,088	\$ 34,618,802	\$ 109,059

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

PAYSON CITY CORPORATION
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities - Enterprise Funds						
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues							
Charges for Services	\$ -	\$ 11,619,801	\$ -	\$ 651,576	\$ 2,782,455	\$ 15,053,832	\$ 587,377
Charges Pledged as Security for Revenue Bond	2,424,502	-	1,924,639	-	-	4,349,141	-
Miscellaneous	3,676	1,304,667	19,584	20,010	109,706	1,457,643	50
Total Operating Revenues	2,428,178	12,924,468	1,944,223	671,586	2,892,161	20,860,616	587,427
Operating Expenses							
Costs of Sales and Services	438,099	9,080,096	394,974	452,334	809,989	11,175,492	342,909
Maintenance Operations and Contractual Services	419,122	2,288,592	61,191	48,324	484,088	3,301,317	55,975
Materials and Supplies	251,803	78,391	67,599	165,076	145,437	708,306	154,458
Depreciation	369,350	524,302	524,792	244,905	288,695	1,952,044	17,836
Amortization	268,924	-	120,980	-	-	389,904	-
Total Operating Expenses	1,747,298	11,971,381	1,169,536	910,639	1,728,209	17,527,063	571,178
Operating Income (Loss)	680,880	953,087	774,687	(239,053)	1,163,952	3,333,553	16,249
Non-Operating Revenues (Expenses)							
Interest Income	26,598	148,096	4,297	12	7,411	186,414	-
Impact Fees	71,609	238,637	191,082	-	-	501,328	-
Insurance Proceeds	-	-	-	-	-	-	-
Grant Revenue	-	-	-	-	28,280	28,280	-
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	5,151	5,151	-
Interest and Fiscal Charges	(195,753)	(6,552)	(386,713)	(6,194)	(3,832)	(599,044)	-
Total Non-Operating Revenues (Expenses)	(97,546)	380,181	(191,334)	(6,182)	37,010	122,129	-
Income (Loss) before Capital Contributions and Transfers	583,334	1,333,268	583,353	(245,235)	1,200,962	3,455,682	16,249
Capital Contributions	139,566	-	80,180	-	46,818	266,564	-
Transfers In	-	-	-	47,006	3,300	50,306	-
Transfers Out	(474,475)	(846,737)	(343,591)	-	(637,772)	(2,302,575)	-
Change in Net Position	248,425	486,531	319,942	(198,229)	613,308	1,469,977	16,249
Net Position Beginning of Year	9,885,218	10,626,316	7,017,655	(385,144)	6,004,780	33,148,825	92,810
Net Position End of Year	\$ 10,133,643	\$ 11,112,847	\$ 7,337,597	\$ (583,373)	\$ 6,618,088	\$ 34,618,802	\$ 109,059

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, 2013

	Business Type Activities - Enterprise Funds						
	Water	Electric	Sewer	Golf Course	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities							
Receipts from Customers and Users	\$ 2,385,510	\$ 12,965,507	\$ 1,945,753	\$ 671,586	\$ 2,900,480	\$ 20,868,836	\$ 587,427
Payments from Interfund Services Provided	-	-	-	19,071	-	19,071	-
Payments to Employees for Services	(263,227)	(880,139)	(222,994)	(289,478)	(509,733)	(2,165,571)	(342,909)
Payments for Goods and Services	(1,064,049)	(10,844,377)	(336,507)	(356,205)	(1,633,828)	(14,234,966)	(239,294)
Net Cash Provided by (Used in) Operating Activities	<u>1,058,234</u>	<u>1,240,991</u>	<u>1,386,252</u>	<u>44,974</u>	<u>756,919</u>	<u>4,487,370</u>	<u>5,224</u>
Cash Flows from Noncapital Financing Activities							
Operating Grants Received	-	-	-	-	28,280	28,280	-
Transfers to Other Funds	(474,475)	(846,737)	(343,591)	-	(637,772)	(2,302,575)	-
Transfers from Other Funds	-	-	-	47,006	3,300	50,306	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(474,475)</u>	<u>(846,737)</u>	<u>(343,591)</u>	<u>47,006</u>	<u>(606,192)</u>	<u>(2,223,989)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities							
Insurance Proceeds	-	-	-	-	-	-	-
Impact Fees	71,609	238,637	191,082	-	-	501,328	-
Proceeds from Bonds & Capital Leases	1,500,000	-	-	75,821	157,800	1,733,621	10,119
Bond Refunding Cost	(105,000)	-	-	-	-	(105,000)	-
Proceeds from Sale of Assets	-	-	-	-	5,151	5,151	-
Increase in Joint Venture	-	-	(110,178)	-	-	(110,178)	-
Principal Paid on Revenue Bonds	(295,000)	-	(565,000)	-	-	(860,000)	-
Interest Paid on Revenue Bonds	(183,862)	-	(386,713)	-	-	(570,575)	-
Principal Paid on Capital Leases	-	(93,706)	-	(84,063)	(44,372)	(222,141)	-
Interest Paid on Capital Leases	-	(6,552)	-	(6,194)	(3,832)	(16,578)	-
Payments for Capital Acquisitions	(1,894,256)	(389,288)	(101,851)	(75,544)	(265,475)	(2,726,414)	(15,343)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(906,509)</u>	<u>(250,909)</u>	<u>(972,660)</u>	<u>(89,980)</u>	<u>(150,728)</u>	<u>(2,370,786)</u>	<u>(5,224)</u>
Cash Flows from Investing Activities							
Interest Income Received	<u>20,249</u>	<u>148,096</u>	<u>4,297</u>	<u>12</u>	<u>7,411</u>	<u>180,065</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(302,501)	291,441	74,298	2,012	7,410	72,660	-
Cash and Cash Equivalents Beginning of Year	<u>2,550,460</u>	<u>1,088,447</u>	<u>553,389</u>	<u>-</u>	<u>1,125,847</u>	<u>5,318,143</u>	<u>-</u>
Cash and Cash Equivalents End of Year	<u>\$ 2,247,959</u>	<u>\$ 1,379,888</u>	<u>\$ 627,687</u>	<u>\$ 2,012</u>	<u>\$ 1,133,257</u>	<u>\$ 5,390,803</u>	<u>\$ -</u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating Income (Loss)	\$ 680,880	\$ 953,087	\$ 774,687	\$ (239,053)	\$ 1,163,952	\$ 3,333,553	\$ 16,249
Adjustments:							
Depreciation	369,350	524,302	524,792	244,905	288,695	1,952,044	17,836
Amortization	268,924	-	120,980	-	-	389,904	-
(Increase) Decrease in Assets:							
Accounts Receivable	(42,668)	97,949	1,530	-	8,319	65,130	-
Due From Other Funds	-	(289,839)	-	-	(743,413)	(1,033,252)	(13,081)
Increase (Decrease) in Liabilities:							
Accrued Liabilities	(206,706)	1,008	41,914	5,510	31,412	(126,862)	(3,140)
Customer Deposits	-	(56,910)	-	-	-	(56,910)	-
Compensated Absences Payable	(19,742)	11,394	3,868	14,541	7,954	18,015	(12,640)
Water Share Liability	(3,694)	-	-	-	-	(3,694)	-
Accrued Interest	11,890	-	(9,528)	-	-	2,362	-
Due to Other Funds	-	-	(71,991)	19,071	0	(52,920)	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,058,234</u>	<u>\$ 1,240,991</u>	<u>\$ 1,386,252</u>	<u>\$ 44,974</u>	<u>\$ 756,919</u>	<u>\$ 4,487,370</u>	<u>\$ 5,224</u>
Noncash investing, capital, and financing activities:							
Contributions of capital assets from developers	\$ 139,566	\$ -	\$ 80,180	\$ -	\$ 46,818	\$ 266,564	\$ -

PAYSON CITY CORPORATION
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus, Basis of Accounting and Presentation

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Cash and cash equivalents

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

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

2. Receivables and payables

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

3. Inventories and prepaid items

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

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

4. Restricted Assets

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

5. Capital assets

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

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

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

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

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

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

PAYSON CITY CORPORATION
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6. Compensated Absences

Payson City Corporation's personnel policy permits employees to accumulate earned, but unused, vacation time which will be paid to employees upon termination. At June 30, 2013, the total liability for compensated absences is \$992,103.

7. Taxes

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

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

8. Long-term Obligations

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

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

9. Deferred Outflows/inflows of Resources

Beginning with fiscal year 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Statements provide financial reporting guidance to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. They also establish accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one deferred outflow, deferred charge on refunding reported in the government-wide statement of net position. The deferred charge on refunding resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *revenue for future year*, is reported in both the statement of net position and the governmental funds balance sheet. These amounts account for property taxes levied on January 1, 2013 for the 2013-2014 fiscal year.

10. Fund Equity

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

- **Nonspendable.** This category includes fund balance amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. Fund balance amounts related to inventories, prepaid expenditures, and endowments are classified as nonspendable.
- **Restricted.** This category includes net fund resources that are subject to external constraints that have been placed on the use of the resources either a) imposed by creditors (such as

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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through a debt covenant), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. Restricted fund balance amounts include the following:

- a) Class C Roads
 - b) Impact fees
 - c) RDA
- **Committed.** This category includes amounts that can only be used for specific purposes established by formal action of the City Council. Fund balance commitments can only be removed or changed by the same type of action (for example, resolution) of the City Council. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City Council has committed perpetual care and revolving loan fund.
 - **Assigned.** This category includes General Fund balance amounts that the City intends to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the City's administration comprised of the City administrative council. This category also includes the remaining positive fund balance for other governmental funds. The City has assigned debt service requirement, special revenue and capital projects.
 - **Unassigned.** Residual balances in the governmental fund are classified as unassigned.

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

11. Net Position

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

12. Use of Estimates

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

Capital related items:

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

Cost of capital assets	\$39,648,438
Accumulated depreciation	<u>(10,052,018)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$29,596,420</u>

Long-term debt transactions

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

Accrued interest payable	\$ 96,993
Compensated absences	574,440
Bonds, notes payable, and lease payable	<u>5,940,000</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 6,611,433</u>

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

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Capital outlay	\$ 205,437
Depreciation expense	(<u>659,804</u>)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	(<u>\$ 454,367</u>)

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

Bond and Note Payments	\$ 1,525,000
Lease Payment and Proceeds	42,113
Compensated absence	(14,950)
Decrease in Accrued Interest	58,859
Less: Amortization of Bond Cost	(<u>118,745</u>)
Net adjustments to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$1,492,277</u>

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at yearend. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

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

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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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, 2013, the City’s custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2013</u>
Regular Checking Account	Insured	\$250,000
Regular Checking Account	Uninsured	1,057,994

B. Investments

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

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

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

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

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

As of June 30, 2013 the government had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities In Years			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 11,415,234	\$ 11,415,234	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 11,415,234</u>	<u>\$ 11,415,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

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

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

Deposits and Investments	\$ 1,094,305
Investments	11,415,234
Cash on Hand	<u>1,000</u>
Total Cash	<u>\$12,510,539</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Government-Wide

Cash and Cash Equivalents	\$ 7,443,659
Restricted Cash and Cash Equivalents	4,734,856
Fiduciary Restricted Cash	<u>332,024</u>
Total Cash	<u>\$12,510,539</u>

Net Cash on Statement of Net Position	<u>\$12,510,539</u>
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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	\$ 25,427	\$ 318,008	\$ 1,086,230	\$ 228,162	\$ 632,311	\$ 2,290,138
Property tax	906,515	-	-	-	-	906,515
Other taxes	593,252	-	-	-	-	593,252
Intergovernmental	130,971	-	-	-	-	130,971
Less allowance for uncollectible accts	-	-	(157,700)	-	(62,727)	(220,427)
	<u>\$ 1,656,165</u>	<u>\$ 318,008</u>	<u>\$ 928,530</u>	<u>\$ 228,162</u>	<u>\$ 569,584</u>	<u>\$ 3,700,449</u>

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

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

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	<u>\$ 36,567</u>	<u>\$ 806,766</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Project	\$ 125,688
Non Major Governmental	RDA Business Park	206,394
	Capital Project	63,413
	Non Major Governmental	15,868
Electric	Sewer	175,616
	Golf Course	1,350,849
Non Major Enterprise	Golf Course	1,925,868
	Non Major Governmental	60,146
Internal Service Fund	Golf Course	138,861
Total		<u>\$4,062,703</u>

Inter-fund Transfers:

Transfer Out:	<u>General</u>	<u>Capital Projects</u>	<u>Golf Course</u>	<u>Non Major Enterprise</u>	<u>Total</u>
General	\$ -	\$ 620,054	\$ 47,006	\$ 3,300	\$ 670,360
Capital Projects	-	-	-	-	-
Water	474,475	-	-	-	474,475
Electric	846,737	-	-	-	846,737
Sewer	343,591	-	-	-	343,591
Non Major Enterprise	389,272	248,500	-	-	637,772
Non Major Governmental	-	-	-	-	-
Perpetual Care	15,000	-	-	-	15,000
Total Transfers In	<u>\$2,069,075</u>	<u>\$ 868,554</u>	<u>\$ 47,006</u>	<u>\$ 3,300</u>	<u>\$ 2,987,935</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, 2013

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,518,221	\$ -	\$ -	\$ 3,518,221
Infrastructure	16,174,487	318,253	-	16,492,740
Total capital assets not being depreciated	19,692,708	318,253	-	20,010,961
Capital assets being depreciated:				
Buildings	8,728,456	-	-	8,728,456
Improvements	6,641,733	189,687	-	6,831,420
Machinery and equipment	4,046,509	31,092	-	4,077,601
Total capital assets being depreciated	19,416,698	220,779	-	19,637,477
Less accumulated depreciation for:				
Buildings	(1,938,542)	(218,211)	-	(2,156,753)
Improvements	(3,896,829)	(295,818)	-	(4,192,647)
Machinery and equipment	(3,556,843)	(145,775)	-	(3,702,618)
Total accumulated depreciation	(9,392,214)	(659,804)	-	(10,052,018)
Total capital assets, being depreciated, net	10,024,484	(439,025)	-	9,585,459
Governmental activities capital assets, net	\$ 29,717,192	\$ (120,772)	\$ -	\$ 29,596,420
Business-type activities:	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 7,873,757	\$ -	\$ -	\$ 7,873,757
Water Shares	198,400	-	-	198,400
Construction in Progress	558,860	1,987,749	20,000	2,526,609
Total capital assets not being depreciated	8,631,017	1,987,749	20,000	10,598,766
Capital assets being depreciated:				
Buildings	829,447	-	-	829,447
Improvements	64,401,951	601,622	-	65,003,573
Machinery and equipment	7,109,925	636,649	80,550	7,666,024
Total capital assets being depreciated	72,341,323	1,238,271	80,550	73,499,044
Less accumulated depreciation for:				
Buildings	(340,880)	(23,475)	-	(364,355)
Improvements	(29,425,110)	(1,375,563)	-	(30,800,673)
Machinery and equipment	(5,169,487)	(553,006)	(80,550)	(5,641,943)
Total accumulated depreciation	(34,935,477)	(1,952,044)	(80,550)	(36,806,971)
Total capital assets, being depreciated, net	37,405,846	(713,773)	-	36,692,073
Business-type activities capital assets, net	\$ 46,036,863	\$ 1,273,976	\$ 20,000	\$ 47,290,839

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

Governmental activities:

General government	\$ 125,616
Public safety	28,288
Highways and public improvements	83,432
Economic Development	18,850
Parks and recreation	385,782
Capital assets held by the government's Internal Service Fund are charged to various functions based on their usage of assets	<u>17,836</u>
Total depreciation expense - governmental activities	<u><u>\$ 659,804</u></u>

Business-type activities:

Water	\$ 369,350
Electric	524,302
Sewer	524,792
Solid Waste	121,727
Golf Course	244,905
Storm Drain	137,885
Ambulance	29,083
Total depreciation expense - Business-Type Activities	<u><u>\$ 1,952,044</u></u>

Total depreciation expense	<u><u>\$ 2,611,848</u></u>
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NOTE 8 - LEASE COMMITMENTS

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

The assets acquired through capital leases are as follows:

Asset:	Business Type
Machinery and Equipment	\$1,925,807
Less: Accumulated Amortization	(1,061,269)
Total	<u><u>\$ 864,538</u></u>

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

The present value of future minimum capital lease payments under these leases as of June 30, 2013 are:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$192,382
2015	128,164
2016	53,289
2017	53,284
2018	<u>36,690</u>
Total minimum lease payments	463,809
Less amounts representing interest	(<u>28,857</u>)
Present value of minimum lease payments	<u>\$ 434,952</u>

At June 30, 2013, the City's capital leases payable balance consisted of the following:

	<u>Total Capital Leases Payable</u>	
	<u>Governmental</u>	<u>Business Type</u>
Capital Leases Payable	\$ 10,119	\$ 424,833
Current Portion Capital Leases Payable	(<u>1,904</u>)	(<u>177,195</u>)
Long Term Capital Leases Payable	<u>\$ 8,215</u>	<u>\$ 247,638</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, 2013, the governmental long-term debt of the financial reporting entity consisted of the following:

Sales Tax Revenue Bonds Series 2007B, Dated July 26, 2007	
5.0% to 5.8% (original amount \$7,300,000)	<u>\$ 5,940,000</u>
Total Bonds and Notes	5,940,000
Less Noncurrent	(<u>5,630,000</u>)
Current Portion	<u>\$ 310,000</u>
<i>Capital Leases</i>	
2013 Copier 3.04% Revolving Loan Fund (original amount \$10,119)	<u>\$ 10,119</u>
Total Capital lease	10,119
Less Noncurrent	(<u>1,904</u>)
Current portion	<u>\$ 8,215</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Business-type Activities:

As of June 30, 2013, the long-term debt payable from proprietary fund resources consisted of the following:

Sewer Revenue Refunding Bonds, Series 2010, dated June 21, 2010 3.64% (original amount \$5,301,000)	\$ 4,155,000
Water revenue Bond, Series 2012, dated April 1, 2012 3.46% (original amount \$3,404,000)	2,250,000
Sewer Revenue Bond, Series 2007, dated August 8, 2007 4.0%-4.5% (original amount \$4,500,000)	3,615,000
Water Revenue Refunding, Series 2013, dated March 13, 2013 2.0% - 3.0% (original amount 7,385,000)	7,385,000
Water Revenue and Refunding Series 2008, dated Feb. 1, 2007 3-5% (original amount \$9,445,000)	<u>620,000</u>
Total Bonds & Notes	18,025,000
Less non-current	(16,940,000)
Current portion	<u>\$ 1,085,000</u>

Capital Leases

2011 Golf Carts, 3.05% (original amount \$52,300)	\$ 26,935
2010 Golf Equipment, 3.69% (original amount \$58,000)	23,840
2010 Golf Carts, 3.42% (original amount \$56,500)	14,507
2013 Ambulance, 3.04% (original amount \$157,800)	157,800
From Revolving Loan Fund	
2013 Golf Equipment, 3.04% (original amount \$75,820)	61,549
From Revolving Loan Fund	
2009 Line Truck, 4.23% (original amount \$220,196)	47,696
2011 Garbage Truck, 2.8% (original amount \$181,000)	<u>92,506</u>
Total Capital lease	424,833
Less Noncurrent	(177,195)
Current portion	<u>\$ 247,638</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

The future annual requirements for all outstanding bond and note obligations as of June 30, 2013 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2014	\$ 1,395,000	\$ 871,592	\$ 2,266,592
2015	1,458,000	802,860	2,260,860
2016	1,507,000	750,402	2,257,402
2017	1,568,000	699,017	2,267,017
2018	1,622,000	645,299	2,267,299
2019-2023	8,484,000	2,296,291	10,780,291
2024-2028	6,806,000	817,297	7,623,297
2029-2030	1,125,000	33,975	1,158,975
	<u>\$ 23,965,000</u>	<u>\$ 6,916,733</u>	<u>\$ 30,881,733</u>

Changes in Long Term Debt

Government Type Activities	2012	Additions	Reductions	2013	One Year
Bonds Payable					
Special Revenue - RDA	\$ 120,000	\$ -	\$ 120,000	\$ -	\$ -
SID No. 200101	1,230,000	-	1,230,000	-	-
Sales Tax Revenue Bond 2006B	6,235,000	-	295,000	5,940,000	310,000
Total Bonds Payable	7,585,000	-	1,645,000	5,940,000	-
Capital Lease	42,113	10,119	42,113	10,119	1,904
Accrued Compensated Absences	559,489	14,951	-	574,440	-
Govt Activities Long-Term Debt	<u>\$ 8,186,602</u>	<u>\$ 25,070</u>	<u>\$ 1,687,113</u>	<u>\$ 6,524,559</u>	<u>\$ 311,904</u>

Business Type Activities	2012	Additions	Reductions	2013	One Year
Bonds Payable					
2008 Water Rev & Refunding Bond	\$ 7,735,000	\$ -	\$ 7,115,000	\$ 620,000	\$ 305,000
2013 Water Refunding Bond	-	7,385,000	-	7,385,000	70,000
2006 Sewer Revenue Bond	3,795,000	-	180,000	3,615,000	190,000
2012 Water Revenue Bond	750,000	1,500,000	-	2,250,000	121,000
2010 Sewer Refunding	4,540,000	-	385,000	4,155,000	399,000
Unamortized Bond Premium	111,634	143,327	9,159	245,802	-
Total Bonds Payable	16,931,634	9,028,327	7,689,159	18,270,802	
Capital Lease	413,356	233,621	222,144	424,833	177,195
Accrued Compensated Absence	399,648	18,015	-	417,663	-
Water Share Liability	266,144	-	3,692	262,452	-
Closure and Postclosure Liability	952,107	-	-	952,107	-
Business activities long- term debt	<u>\$ 18,962,889</u>	<u>\$ 9,279,963</u>	<u>\$ 7,914,995</u>	<u>\$ 20,327,857</u>	<u>\$ 1,262,195</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

The reacquisition price exceeded the net carrying amount of the old debt by \$597,294. This amount is reported as a deferred outflow and amortized over the remaining life of the refunding debt. The City advance refunded the 2008 Water Revenue & Refunding Bonds to reduce its total debt service payments by \$917,238 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$756,950.

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, 2013, 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, 2013, no cost was charged to closure and post-closure expenses.

NOTE 11 - RETIREMENT PLAN

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

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 12.74% to the Contributory Tier 2, 16.04% to the Noncontributory, and 30.45% to the Public Safety Noncontributory and 16.05% to the Firefighters Retirement System, respectively. In addition the City contributes 2.66% to the Firefighters Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Payson City Corporation contributions to the Contributory Retirement System (Tier 2) for June 30, 2013 and 2012 were \$14,535, and \$3,747 respectively, and for the Noncontributory Retirement System for June 30, 2013, 2012 and 2011, were \$586,115, \$549,138, and \$498,024 respectively, and for the Public Safety Retirement System the contributions for June 30, 2013, 2012, and 2011 were \$221,501, \$210,367, and \$187,993 respectively. For the Firefighter System the contributions for June 30, 2013, 2012 and 2011 were \$13,016, \$13,532, and \$15,213 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, 2013, 2012, and 2011 were \$20,431, \$21,205, and \$16,067 respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

NOTE 13 – DEFICIT FUND BALANCES

The following funds had a deficit fund balance/net position balance at June 30, 2013:

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

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14 - RISK MANAGEMENT

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

The City continues to carry commercial insurance for all other risks of loss, including theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage of any of the past three fiscal years.

NOTE 15 – EQUITY IN JOINT VENTURE

Utah Associated Municipal Power Systems (UAMPS)

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

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

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

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.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

SUVMWA purchased land for the wastewater treatment facility. Payson is a 19.29% participant and paid \$714,946 toward purchase of the property. This payment is shown with equity in joint venture in the sewer fund.

Payson will have an annual payment of \$110,171 to pay for their share of the lease bond that SUVMWA incurred when they purchased the land. The lease bond is \$2,648,000 as of June 30, 2013.

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

NOTE 16 – REDEVELOPMENT AGENCY

The Payson City Redevelopment Agencies were established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2013, the following activity occurred in the City's redevelopment agencies.

Business Park

Tax increment collection from other taxing agencies for various project areas	\$582,398
Amounts expended for site improvements and preparation costs	\$241,577
Outstanding loans to finance RDA projects	-

Down Town

Tax increment collection from other taxing agencies for various project areas	\$ -
Amounts expended for site improvements and preparation costs	10,182
Amounts expended for administrative costs	-

NOTE 17 – SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 26, 2013, 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, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Taxes:				
Property Taxes	\$ 820,000	\$ 871,692	\$ 885,120	\$ 13,428
General Sales Taxes	2,432,569	2,457,569	2,615,537	157,968
Motor Vehicle Taxes	112,000	91,011	102,724	11,713
Utility Taxes	965,000	1,005,000	992,339	(12,661)
Other Taxes	287,500	291,175	303,457	12,282
Licenses and Permits	114,261	119,870	131,973	12,103
Intergovernmental	894,867	1,076,552	1,180,280	103,728
Charges for Services	1,103,533	1,195,958	1,225,256	29,298
Fines and Forfeitures	239,000	239,000	263,751	24,751
Interest	4,500	4,500	1,439	(3,061)
Miscellaneous	18,000	34,083	32,365	(1,718)
Total Revenues	6,991,230	7,386,410	7,734,241	347,831
Expenditures				
Current:				
General Government:				
Administrative	1,023,280	1,084,568	1,037,423	47,145
Planning and Zoning	549,163	563,152	559,008	4,144
Building Maintenance	270,822	277,752	258,860	18,892
Judicial	474,443	485,358	437,913	47,445
Non-Departmental	161,524	162,565	152,473	10,092
Total General Government	2,479,232	2,573,395	2,445,677	127,718
Public Safety:				
Police Administration	2,174,460	2,289,325	2,211,238	78,087
Fire Administration	322,080	351,477	332,432	19,045
Victims Advocate	65,680	68,106	68,719	(613)
Animal Control	74,691	74,691	70,827	3,864
Total Public Safety	2,636,911	2,783,599	2,683,216	100,383
Highways and Streets:				
Streets and Sidewalks	344,571	538,426	421,130	117,296
Class "C" Road	499,835	542,501	608,147	(65,646)
Total Highways and Streets	844,406	1,080,927	1,029,277	51,650
Economic Development:				
Senior Citizens	130,960	143,165	127,763	15,402
Community Events	48,801	62,801	44,611	18,190
Total Economic Development	179,761	205,966	172,374	33,592
Parks and Recreation:				
Parks	359,709	387,943	358,596	29,347
Swimming Pool	853,281	335,520	328,683	6,837
Library	293,264	308,730	292,412	16,318
Ground Mowing	182,870	186,550	151,178	35,372
Recreation and Culture	497,884	522,498	501,213	21,285
Youth Sports	194,626	208,626	205,197	3,429
Adult Sports	79,084	79,084	67,425	11,659
Snack Shack	86,470	86,469	63,938	22,531
Total Culture and Recreation	2,547,188	2,115,420	1,968,642	146,778
Cemetery	159,349	164,200	163,434	766
Debt Service:				
Interest and Fiscal Charges	-	561,942	563,932	(1,990)
Capital Outlay	-	-	-	-
Total Expenditures	8,846,847	9,485,449	9,026,552	458,897
Excess of Revenues Over (Under) Expenditures	(1,855,617)	(2,099,039)	(1,292,311)	806,728
Other Financing Sources (Uses)				
Proceeds of Notes	-	-	-	-
Sale of Assets	-	-	6,200	6,200
Transfers In	2,058,117	2,069,075	2,069,075	-
Transfers Out	(248,545)	(670,360)	(670,360)	-
Total Other Financing Sources (Uses)	1,809,572	1,398,715	1,404,915	6,200
Net Change in Fund Balance	(46,045)	(700,324)	112,604	812,928
Fund Balance Beginning of Year	1,490,319	1,490,319	1,490,319	-
Fund Balance End of Year	\$ 1,444,274	\$ 789,995	\$ 1,602,923	\$ 812,928

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, 2013

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

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

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

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

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

LOS 1 No curb and gutter (rural)

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

LOS 2 (Residential)

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

LOS 3 (Arterial)

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

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

On June 30, 2013, the City has 83.62 center lane miles of paved road.

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

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

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2009	\$ 470,949	\$ 478,883
2010	416,832	384,700
2011	161,390	158,999
2012	392,160	366,866
2013	533,148	538,563

SUPPLEMENTAL INFORMATION

PAYSON CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds						Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	Perpetual Care	Revolving Loan	
Assets							
Due From Other Funds	\$ 267,221	\$ -	\$ -	\$ 3,152	\$ 15,302	\$ -	\$ 285,675
Notes Receivable	-	-	-	-	-	398,454	398,454
Restricted Assets:							
Cash and Cash Equivalents	-	-	164,843	235,919	297,283	35,021	733,066
Total Assets	<u>\$ 267,221</u>	<u>\$ -</u>	<u>\$ 164,843</u>	<u>\$ 239,071</u>	<u>\$ 312,585</u>	<u>\$ 433,475</u>	<u>\$ 1,417,195</u>
Liabilities							
Accrued Liabilities	\$ -	\$ 4,087	\$ 3,381	\$ -	\$ -	\$ -	\$ 7,468
Due To Other Funds	-	206,394	46,014	-	-	30,000	282,408
Total Liabilities	<u>-</u>	<u>210,481</u>	<u>49,395</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>289,876</u>
Fund Balances							
Restricted for:							
RDA	267,221	-	-	-	-	403,475	670,696
Impact Fees	-	-	115,448	239,071	-	-	354,519
Committed for:							
Perpetual Care	-	-	-	-	312,585	-	312,585
Assigned for:							
Unassigned:	<u>-</u>	<u>(210,481)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(210,481)</u>
Total Fund Balances (Deficits)	<u>267,221</u>	<u>(210,481)</u>	<u>115,448</u>	<u>239,071</u>	<u>312,585</u>	<u>403,475</u>	<u>1,127,319</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 267,221</u>	<u>\$ -</u>	<u>\$ 164,843</u>	<u>\$ 239,071</u>	<u>\$ 312,585</u>	<u>\$ 433,475</u>	<u>\$ 1,417,195</u>

PAYSON CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue Funds					Revolving	Total Nonmajor Governmental Funds
	RDA Downtown	RDA Business Park	Impact Fee Parks	Impact Fee Public Safety	Perpetual Care	Loan	
Revenues							
Taxes:							
Property	\$ -	\$ 582,398	\$ -	\$ -	\$ -	\$ -	\$ 582,398
Special Assessments	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	38,153	-	38,153
Misc	-	-	-	-	-	-	-
Interest	-	-	516	1,433	1,922	3,637	7,508
Total Revenues	-	582,398	516	1,433	40,075	3,637	628,059
Expenditures							
Current:							
General Government	-	-	-	-	-	-	-
Economic Development	10,182	241,577	10,247	120	-	-	262,126
Debt Service:							
Principal Retirement	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	5,618	56,000	-	-	-	61,618
Total Expenditures	10,182	247,195	66,247	120	-	-	323,744
Excess of Revenues Over (Under) Expenditures	(10,182)	335,203	(65,731)	1,313	40,075	3,637	304,315
Other Financing Sources (Uses)							
Impact Fees	-	-	101,161	29,883	-	-	131,044
Transfer In (Out)	-	-	-	-	(15,000)	-	(15,000)
Total Other Financing Sources (Uses)	-	-	101,161	29,883	(15,000)	-	116,044
Net Change in Fund Balances	(10,182)	335,203	35,430	31,196	25,075	3,637	420,359
Fund Balances (Deficits) Beginning of Year	277,403	(545,684)	80,018	207,875	287,510	399,838	706,960
Fund Balances (Deficits) End of Year	\$ 267,221	\$ (210,481)	\$ 115,448	\$ 239,071	\$ 312,585	\$ 403,475	\$ 1,127,319

PAYSON CITY CORPORATION
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2013

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 584,788	\$ -	\$ 584,788
Accounts Receivable (Net of Allowance for Uncollectables)	200,464	118,214	250,906	569,584
Due From Other Funds	944,488	536,525	505,001	1,986,014
Total Current Assets	1,144,952	1,239,527	755,907	3,140,386
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	548,469	-	-	548,469
Capital Assets:				
Land	55,123	-	-	55,123
Buildings	138,136	152,370	-	290,506
Improvements	516,064	3,821,262	10,254	4,347,580
Machinery and Equipment	2,243,344	262,504	548,230	3,054,078
Construction in Progress	-	-	-	-
Less Accumulated Depreciation	(2,263,171)	(800,922)	(353,721)	(3,417,814)
Total Capital Assets, Net	689,496	3,435,214	204,763	4,329,473
Total Noncurrent Assets	1,237,965	3,435,214	204,763	4,877,942
Total Assets	2,382,917	4,674,741	960,670	8,018,328
Liabilities				
Current Liabilities:				
Accrued Liabilities	17,165	74,199	11,423	102,787
Compensated Absences Payable	65,393	29,647	-	95,040
Capital Leases Payable	45,614	-	29,704	75,318
Total Current Liabilities	128,172	103,846	41,127	273,145
Long-Term Liabilities:				
Capital Leases Payable (net of current portion)	46,892	-	128,096	174,988
Closure and Postclosure Liability	952,107	-	-	952,107
Total Long-Term Liabilities	998,999	-	128,096	1,127,095
Total Liabilities	1,127,171	103,846	169,223	1,400,240
Net Position				
Net Investment in Capital Assets	596,990	3,435,214	46,963	4,079,167
Restricted for:				
Landfill Closure Costs	548,469	-	-	548,469
Unrestricted	110,287	1,135,681	744,484	1,990,452
Total Net Position	\$ 1,255,746	\$ 4,570,895	\$ 791,447	\$ 6,618,088

PAYSON CITY CORPORATION
Combining Statement of Revenues,
Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Operating Revenues				
Charges for Services	\$ 1,800,107	\$ 586,164	\$ 396,184	\$ 2,782,455
Miscellaneous	109,706	0	-	109,706
Total Operating Revenues	1,909,813	586,164	396,184	2,892,161
Operating Expenses				
Costs of Sales and Services	489,344	65,131	255,514	809,989
Maintenance Operations and Contractual Services	273,352	162,383	48,353	484,088
Materials and Supplies	95,688	14,721	35,028	145,437
Depreciation	121,727	137,885	29,083	288,695
Total Operating Expenses	980,111	380,120	367,978	1,728,209
Operating Income (Loss)	929,702	206,044	28,206	1,163,952
Non-Operating Revenues (Expenses)				
Interest Income	3,587	3,824	-	7,411
Grant Revenue	-	-	28,280	28,280
Gain (Loss) on Sale of Fixed Assets	-	-	5,151	5,151
Interest and Fiscal Charges	(3,832)	-	-	(3,832)
Total Non-Operating Revenues (Expenses)	(245)	3,824	33,431	37,010
Income (Loss) before Capital Contributions and Transfers	929,457	209,868	61,637	1,200,962
Capital Contributions	-	46,818	-	46,818
Transfers In	-	-	3,300	3,300
Transfers Out	(612,000)	0	(25,772)	(637,772)
Change in Net Position	317,457	256,686	39,165	613,308
Net Position Beginning of Year	938,289	4,314,209	752,282	6,004,780
Net Position End of Year	\$ 1,255,746	\$ 4,570,895	\$ 791,447	\$ 6,618,088

PAYSON CITY CORPORATION
Combining Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities - Enterprise Funds			
	Solid Waste	Storm Drain	Ambulance	Total
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 1,873,795	\$ 582,032	\$ 444,653	\$ 2,900,480
Receipts from Interfund Services Provided				-
Payments to Employees for Services	(306,784)	(39,227)	(163,722)	(509,733)
Payments for Goods and Services	(906,808)	(435,130)	(291,890)	(1,633,828)
Net Cash Provided by (Used in) Operating Activities	660,203	107,675	(10,959)	756,919
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	-	-	28,280	28,280
Transfers to Other Funds	(612,000)	-	(25,772)	(637,772)
Transfers from Other Funds	-	-	3,300	3,300
Net Cash Provided by (Used in) Noncapital Financing Activities	(612,000)	-	5,808	(606,192)
Cash Flows from Capital and Related Financing Activities				
Proceeds from Capital Leases	-	-	157,800	157,800
Proceeds from Sale of Assets	-	-	5,151	5,151
Principal Paid on Capital Leases	(44,372)	-	-	(44,372)
Interest Paid on Capital Leases	(3,832)	-	-	(3,832)
Payments for Capital Acquisitions	-	(107,675)	(157,800)	(265,475)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(48,204)	(107,675)	5,151	(150,728)
Cash Flows from Investing Activities				
Interest Income Received	3,587	3,824	-	7,411
Net Increase (Decrease) in Cash and Cash Equivalents	3,586	3,824	-	7,410
Cash and Cash Equivalents Beginning of Year	544,883	580,964	-	1,125,847
Cash and Cash Equivalents End of Year	\$ 548,469	\$ 584,788	\$ -	\$ 1,133,257
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 929,702	\$ 206,044	\$ 28,206	\$ 1,163,952
Adjustments:				
Depreciation	121,727	137,885	29,083	288,695
(Increase) Decrease in Assets:				
Accounts Receivable	(36,018)	(4,132)	48,469	8,319
Allowance for Uncollectable Accounts	-	-	-	-
Due From Other Funds	(350,859)	(283,729)	(108,825)	(743,413)
Increase (Decrease) in Liabilities:				
Accrued Liabilities	(11,453)	50,757	(7,892)	31,412
Performance Bond				
Compensated Absences Payable	7,104	850	-	7,954
Due to Other Funds	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	\$ 660,203	\$ 107,675	\$ (10,959)	\$ 756,919
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	\$ -	\$ 46,818	\$ -	\$ 46,818

GOVERNMENT AUDITING STANDARDS REPORT
STATE COMPLIANCE REPORT



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

Honorable Mayor and City Council
City of Payson
Payson, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise Payson City's basic financial statements, and have issued our report thereon dated December 26, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and response that we consider to be significant deficiencies [1 and 2].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Payson City's Response to Findings

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

Purpose of this Report

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

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants
December 26, 2013

PAYSON CITY CORPORATION
SCHEDULE OF FINDINGS & RESPONSE
JUNE 30, 2013

1. Draft Financial Statements

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

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

2. Adjustments to Accrual Basis of Accounting

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

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



GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
ESTABLISHED 1974

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROLS OVER COMPLIANCE
IN ACCORDANCE WITH THE *STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE***

Honorable Mayor and City Council
City of Payson
Payson, Utah

REPORT ON COMPLIANCE

We have audited Payson City's compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2013.

The general compliance requirements applicable to the City are identified as follows:

Cash Management
Budgetary Compliance
Fund Balance
Justice Courts
Impact Fees
Utah Retirement System Compliance
Transfers from Utility Enterprise Funds
Government Records Access Management Act
Conflicts of Interest
Nepotism
Utah Public Finance Website
Open & Public Meetings Act
State Loans and Grants

The City received the following major assistance programs from the State of Utah during the year ended June 30, 2013:

B&C Roads

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the City's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance with those requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah legal Compliance Audit Guide*. Those standards and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the

the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the City and its major programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion

In our opinion, Payson City complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the State of Utah Legal Compliance Audit Guide and which are described in our letter to management dated December 26, 2013 as items 2013-1 and 2013-2.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of Report

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

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants
December 26, 2013