

PAYSON CITY

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE



Honorable Mayor and City Council
City of Payson, Utah

December 26, 2013

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 24, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Payson City are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. As described in Note 1 to the financial statements, Payson City changed accounting policies related to financial reporting of deferred outflows and inflows of resources, and net position by adopting Statement of Governmental Accounting Standards (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*. All significant transactions have been recognized in the financial statements in the proper period.

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

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 26, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Utah State Legal Compliance Findings – Current Year

13-1 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2013.

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

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

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

13-2 General Compliance – Budgetary Compliance

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

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

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

Utah State Legal Compliance Findings – Prior Year:

12-1 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2012.

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

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

City's Status: See current year finding 13-1.

12-2 General Compliance – Budgetary Compliance

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

Cemetery	\$ 15,896
Debt Service	\$ 1,027

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

Current Status: See current year finding 13-2.

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

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

Very truly yours,

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants