



Financial Policies Section

This section of the 2010-2011 Budget presents information of the Financial Policies that the City adheres to. This section discusses the goals that every city government should strive for, the benefits from written policies, and the City's basis of accounting currently used today.

Goals of City Government (pages 156-157)

Talks about the goals every City should strive for.

Benefits from Written Policies (pages 157-159)

The benefits of written policies will permit city leaders to view their present approach to financial management from an overall, long-range point.

Basis of Accounting (pages 160-170)

The City uses the modified accrual basis of accounting for financial reporting and budgeting purposes. This section talks about Revenue and Taxation, Budgeting and Operations, Capital Planning, Long-term City Debt and Public Borrowing, Cash Management and Investment Policies, and Accounting and Financial Reporting Policies.

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FINANCIAL POLICIES

INTRODUCTION

These policies were originally adopted by the Council in FY 1995-1996 and are updated annually as necessary. They are included here for informational purposes.

BASIC PURPOSE OF CITY GOVERNMENT

The basic purpose of city government is to render the specific services the citizens and taxpayers want at a price they can afford and are willing to pay. The “price” constitutes the sum total of the taxes, fees and charges imposed on the public by the governing body of the city. Under Utah law, cities have only those powers expressly granted to them by the State legislature. All authorized areas of service are therefore specified in the statutes.

In the rendition of authorized services, the basic role of our governing bodies, stated as simply as possible, is to “collect dollars” and “spend dollars.” Their desired goal is to collect the dollars equitably from the proper segments of the public and spend them for basic services that perform the greatest good for the greatest number of our citizens. Ninety-five percent of the collective effort of city officials today is on the side of spending these dollars. That is where the true work of governing is largely centered.

HOW SHOULD WE GOVERN?

Out of a large body of tested and proven experience, in business, education, and nonprofit organizations generally, as well as in governmental units, it has been amply demonstrated that success in managing or governing comes from:

1. Adopting basic goals and objectives.
2. Adopting policies to guide day-to-day activities, assuring achievement of such goals and objectives.
3. Adopting success-proven procedure by which services can be performed most efficiently and at the lowest possible cost.

BASIC GOALS OF CITY GOVERNMENT

The following concepts represent five desirable basic goals that should underlie the operating policies of every city desiring a sound plan for financing its services to the public. These goals should not change from one administration to another. If the

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principles are sound they should serve as unalterable guides to every city administration, even though its officials will change from time to time.

1. Local government, under whatever form it may operate; exists only to serve the needs of its citizens. Since these needs are continuing, the basic policies guiding each administration should be a continuing character, based on both long range and current considerations. Therefore, sound long-range planning is believed to be an important foundation of good government.
2. Local government should be responsible to the needs of its citizens; it should also be accountable to the citizen taxpayers who meet the costs thereof; since the services are provided for them and are paid for by them. Responsiveness and accountability each is of equal importance to the citizens in every community.
3. Economy and efficiency in government are attainable goals. The basic services that local government must provide should not and need not cost more than the same services provided by private business or industry. In fact, with government being exempt from taxes, an advantage not enjoyed by private business, the cost of its services should be less.
4. Each generation of taxpayers should pay its own fair share of the long-range cost of local government. The long-range cost of city government should be kept at a minimum, consistent with the level of services desired by its citizens and within the framework of their ability to sustain that level; that is, their ability to pay their way.
5. Every city government should establish the goal of maintaining at all times a sound financial condition in each significant fund of the city.

MAJOR BENEFITS FROM ESTABLISHING WRITTEN FINANCIAL POLICIES

In the field of municipal management, it has been repeatedly demonstrated that enormous benefits will flow from the establishment and continued utilization of written financial policies. One of the most important benefits is that such policies will permit city leaders to view their present approach to financial management from an overall, long-range vantage point. In most communities, policies in one form or another may already exist in budgets, in capital improvement plans, in grant applications, in Council resolutions, and in administrative practices. When financial policies are scattered among these kinds of documents, they are not formalized, or are developed on a case-by-case basis, and it is likely that decisions will be made without consideration of other current policy directives, past policy decisions, or future policy alternatives. This kind of policy making can easily lead to:

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1. Conflicting policies: The City Council may be making decisions that are in conflict with each other.
2. Inconsistent policies: The City Council may be making certain decisions and following certain policies on one issue, then reversing them on a similar issue.
3. Incomplete policies: The City Council may not be making any policy or reaching any decision on some aspect of financial management.

Having a formal set of written financial policies can measurably assist the City council and the City Administrator to see where these conflicts, inconsistencies, and gaps are in the present approach to financial policy. It can also help the Council and Administrator develop similar expectations regarding both administrative and legislative financial decision making.

Other major benefits from establishing written financial policies include:

1. Having publicly adopted policy statements contributes greatly to the credibility of and public confidence in the governmental organization. To the credit rating industry and prospective investor, such statements show a city's commitment to sound financial management and fiscal integrity.
2. Having established policy can save time and energy for both the Council and Administrator. Once certain decisions are made at the policy level, the policy aspects of individual issues need not be discussed each time a decision has to be made.
3. Continuing reference to adopted financial policies directs the attention of the administration and council members to the city's total financial condition rather than single issue areas. Moreover, this process requires the administration to link day-to-day operations with long-range financial planning.

Adoption of long-range plans will minimize reliance on short-run solutions to problems that otherwise offer no alternatives. This process will also make council members more aware of the importance of their policy making role in maintaining a sound financial condition of the city.

4. Establishing financial policies will improve the city's fiscal stability. It will encourage the administration and council to view all financial matters in a long-range perspective, to plan expenditures and to tentatively set tax rates for a two to three-year period, and thus avoid otherwise unforeseen financial crises.
5. Finally, having explicit policies contributes to continuity in handling the city's financial affairs. The Administrator and membership of the Council may change

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over time, but sound policies will always be in existence to guide whoever holds these positions.

The following is a series of statements of both general and specific financial policies considered appropriate for application to the major areas of administration in the City of Lindon.

BASIS OF ACCOUNTING

General Policies

1. The modified accrual basis of accounting is used for budget and financial reporting by all governmental funds and agency funds. Under the modified accrual basis of accounting, certain revenues are recognized when susceptible to accrual by being both measurable and available.
 - a. “Measurable” means the amount of the transaction can be determined.
 - b. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.
 - c. Expenditures are generally recorded when the related fund liability is incurred.
2. The accrual basis of accounting is utilized for budget and financial reporting by all proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Specific Policies

1. The revenues in the governmental and agency funds that are susceptible to accrual are:
 - a. Property taxes
 - b. Sales and other taxes collected by the State on behalf of the City.
 - c. Franchise taxes
 - d. Grants relative to recorded costs
 - e. Interest revenue
 - f. Charges for services.
2. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, which became effective for fiscal years beginning after June 15, 2000, assets from property taxes and other imposed non-exchange transactions should be recognized in the period in which there is an enforceable claim on the assets or when the assets are first received, whichever comes first.

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3. Fines and permit revenues in the governmental and agency funds are not susceptible to accrual because generally they are not measurable until payments are received.

REVENUE AND TAXATION

General Policies

1. The burden of financing city government should, with reasonable deviation, be financed in accordance with the basic principle of “benefits received.”

As a general principle, the broad group of basic services rendered to the general public, such as police and fire protection, streets and parks should be financed from revenues imposed on the broad general public, as through property taxes and sales taxes, franchise taxes or other broad based taxes.

Special services rendered to special groups of citizens (whether individual or business groups) should be financed by special fees or assessments. Examples are:

- a. Special improvements to private property, paid for by abutting property owners;
 - b. Regulatory license fees and permits imposed on individual businesses; and
 - c. Planning and permit fees imposed for planning and zoning services rendered for benefit of real estate developers and individual home builders.
 - d. Impact fees imposed upon new development to pay for the new growth’s share of impact upon the city.
2. A city should seek to maintain stable tax rates for taxes imposed on the broad general public. As a general rule, growth in population and new businesses should produce revenue increases approximately equal to the added cost of existing services required therefore.

As a guiding principle, therefore, the rate of property taxes or sales or franchise taxes should not be increased unless inflation has clearly forced operation costs upward faster than property and sales tax growth or new services are commenced that clearly serve the broad general public. As a long-range planning policy, the city will attempt to stabilize its revenue sources by:

- a. Seeking where necessary legislative support for increases in the present rate of local option sales taxes.
- b. Seeking and developing additional growth-type taxes.

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- c. Attempting to expand and diversify the city's tax base with commercial and industrial development.
 - d. Annually establish an appropriate property tax levy to meet city needs, consistent with the objective of avoiding significant fluctuations in the levy from year to year.
3. Where a new service is commenced that serves only a substantial segment of the broad general public and an increase in total revenue proves justified as a result, equity is served if a revenue source is selected that is closely related to such new service, i.e., a source selected on a basis of "benefits received."

Specific Policies

1. The city will estimate its annual revenues in all budgeted funds by an objective, analytical process; conservative estimates will be utilized in all adopted budgets.
2. The city will maintain a forward moving projection of revenues for a three-year period in its principal operating funds. Each existing and potential revenue source will be reexamined annually.
3. The city will utilize one-time or special purpose revenues (such as program grants and federal revenue sharing) for capital expenditures or for specific expenditures required by the terms of the grant, and not to subsidize recurring personnel and operation and maintenance cost, except where application of this policy would result in increasing project and/or operation costs.
4. Special fees, assessments, or user-type charges imposed to assist in financing activities in the city's general fund, which benefit special segments of the broad general public, shall be established at a level closely related to the cost of providing the relevant services.

Each year the city will recalculate the full costs of activities supported by such types or fees or charges to identify the impact of inflation and other cost increases; such fees or charges will be adjusted to compensate for related cost increases.

5. The city will set fees and user charges for each enterprise activity, such as water, sewer, sanitation services, or each internal service operation, such as fleet maintenance and purchasing and warehousing, at a level that fully supports the total direct and indirect cost of each type of activity. Indirect costs shall include the cost of annual depreciation of capital assets.
6. The city will set fees for other user activities, such as recreational services, at a self-sustaining level where possible.

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7. The city shall actively seek all available grant funding for operating or capital purposed in any fund.

BUDGETING AND OPERATIONS

General Policies

1. All budgets shall be balanced each year, in accordance with the requirements of Utah law. A balanced budget is a financial plan of operation in which revenues equal expenditures for the fiscal year. Expenditures must be kept within appropriations, and revenues shall be estimated conservatively so as to avoid unexpected deficits.
2. Long-range budget planning is both desirable and essential for avoiding deficits. Budgets in major operating funds preferably should be tentatively prepared on a moving two to three-year basis to assure that critical problems can be foreseen and solutions planned before emergencies arise.
3. A reasonable surplus for restricted use, as provided by law, shall be permitted to accumulate in the city's general fund for the following purposes:
 - a. To provide sufficient working capital to avoid borrowing on tax anticipation notes;
 - b. As a cushion or reserve if ever needed to absorb emergencies, such as a fire, flood or earthquake; or
 - c. To cover any unanticipated deficit, resulting from a shortfall in actual revenues in a given budget year. Emergency spending must be approved in advance by the City Council.
4. Planning of annual operating budgets shall be continually refined by seeking constantly to relate budget appropriations more closely to actual economic "need." The need shall be determined on the basis of work to be accomplished and services to be performed in the community.

For the purpose of more clearly determining the true needs of operating departments, the service standards of each department shall be defined. These standards may be altered as operating needs of the departments change, but significant modifications shall be approved by the governing body.

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Budget appropriations shall be established on a conservative basis; it is a truism that all governmental units function more efficiently under conservative operating budgets than where funds in excess of economic needs are made available.

5. The budget is the single most important means of setting spending policy in the city. It constitutes approval of operating programs and provides the resources to finance those programs.
6. The City Council hereby commits itself to a policy of non-opening of budgets of its various funds, except in rare circumstances, during the fiscal year. Amending budgets provide a comparison between original estimates and actual operating results. Minor adjustments in budget line-items are permitted by the Uniform Fiscal Procedures Act for Utah Cities. However, the city Administrator may, at his option, control spending at the budget line-item level.

Careful preparation of the budget of each fund provides the best defense against opening and amending of them during the year. All new and existing programs should be clearly identified and carefully costed. True economic “need” should govern the amount to be appropriated for any one line-item or a total program.

7. Once the budgets are adopted by the council, the city budgets are the responsibility of the Finance Director. Monthly financial summaries will keep the Council informed of operating trends and developing problems. Under this approach, the necessity to amend the budget of any fund during the year should be rare.

Specific Policies

1. The budget of each fund shall be prepared on the basis of determining true “economic need.” The Finance Director is encouraged to continue the preparation of annual budgets in an environment of mutual cooperation and consultation with the appropriate departments and divisions.
2. Budgets for all governmental type funds shall be prepared, adopted, executed, and controlled in the manner prescribed in the Uniform Fiscal Procedures Act for Utah Cities.

Operating and capital budgets shall be prepared for all enterprise and internal service type funds of the city, and controlled as specifically prescribed in the Uniform Fiscal Procedures Act for Utah Cities and the Accounting Manual for Utah Cities, as promulgated by the Office of the Utah State Auditor.

3. The operating budget of the general fund shall provide for adequate maintenance and replacement of equipment in use in the various city departments within that fund.

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4. The budgets of all city funds in which personnel are directly employed shall provide for adequate funding of employee salaries and benefits.
5. The city will maintain an effective risk management program to minimize losses as well as annual premiums for insurance coverage.
6. Each year the Finance Director shall cause revenue and expenditure projections in the city's principal operating funds to be updated for at least the two succeeding years. Projections will include estimated operating costs of future capital improvements that are included in the budget of the capital improvements fund or in the capital section of the budgets of the respective enterprise funds.
7. With exception of the capital improvements fund, the city will pay for all current expenditures with current revenues in each budgeted fund. Budgetary procedures will be avoided that balance current expenditures at the expense of meeting future years expenses, such as postponing expenditures of a current year or attempting to accrue revenues belonging to succeeding years.
8. The city will maintain an effective budgetary control system to help it adhere to the adopted budget of each fund. This includes a centralized purchasing system and effective accounting control over all appropriations for departmental programs and activities.
9. The city will maintain an ongoing system of interim reporting on operations of the various city funds, in which comparisons will be made of actual revenues and expenditures (expenses) with budgeted amounts.

Budget Amendments

1. The following budgetary funds require a public hearing and City Council resolution to increase the total appropriation of the fund:
 - ◆ General Fund
 - ◆ Road Fund
 - ◆ Debt Service Fund
2. The following proprietary funds only require a City Council resolution to increase total appropriations for the fund:
 - ◆ Water Fund
 - ◆ Sewer Fund
 - ◆ Waste Collection Fund

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3. Final amendments to the current year budget of all funds shall be adopted by the City Council by the last day of the fiscal year.

CAPITAL PLANNING

General Policies

1. Planning for city capital improvement needs and means of financing shall be on a long-range basis; short-range planning shall be on a five-year basis and needs beyond that on a six to ten-year program.
2. As a general rule, capital improvements shall be financed as follows:
 - a. For the departments financed from the general fund, all departmental equipment will normally be paid for from current appropriations within that fund; major capital improvements for general governmental purposes, consisting of land, buildings, and improvements other than buildings, regardless of size, will be financed through the annual budget of the city's capital improvements fund, to the extent available funds and current priorities will permit; major capital improvements which cannot be financed from annual appropriations within the capital improvements fund, or which cannot be delayed until the required funds are accumulated within such fund, may be financed by federal grants, by issuance of general obligation bonds, revenue bonds (where permissible), or by a combination of any of these methods.
 - b. For departments financed from utility or enterprise funds, such as for water and sewer systems, all capital acquisitions and improvements, including land, buildings, improvements other than buildings, and machinery and equipment should be paid from resources provided by capital contributions and net income of each such fund, with provision for acquisition of such improvements being made annually in the budgets of such funds. However, with respect to major capital improvements that cannot be financed from annual earnings within these funds, either midterm borrowing on an inter-fund loan fund basis or long-term borrowing by issuance of revenue or general obligation bonds should be utilized.

Specific Policies

1. Whenever possible, the city will make all major capital improvements in accordance with a formally adopted multi-year capital improvements program. The program will be updated annually including future capital expenditures necessitated by growth in population, changing patterns in real estate development, or changes in economic base.

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2. It shall be the policy of the city that where new construction is involved, in new subdivisions or otherwise, the improvements must be fully completed. These items include:
 - a. Sewer lines
 - b. Water lines
 - c. Storm water systems
 - d. Underground drainage systems
 - e. Gas lines
 - f. Electrical underground lines
 - g. Telephone underground lines
 - h. Cable TV underground lines
 - i. Sidewalks
 - j. Curbs and gutters
 - k. A full finished street, with enough road base and asphalt depth to last at least 10 years. A construction standard to achieve this useful life shall be determined, adopted and closely observed.
3. The city will adopt an annual capital improvements program based on the multi-year capital improvements plan. Annual capital budgets in the appropriate funds will be adopted in implementation of the annually adopted capital improvements program.
4. The city will coordinate development of the capital improvements program with development of the operating budgets. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The city will maintain all of its infrastructure assets at a level adequate to protect its capital investments and to minimize future maintenance and replacement costs.
6. The city will maintain an ongoing projection of its equipment replacement and maintenance needs for the next several years and will update the projection each year from replacements integrated with annual budgets of related funds.
7. The city will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the Council for approval.
8. It shall be the policy of the city to utilize the least costly financing method for all new capital projects. Normally, the financing options will consist of:
 - a. Issuance of bonds for all projects.
 - b. State or federal grants alone or with matching grants.

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- c. Pay as you go financing on a current basis with locally generated revenues.
- d. Advance accumulation of resources for pay as you go financing.
- e. Combination of two or more methods in (a) through (d).

Generally, choice of options for financing major capital projects shall be in the following sequence:

- a. "Pay as you go," with accumulation of reserves, accompanied by state or federal grants from time to time.
 - b. Combination of two or more of the methods listed in (a) through (d) above.
 - c. Bonding only.
9. It shall be the policy of the city that basic improvements in new subdivisions and industrial parks be financed up front by the sub-dividers or developers. Such basic improvements should include sewer lines, water lines, storm water systems, sidewalks, curbs and gutters, and completed streets to meet construction standards of the city. In the case of new subdivisions, impact fees to help finance new capital facilities, such as new parks and recreation facilities will also be included.
10. With respect to enterprise type activities of the city, particularly in the water and sewer funds, the basic financing policies of the city, where possible, shall be as follows:
- a. The rate structure should be set at a level that will furnish cash from billings sufficient to:
 - i. Meet all operating expenses, including depreciation.
 - ii. Pay interest on any bonds outstanding, whether revenue or general obligation bonds.
 - iii. Pay principal installments on bonds outstanding.
 - iv. Cover the cost of major replacements to the plant and system.
 - b. For expansion of the water distribution and sewer collection systems, financing should be provided by developers and by individual property owners through impact fees as isolated connections to the systems are made.

LONG-TERM CITY DEBT AND PUBLIC BORROWING

General Policies

- 1. Public borrowing by issuance of general obligation bonds to finance acquisition of major capital improvements for general governmental purposes, presently

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needed but not obtainable from current budgets of the capital improvements fund, is justifiable and in the public interest.

2. Borrowing to finance acquisitions of or major additions to utility plants and systems or property and equipment in other enterprise funds is likewise justifiable and in the public interest. Generally, revenue bonds will be used in financing such acquisitions. However, where savings from lower interest cost are substantial, use of general obligation bonds is desirable, provided the environment is conducive to passage of a general obligation bond and the legal debt margin for general bonding purposes is not impaired by issuance of such bonds.
3. Borrowing by issuance of special assessment bonds to finance improvements in legally organized special improvement districts is considered a financially sound proactive policy. Where compatible with the investment policies of the city, or where there are compelling reasons to restrict the rates charged property owners on unpaid special assessments receivable, it may be desirable to finance such improvements by use of inter-fund loans at lower than bond rates from eligible funds of the city.

In the case of special service districts, this proactive policy should include the right to make permissible increases in service charges to cover increased service costs.

4. Borrowing on tax anticipation notes to finance current operating expenses of the city's general fund is not desirable. In lieu thereof, an appropriate amount of surplus will be accumulated in the general fund to provide cash to cover the normal excess of expenditures over revenues from the beginning of the fiscal year to late December, when a substantial portion of the property taxes for the calendar year are collected and sales taxes for the second quarter of the fiscal year have been remitted to the city. The surplus accumulated shall be the maximum allowed under the related provisions of the Uniform Fiscal Procedures Act for Utah Cities.
5. To reduce the long-range cost of city government and the annual burden of interest on bonded indebtedness, it shall be the policy of the city to retire all bond issues as rapidly as possible. Various methods are available:
 - a. Accelerated amortization programs;
 - b. Exercise of call provision in bond indentures;
 - c. Repurchase of outstanding bonds in the open market;
 - d. Accumulation of invested reserves; or
 - e. Any combination of the above methods, consistent with the investment and taxation policies of the city.

Specific Policies

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1. The city will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues and/or accumulated reserves.
2. The maturity date for any debt will not exceed the reasonable expected useful life of the improvement being financed.
3. It shall be the policy of the city generally to limit the average maturity of general obligation bonds to a term not to exceed 20 years.
4. It shall be the policy of the city to reserve twenty-five percent (25%) of the general obligation debt limit for emergency purposes.
5. The city shall encourage and maintain good relations with financial and bond rating agencies, and will follow a policy of full and open disclosure in every financial report and bond prospectus.

CASH MANAGEMENT AND INVESTMENT POLICIES

General Policies

1. It shall be the policy of the city to invest its idle cash from all sources in temporary investments and to maximize its interest earnings thereon.
2. Under normal conditions, it shall be the policy of the city to restrict its temporary investments to certificates of deposit, repurchase agreements, or other forms of investment offered by local banks and savings and loan associations, in order to leave its invested monies in the local economy.
3. Long-term investments required under revenue bond indentures shall be made only in the particular securities or other investment mediums authorized in the related indenture or other authorizing document.

Specific Policies

1. It shall be the policy of the city to schedule its collection of receipts, deposit of funds, and disbursement of monies so as to ensure maximum availability of cash for temporary investment purposes.
2. It shall be the policy of the city to pool its cash from all city funds to maximize temporary investment yields.

A fair and equitable system of allocation of interest earned shall be followed in order to distribute the income on the basis of funds provided for investment.

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3. The city's accounting system shall provide information at regular intervals concerning cash in hand, investments held, and equity in temporary investments by individual funds.
4. It shall be the policy of the city to contract with an individual commercial bank, as a result of competitive bids, to serve as the city's principal depository for a specified interval of time. The city shall, however, reserve the right to place its idle funds in time certificates of deposit or repurchase agreements with any bank or savings and loan association, based on the highest interest rates available for the specific time periods required by the city.

ACCOUNTING AND FINANCIAL REPORTING POLICIES

General Policies

1. The policy of the city shall be to maintain accounting records and to prepare financial statements therefore in conformity with generally accepted accounting principles (GAAP), as promulgated from time to time by authoritative bodies in the United States.
2. No changes in the basic accounting system or additions or deletions of individual accounts in the various funds may be made without the approval of the City Administrator or his/her delegate.
3. Except as otherwise provided herein, it shall be the policy of the city to require each enterprise fund to operate on a fully self-sustaining basis, including its fair share or the costs of general administrative services provided by the city's general fund.

Conversely, products sold or services provided to other city funds by an individual enterprise fund shall be compensated for at a fair and reasonable rate to be determined by the City Council.

It shall be the policy of the city to maintain an equitable system for allocation of administrative charges for services rendered by any fund to other funds during each fiscal year. The system used must be objective in purpose and the formula followed based on factual and reliable data for each respective year.

4. Where deemed appropriate, it shall be the policy of the city to impose on individual enterprise funds an annual "payment in lieu of taxes." The computation of the amount imposed must be objective in purpose and based on factual data related to the "fair values" of taxable type assets in the related fund.

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5. The policy of the city shall be to prepare appropriate monthly and quarterly financial reports reflecting the operations of individual funds for internal use of management personnel.
6. The city will cause to have performed each fiscal year an independent audit of the city's financial statements. A copy of the auditors' report shall be filed with the Office of the State Auditor and made available to the public.
7. The city will adhere to a policy of full and open public disclosure of all financial activity. Copies of financial documents and reports will be made available to all interested parties and to the general public.