



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Town of Payson

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INTRODUCTORY SECTION

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Town of Payson
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TOWN OF PAYSON
Finance Department
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December 21, 2012

To the Honorable Mayor, Members of Town Council and the Citizens of the Town of Payson, Arizona:

The Comprehensive Annual Financial Report (CAFR) of the Town of Payson, Arizona (the Town), for the fiscal year ended June 30, 2012 is submitted herewith.

This report is published to provide the Town Council, Town staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the Town government. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

CliftonLarsonAllen LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the Town of Payson’s financial statements for the fiscal year ended June 30, 2012. The independent auditors’ report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with this letter.

PROFILE OF THE GOVERNMENT

The Town of Payson, Arizona, incorporated in 1973, is located at the intersection of State routes 87 and 260, 90 miles north of Phoenix, Arizona. The Town’s boundaries enclose 19.5 square miles in northern Gila County and serve a population of 15,301. Surrounded by the Tonto National forest and the world’s largest stand of virgin Ponderosa Pines, Payson is nestled just below Arizona’s Mogollon Rim at an elevation of 4,982 feet and enjoys a moderate four season climate.

State statutes empower the Town to levy a primary real property tax on property within its boundaries and to levy secondary taxes for debt retirement and local improvement districts. Payson has the power by State statute to extend its corporate limits by annexation when deemed appropriate by a majority of the property owners and the Town Council.

The Town operates under the council-manager form of government. The Town Council, which has policy-making and legislative authority, consists of a mayor and a six-member council. The Town Council is responsible for, among other things, passing ordinances, resolutions and adopting the Town’s annual budget. They also appoint committees and hire the Town Manager and Town Attorney. The Town Manager is responsible for carrying out the policies, ordinances and resolutions of the Town Council, and for overseeing the day-to-day operations of the Town. The Council is elected on a nonpartisan “at large” basis. Council members are elected to four-year staggered terms with three Council members elected every two years. The qualified electors of the Town directly elect the Mayor for a two-year term.

The Town provides a full range of services, including police, fire, and emergency medical services; planning, zoning, and building code enforcement; the construction and maintenance of streets and other infrastructure; recreational activities and cultural events; an airport and a library. In addition, the Town operates a municipal water utility that presently serves 7,827 customers.

The Council is required to adopt a tentative budget on or before the third Monday in July. Public hearings are held on the proposed budget with adoption of the final budget on or before the seventh day before the tax levy is adopted, which is on or before the third Monday in August. This annual budget serves as the foundation for the Town's financial planning and control. The budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Department heads may transfer resources within a department with approval of the Town Manager. Transfers between funds, however, need approval from the Town Council.

LOCAL ECONOMY

In its early years, Payson's economy was based on logging, ranching and tourism. Over the years, the economy has been shifting to provide housing and services for a growing retirement population relocating to the area for clean air, good climate, and a rural, small town quality of life. Tourism activity presently dominates the local economy. The Town's elected leadership desires to encourage economic development that will create good jobs, but not harm the environment.

Like the rest of the nation, and Arizona in particular, Payson continued to experience an unfavorable economic environment during fiscal year 2011-2012. Based on the 2010 Census, the population of the Town of Payson is now 15,301. Over the last ten years, the population increased 12.3%. The Town's unemployment rate, as of June 30, 2012 was 9.6%. This is the same as last year, and compares equitably with the State's rate of 9.9% and the County's rate of 10.9%. The region (which includes Payson, another town and the surrounding non-incorporated areas within the County) has an employed labor force of approximately 6,332 that has increased significantly over the last fifteen years.

LONG-TERM FINANCIAL PLANNING

The Town is dedicated to enhancing the quality of life for its citizens, and providing a superior level of service in the most effective and efficient manner while exercising fiscal responsibility.

Payson has and will continue to be very proactive in encouraging quality community and organizational development. Each year, the Town Council and the management staff participate in a strategic planning process to update the Corporate Strategic Plan (CSP) to accommodate changes in the constituent's needs. The CSP operationalizes the Town's mission statement and the General Plan by specifying objectives and strategies for achieving them. Funding is allocated during the subsequent budgeting process.

RELEVANT FINANCIAL POLICIES

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

The Town's financial policies set forth the basic framework for the fiscal management of the Town. These include policies for accounting, budgeting, capital improvements, asset management, revenue management, risk management, and fund balance/reserve levels. These policies were developed within the parameters established by applicable provisions of Arizona Revised Statutes, Title 9 Cities and Towns, and the Town of Payson Code of Ordinances. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

The Town's accounting records for general governmental activities are maintained on a modified accrual basis, with revenues being recorded when available and measureable, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the Town's water utility and other proprietary activities are maintained on the accrual basis.

Budgetary control is maintained at the fund level. Unused appropriations lapse at year-end, and must be re-appropriated or absorbed in the next year's operating budget. Appropriations for Capital Improvement Projects do not lapse at year-end, but are valid for the life of the project. Under the Town's budgetary process, outstanding encumbrances are reported as nonspendable fund balances and do not constitute expenditures or liabilities since the commitments will be re-appropriated and honored the subsequent fiscal year.

All agencies of the Town are required to submit requests for appropriation to Financial Services by April 1 each year. These requests are used to develop a proposed budget. By early July, the Tentative Budget is adopted and a public hearing is held on the State Expenditure Limitation document. By early August, a public hearing is held on the Final Budget, which is then adopted by the Council. Within seven days of the Final Budget adoption, a public hearing is held on the proposed Primary and Secondary tax rates where they are then adopted by ordinance. Upon adoption, they are certified to the County Treasurer.

MAJOR INITIATIVES

Although the tough economic climate of the past couple years has slowed down the progress of some of the strategic objectives of the Town, several initiatives were undertaken in fiscal year 2011-2012.

- In the fall of 2009, the Town secured a \$10.6 million loan from the Water Infrastructure Financing Authority (WIFA) of Arizona. \$4.0 million of which was an American Recovery and Reinvestment Act (ARRA) grant. During the 2010-2011 fiscal year, and 2011-2012 fiscal years funds were used to complete the environmental assessments, infrastructure planning and purchase of the steel pipe to build the 14.5 mile water pipe line.
- Construction of the in-town portion of the water pipeline began at the end of fiscal year 2011-2012.

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Town for the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the thirteenth consecutive year that the government achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town began producing a Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2006 and has produced one every year since. The PAFR is a report based on the CAFR but specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance. The Town has received the GFOA Popular Annual Financial Report Award each year since 2006.

In addition, the government also received GFOA's Distinguished Budget Presentation Award for the annual budget document for fiscal year 2011-2012. In order to qualify for this award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device. This also was the thirteenth consecutive year that the government achieved this prestigious award.

Acknowledgements. The preparation of the report would not have been possible without the efficient and dedicated services of the entire staff of the Financial Services and Administration departments. We wish to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and members of the Town Council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Payson's finances.

Respectfully submitted,



Debra A. Galbraith, CGFM
Town Manager



Hope Cribb
Finance Manager

TOWN OF PAYSON, ARIZONA TOWN OFFICIALS

TOWN COUNCIL

Kenny J. Evans
Mayor

Michael Hughes, Vice Mayor
John R. Wilson, Council Member
Su Connell, Council Member

Ed Blair, Council Member
Richard Croy, Council Member
Fred Carpenter, Council Member

ADMINISTRATION

Debra A. Galbraith, Town Manager
LaRon Garrett, Assistant Town Manager
Don Engler, Deputy Town Manager

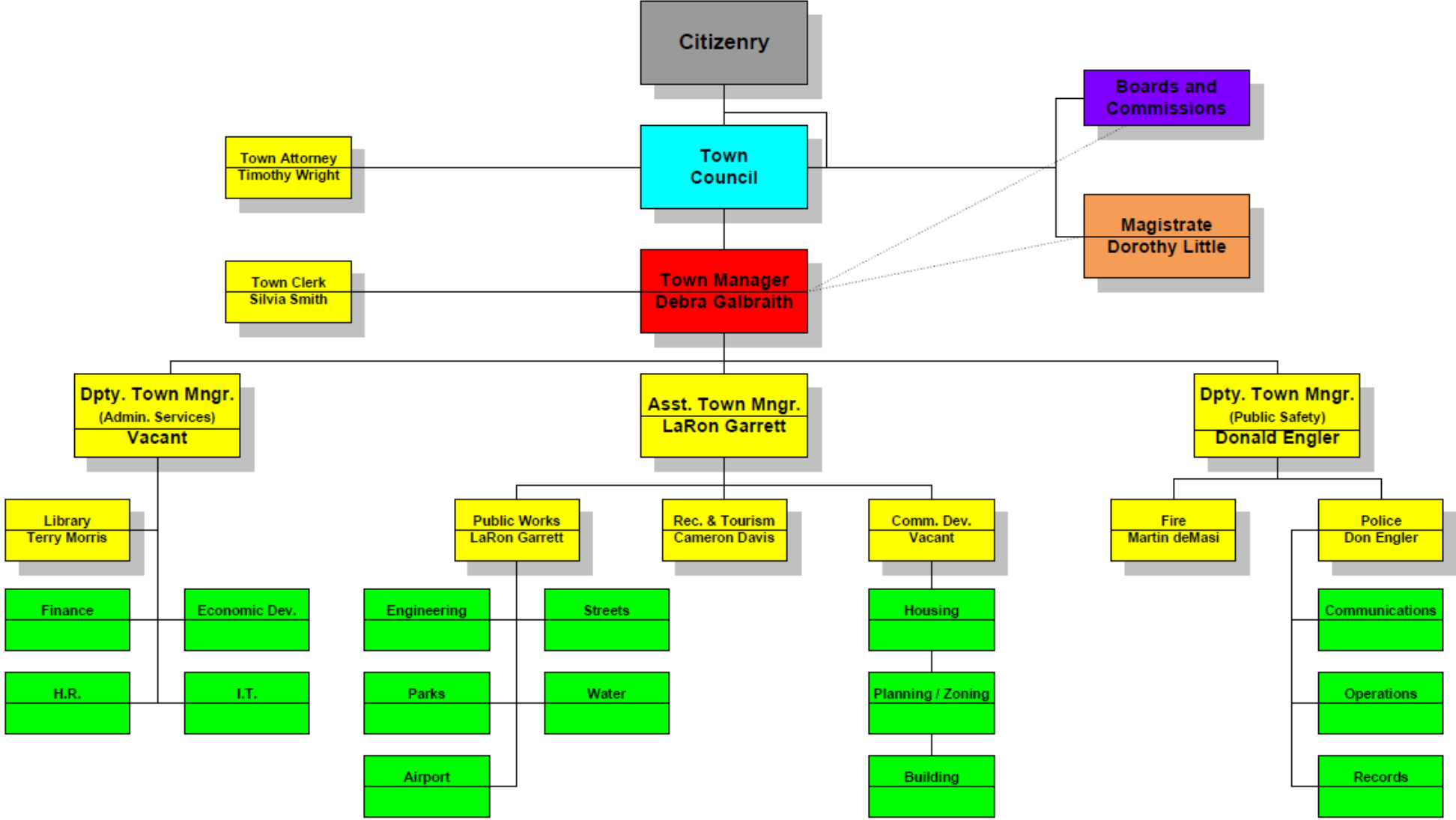
DEPARTMENT DIRECTORS

Town Clerk
Town Attorney
Magistrate Court
Financial Services
Police Chief
Fire Chief
Librarian
Public Works
Community Development
Recreation and Tourism

Silvia Smith
Timothy Wright
Dorothy Little
Vacant
Don Engler
Marty DeMasi
Terry A. Morris
LaRon Garrett
Vacant
Cameron Davis

Town of Payson

Current Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Payson
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the Town Council of the
Town of Payson, Arizona

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 the Town of Payson, Arizona (the Town), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Payson, Arizona as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and the Town Council of the
Town of Payson, Arizona

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 10 through 19 and the schedule of funding progress for pension benefits on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Payson, Arizona's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 21, 2012

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

The Town of Payson, Arizona (Town) is pleased to offer readers of the Town's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2012. The intended purpose of the Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes. This discussion will help determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impact on our debt and operations. When referring to prior year's data in this analysis we will be drawing upon information from last year's audited financial reports.

Financial Highlights

- ◆ The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$128.1 million (net assets). Of this amount \$1.0 million is unrestricted and may be used to meet the Town's on-going obligations to citizens and creditors. The decrease in unrestricted net assets is largely due to the accounting treatment for health insurance costs.
- ◆ As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2.8 million, a decrease of \$1.4 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$326,348 or 2.5 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$2.3 million for fiscal year 2012. Additionally, budgetary basis expenditures were 85% (\$2.3 million (15%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues were less than expenditures by \$0.2 million; a variance of \$3,108 from the final budget.
- ◆ In August 2009, the Town entered into a \$10.6 million (\$4.0 million in federal grant funding and \$6.6 million in loans) agreement with the Water Infrastructure Finance Authority of Arizona for completion of Phase I of the C.C. Cragin pipeline and for required repairs and replacements to the existing system. As of June 30, 2012, the Town has drawn down \$3.6 million of the loan and has drawn the maximum \$4.0 million in federal ARRA grant funds. In August 2012, \$2.4 million of the loan were de-obligated and the Town made the final draw of available funds (after de-obligation) in July 2012.

Overview of the Financial Statements

The financial section of the Comprehensive Annual Financial Report (CAFR) for the Town consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds, and notes to the basic financial statements.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid time off).

Both of the government-wide financial statements distinguish functions of the Town 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). The governmental activities of the Town include general government, public safety, highways and streets, culture and recreation, public works, community development and health and welfare. The business-type activities include only the operations of the water system.

The government-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements. Also presented are the fund financial statements for governmental funds. The fund financial statements focus on major funds of the Town, rather than fund type. 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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The basic governmental fund financial statements can be found on pages 22 - 27 of this report.

Proprietary funds. The Town 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. The Town uses enterprise funds to account for the operations of the water services. *Internal service funds* are an accounting device used to accumulate and allocate costs among the Town's various functions. The Town uses an internal service fund to account for insurance services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, which is considered to be a major fund of the Town. The internal service fund is presented in the proprietary fund financial statements as a separate column.

The basic proprietary fund financial statements can be found on pages 28 - 31 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 32 - 58) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the basic financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.C. and in the Required Supplementary Information on page 59 of this report.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2012 showing that assets exceeded liabilities by \$128.1 million.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

**Condensed Statement of Net Assets
June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$ 4,664,103	\$ 6,294,164	\$ 7,456,253	\$ 7,265,263	\$ 12,120,356	\$ 13,559,427
Capital Assets						
Non-depreciable	13,928,361	13,934,633	12,477,523	9,804,142	26,405,884	23,738,775
Depreciable (net)	95,223,700	95,726,145	10,057,162	10,564,408	105,280,862	106,290,553
Total Assets	113,816,164	115,954,942	29,990,938	27,633,813	143,807,102	143,588,755
Liabilities						
Current Liabilities	660,198	671,904	700,441	1,361,470	1,360,639	2,033,374
Noncurrent Liabilities						
Due Within One Year	1,706,385	1,756,920	419,883	430,853	2,126,268	2,187,773
Due in More Than One Year	8,941,736	8,451,181	3,230,554	1,016,550	12,172,290	9,467,731
Total Liabilities	11,308,319	10,880,005	4,350,878	2,808,873	15,659,197	13,688,878
Net Assets						
Invested in Capital Assets, Net of Related Debt	104,528,536	104,607,886	19,707,632	19,600,002	124,236,168	124,207,888
Restricted	2,471,981	3,106,342	451,859	-	2,923,840	3,106,342
Unrestricted	(4,492,672)	(2,639,291)	5,480,569	5,224,938	987,897	2,585,647
Total Net Assets	\$ 102,507,845	\$ 105,074,937	\$ 25,640,060	\$ 24,824,940	\$ 128,147,905	\$ 129,899,877

Net assets consist of three components. The largest portion of the Town's net assets (97%) reflects its investment in capital assets (e.g., land, intangible assets, buildings, infrastructure, water system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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.

An additional portion of the Town's net assets (2.0%) represents resources that are subject to external restrictions. The remaining balance (\$1.0 million) represents unrestricted net assets.

At the end of the current fiscal year, the Town was able to report positive balances in all three categories of net assets for the government as a whole. The negative unrestricted net assets, reported in the governmental activities, was largely due to the Town purposely spending down accumulated net assets related to the health insurance.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

The following table compares the revenue and expenses for the current and previous fiscal year.

Changes in Net Assets						
Fiscal Years Ended June 30, 2012 and 2011						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,521,174	\$ 1,459,662	\$ 4,268,103	\$ 3,961,028	\$ 5,789,277	\$ 5,420,690
Operating Grants and Contributions	2,661,413	2,237,241	75,000	-	2,736,413	2,237,241
Capital Grants and Contributions	675,204	862,801	826,370	3,100,474	1,501,574	3,963,275
General Revenues:						
Sales Taxes	6,047,629	5,915,905	-	-	6,047,629	5,915,905
Property Taxes	960,360	1,010,692	-	-	960,360	1,010,692
Franchise Taxes	351,227	344,833	-	-	351,227	344,833
State Shared Revenues	2,487,041	2,681,419	-	-	2,487,041	2,681,419
Auto Lieu Taxes	833,014	852,475	-	-	833,014	852,475
Investment Earnings (Loss)	2,610	76,978	1,475	(14,082)	4,085	62,896
Total Revenues	<u>15,539,672</u>	<u>15,442,006</u>	<u>5,170,948</u>	<u>7,047,420</u>	<u>20,710,620</u>	<u>22,489,426</u>
EXPENSES						
General Government	3,574,186	3,984,961	-	-	3,574,186	3,984,961
Public Safety	8,845,884	8,645,178	-	-	8,845,884	8,645,178
Highways and Streets	2,632,098	2,765,928	-	-	2,632,098	2,765,928
Culture and Recreation	1,453,416	1,466,906	-	-	1,453,416	1,466,906
Public Works	212,155	324,660	-	-	212,155	324,660
Community Development	880,320	1,228,298	-	-	880,320	1,228,298
Health and Welfare	267,331	259,854	-	-	267,331	259,854
Interest on Long-Term Debt	224,074	249,925	-	-	224,074	249,925
Water	-	-	4,373,128	4,229,154	4,373,128	4,229,154
Total Expenses	<u>18,089,464</u>	<u>18,925,710</u>	<u>4,373,128</u>	<u>4,229,154</u>	<u>22,462,592</u>	<u>23,154,864</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS						
	(2,549,792)	(3,483,704)	797,820	2,818,266	(1,751,972)	(665,438)
Transfers	(17,300)	152,114	17,300	(152,114)	-	-
CHANGE IN NET ASSETS	<u>(2,567,092)</u>	<u>(3,331,590)</u>	<u>815,120</u>	<u>2,666,152</u>	<u>(1,751,972)</u>	<u>(665,438)</u>
Net Assets - Beginning of Year	105,074,937	108,406,527	24,824,940	22,158,788	129,899,877	130,565,315
NET ASSETS - END OF YEAR	<u>\$ 102,507,845</u>	<u>\$ 105,074,937</u>	<u>\$ 25,640,060</u>	<u>\$ 24,824,940</u>	<u>\$ 128,147,905</u>	<u>\$ 129,899,877</u>

Governmental activities. Total governmental revenues increased over the prior year with a net increase of \$0.1 million (less than 1%).

Program revenues increased \$0.3 million over the prior fiscal year. The increase was the net result of a 19% increase in operating grants and contributions, 4% increase in fees, fines and charges for services, and a 22% decrease in capital grants and contributions. The increase in the operating grants and contributions was the net effect of the Town receiving less funding mid-year for public safety, offset by \$0.9 million received from other governmental entities for the police vehicle purchase program. Several small operating grants and one energy efficiency grant accounted for the remaining increase. The increase in fees, fines and charges for services was due to slight increases in construction revenue, closing the Wildlands Fund activity into the General Fund and the Town becoming the manager of the Payson Airport again, thus receiving all Airport revenues again. The capital grants in the current fiscal year included \$0.3 million from the Federal Aviation Administration for airport improvements and \$0.3 million from various grant sources for police radio equipment.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

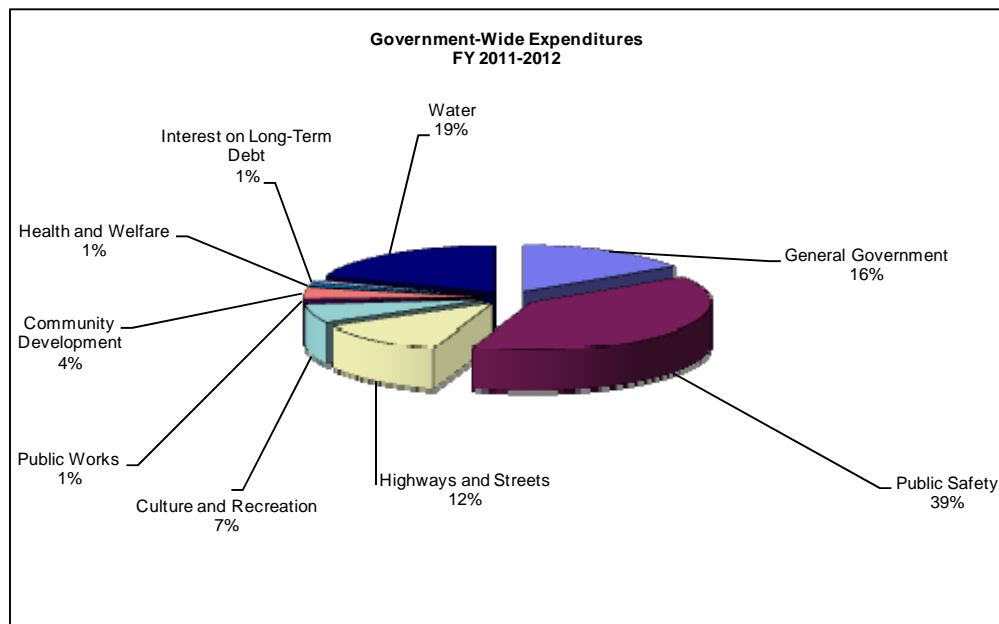
General revenues decreased \$0.2 million. The decrease was largely due to the net result of a 7% (\$0.2 million) decline in state shared revenues and a 97% decrease in interest earnings (\$74,368). The decline in state shared revenue was due to current economic conditions that have caused a decrease in local spending and continued State budget problems that caused a decrease in the amount of state sales tax that was distributed to cities and towns. State shared revenues are collected by the State and "shared" based on population. Sales taxes are generated directly from consumers. Interest earnings decreased largely due to less cash on hand throughout the year, as well as a slight decrease in rates over the prior fiscal year.

Expenses generally decreased, with the exception of an increase of \$0.2 million in public safety and an increase of \$7,477 in health and welfare. The increase in public safety was largely due to the acquisition of police vehicles for other government agencies. The overall decrease in expenses was due primarily to continued voluntary spending cuts in the departments. The increase in health and welfare was not significant.

Business-type activities. Charges for services increased over the prior fiscal year by almost \$0.3 million. The increase was due to increased rates that were implemented during the fiscal year 2011-12 for water usage. Capital grants decreased \$2.3 million over the prior fiscal year. The decrease was due to the reduction in grants received as part of the Water Infrastructure Finance Authority of Arizona forgivable loan related to the pipeline construction project. Investment earnings increased due to an increase in the average cash balance.

The 3% (\$143,974) increase in expenses was not significant during the year.

The following graph illustrates the Town's government-wide expenses previously discussed in a comparative analysis of government-wide revenues, expenses and changes in net assets.



**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Financial Analysis of the Town's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$2.8 million, a decrease of \$1.4 million in comparison with the prior year. Approximately 33% of this total amount (\$0.9 million) constitutes General Fund fund balance, which is reported as either nonspendable, restricted, committed, assigned or unassigned fund balance. At fiscal year-end 2011-2012 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2010-11
General Fund	\$ 900,750	(631,709)
Debt Service Fund	711,260	(277,095)
Nonmajor Governmental Funds	1,150,164	(511,198)

The General Fund is the chief operating fund of the Town. As a measure of the General Fund's liquidity, it may be useful to compare both the General Fund fund balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 2% of total General Fund expenditures, while total unassigned fund balance represents 2% of total fund expenditures.

The General Fund decreased \$0.6 million as a result of using fund balance to pay health insurance premiums in an effort to clear the prior Self-Insurance Health Insurance Fund net assets.

The Debt Service Fund accounts for the payment of general obligation bonds and special assessments. The debt service due on this long-term debt is funded largely by property tax, sales tax and special assessment revenues; however, funds are transferred in from other funds to contribute to the debt service due on the general obligation bonds. The debt service fund decreased \$0.3 million due to the use of carryover funds from prior years for current debt service.

The Nonmajor Governmental Funds decrease of \$0.5 million was due to planned decreases in expenditures in highways and streets and completion of the fire station #3 construction.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 26 - 27. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The Town did not amend its budget during the fiscal year.

The budget was prepared based on assumptions regarding the continuing decline of the national and regional economy. Although the economy seems to show small signs of stabilizing, the Town still follows a conservative approach to budgeting. When the Town went into this decline a few years ago, there were very few reserves available as a cushion. Over the past few years, the amount of reserves have shown some improvement, but are still at a level far below the requirements of the Town.

General Fund revenues of \$13.1 million were less than budgeted revenues of \$15.4 million by \$2.3 million while expenditures of \$13.3 million were 85% of budgeted expenditures (savings of \$2.3 million). Revenues were less than budgeted revenues primarily due to economic downturns. The expenditure savings were derived largely from unspent contingencies, vacancies savings, and furloughs.

The Town did not amend the budget during the fiscal year.

Capital Assets

Due to the tremendous decline in revenues as a result of the economy, the Town continued to delay most capital improvements projects.

The Town's capital assets for its governmental activities as of June 30, 2012 totaled \$109.2 million (net of accumulated depreciation), a decrease from the prior year of \$508,717. Business-type activities capital assets amounted to \$22.5 million (net of accumulated depreciation), a net increase from the prior year of \$2.2 million. The increase in the Business-type activities was due to the continued investment in the C.C Cragin Pipeline project. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

Governmental Activities – The most significant change in capital assets in the Governmental Activities was \$1.8 million in current year depreciation expense and \$0.9 million in additions to vehicles, machinery, and equipment. The most significant acquisition in vehicles, machinery and equipment was the acquisition of a fire truck through a lease-purchase agreement. The construction in progress was for the construction of the fire station. The estimated cost to complete the fire station is less than \$13,000.

Business-Type Activities – The most significant change in capital assets in the Business Type Activities was \$1.0 million in current year depreciation expense and \$2.6 million in construction in progress additions for the continued construction on the CC Cragin Pipeline. The estimated cost to complete this phase of construction is \$3.5 million. The Town also reported \$0.4 million in waterline additions.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

The following table provides a breakdown of the capital assets of the Town at June 30, 2012 and 2011.

**Capital Assets (net)
June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 12,238,995	\$ 12,238,995	\$ 1,577,957	\$ 1,504,077	\$ 13,816,952	\$ 13,743,072
Construction in Progress	1,689,366	1,695,638	7,077,220	4,476,060	8,766,586	6,171,698
Water Rights	-	-	3,822,346	3,824,005	3,822,346	3,824,005
Infrastructure	84,601,017	85,087,586	-	-	84,601,017	85,087,586
Buildings	5,402,038	5,659,319	201,045	220,989	5,603,083	5,880,308
Improvements Other Than Buildings	2,103,261	2,089,413	9,616,644	10,109,831	11,719,905	12,199,244
Vehicles, Machinery and Equipment	3,117,384	2,889,827	239,473	233,588	3,356,857	3,123,415
Total Capital Assets	\$ 109,152,061	\$ 109,660,778	\$ 22,534,685	\$ 20,368,550	\$ 131,686,746	\$ 130,029,328

Long-Term Debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$14.3 million. Of the outstanding debt, \$2.5 million (including \$59,325 premium on the bonds) is general obligation bonds and \$2.8 million are notes payable backed by the full faith and credit of the Town. An additional \$0.6 million of special assessment bonds are backed by a guaranteed investment contract with the developer of the special assessment Town property. All other outstanding debt is secured by pledges of specific revenue sources in the Town, including revenue bonds of \$0.7 million and certificates of participation of \$45,000.

The State imposes certain debt limitations on the Town of six percent (6%) and twenty percent (20%) of the outstanding secondary net assessed valuation of the Town. The Town's available debt margin at June 30, 2012 is \$8.5 million in the 6% capacity and \$35.4 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (pages 104 - 106).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2012 and 2011. Further detail on the Town's outstanding debt may be found in Notes 3.C., 3.D. and 3.E. on pages 46 - 51.

**Outstanding Debt
June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 2,474,325	\$ 2,883,978	\$ -	\$ -	\$ 2,474,325	\$ 2,883,978
Special Assessment Bonds	635,000	900,000	-	-	635,000	900,000
Revenue Bonds	675,000	770,000	-	-	675,000	770,000
Certificates of Participation	45,000	135,000	-	-	45,000	135,000
Notes Payable	-	-	2,827,053	768,548	2,827,053	768,548
Capital Leases	794,200	363,914	-	-	794,200	363,914
Compensated Absences	1,193,250	1,255,329	233,654	222,507	1,426,904	1,477,836
Other Postemployment Benefits	4,831,346	3,899,880	589,730	456,348	5,421,076	4,356,228
Total Outstanding Debt	\$ 10,648,121	\$ 10,208,101	\$ 3,650,437	\$ 1,447,403	\$ 14,298,558	\$ 11,655,504

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Economic Factors and Next Year's Budgets and Rates

The Town, as well as all other Arizona cities, remains dependent on state shared revenues (23%) and local sales taxes for resources (57%). These revenue sources are sensitive to economic downturns and legislative appropriations. While the local economy seems to be stabilizing slightly, the Town continues to spend conservatively and cautiously.

The Fiscal Year 2012-2013 budget preparation was influenced by the following factors:

- Reductions in every major operating fund due to revenue declines, or little growth in Town sales taxes, state shared tax revenues, highway user (gas tax) revenues, and building revenues.
- Consideration of correspondingly reduced service levels in every department as a result of reductions in personnel.
- Consideration of the impact of the continued local market downturn and the safeguards needed to deal with additional projected deadlines.
- The pursuit of federal stimulus and other grant dollars to enhance the local economy.
- The realignment of core services within reduced budget parameters that maintain Council goals.
- Assessment and funding of long range capital needs and their associated operational impacts.
- Completion of projects approved through the 2004 Public Safety bond election.
- Continued construction of the C.C. Cragin pipeline.

Financial Contact

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Payson
Financial Services Department
303 North Beeline Highway
Payson, AZ 85541

Or visit our website at:

<http://www.paysonaz.gov>

Basic Financial Statements

**TOWN OF PAYSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,780,847	\$ 5,776,628	\$ 7,557,475
Cash on Deposit with Paying Agent	438,316	-	438,316
Receivables, Net			
Accounts Receivable	301,121	548,328	849,449
Intergovernmental Receivables	790,635	-	790,635
Property Taxes Receivable	14,293	-	14,293
Special Assessments Receivable	694,107	-	694,107
Notes Receivable	-	127,913	127,913
Prepaid Items	7,629	-	7,629
Deferred Charges	94,614	-	94,614
Restricted Cash and Investments	542,541	954,837	1,497,378
Other Assets	-	48,547	48,547
Capital Assets			
Non-Depreciable	13,928,361	12,477,523	26,405,884
Depreciable (Net)	95,223,700	10,057,162	105,280,862
Total Assets	<u>113,816,164</u>	<u>29,990,938</u>	<u>143,807,102</u>
LIABILITIES			
Accounts Payable	422,386	98,451	520,837
Accrued Wages and Benefits	205,977	59,708	265,685
Interest Payable	7,365	28,296	35,661
Customer Deposits Payable	24,470	502,978	527,448
Unearned Revenue	-	11,008	11,008
Noncurrent Liabilities			
Due Within One Year	1,706,385	419,883	2,126,268
Due in More Than One Year	8,941,736	3,230,554	12,172,290
Total Liabilities	<u>11,308,319</u>	<u>4,350,878</u>	<u>15,659,197</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	104,528,536	19,707,632	124,236,168
Restricted for			
State and Federal Grants	390,725	-	390,725
Public Safety	85,117	-	85,117
Highways and Streets	186,322	-	186,322
Debt Service	1,405,367	451,859	1,857,226
Capital Outlay	404,450	-	404,450
Unrestricted	(4,492,672)	5,480,569	987,897
Total Net Assets	<u>\$ 102,507,845</u>	<u>\$ 25,640,060</u>	<u>\$ 128,147,905</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities							
General Government	\$ 3,574,186	\$ 741,260	\$ 216,431	\$ 313,918	\$ (2,302,577)		\$ (2,302,577)
Public Safety	8,845,884	361,472	1,139,795	59,887	(7,284,730)		(7,284,730)
Highways and Streets	2,632,098	4,831	1,266,058	189,707	(1,171,502)		(1,171,502)
Culture and Recreation	1,453,416	164,088	-	-	(1,289,328)		(1,289,328)
Public Works	212,155	81,098	-	-	(131,057)		(131,057)
Community Development	880,320	150,149	39,129	111,692	(579,350)		(579,350)
Health and Welfare	267,331	18,276	-	-	(249,055)		(249,055)
Interest on Long-Term Debt	224,074	-	-	-	(224,074)		(224,074)
Total Governmental Activities	<u>18,089,464</u>	<u>1,521,174</u>	<u>2,661,413</u>	<u>675,204</u>	<u>(13,231,673)</u>		<u>(13,231,673)</u>
Business-Type Activities							
Water	<u>4,373,128</u>	<u>4,268,103</u>	<u>75,000</u>	<u>826,370</u>	-	\$ 796,345	<u>796,345</u>
Totals	<u>\$ 22,462,592</u>	<u>\$ 5,789,277</u>	<u>\$ 2,736,413</u>	<u>\$ 1,501,574</u>	<u>(13,231,673)</u>	<u>796,345</u>	<u>(12,435,328)</u>
General Revenues:							
Taxes							
Sales Taxes					6,047,629	-	6,047,629
Property Taxes					931,351	-	931,351
Franchise Taxes					351,227	-	351,227
Special Assessments					29,009	-	29,009
State Sales Tax Revenue Sharing - Unrestricted					2,487,041	-	2,487,041
Auto Lieu Tax Revenue Sharing - Unrestricted					833,014	-	833,014
Investment Earnings					2,610	1,475	4,085
Transfers					(17,300)	17,300	-
Total General Revenues and Transfers					<u>10,664,581</u>	<u>18,775</u>	<u>10,683,356</u>
Change in Net Assets					(2,567,092)	815,120	(1,751,972)
Net Assets - Beginning					<u>105,074,937</u>	<u>24,824,940</u>	<u>129,899,877</u>
Net Assets - Ending					<u>\$ 102,507,845</u>	<u>\$ 25,640,060</u>	<u>\$ 128,147,905</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 322,335	\$ 278,617	\$ 531,994	\$ 1,132,946
Cash with Paying Agent	-	438,316	-	438,316
Restricted Cash and Investments	-	-	542,541	542,541
Receivables, Net				
Taxes Receivable	12,601	1,692	-	14,293
Accounts Receivable	255,292	-	33,691	288,983
Intergovernmental Receivable	648,356	-	142,279	790,635
Special Assessments Receivable	-	694,107	-	694,107
Prepaid Items	7,629	-	-	7,629
Total Assets	<u>\$ 1,246,213</u>	<u>\$ 1,412,732</u>	<u>\$ 1,250,505</u>	<u>\$ 3,909,450</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 141,257	\$ -	\$ 74,100	\$ 215,357
Accrued Wages and Benefits	179,736	-	26,241	205,977
Interest Payable	-	7,365	-	7,365
Deferred Revenue	-	694,107	-	694,107
Customer Deposits Payable	24,470	-	-	24,470
Total Liabilities	<u>345,463</u>	<u>701,472</u>	<u>100,341</u>	<u>1,147,276</u>
Fund Balances				
Nonspendable for Prepays	7,629	-	-	7,629
Restricted	390,725	711,260	675,889	1,777,874
Assigned:				
Public Safety	57,667	-	-	57,667
Culture and Recreation	118,381	-	-	118,381
Capital Outlay	-	-	474,275	474,275
Unassigned	326,348	-	-	326,348
Total Fund Balances	<u>900,750</u>	<u>711,260</u>	<u>1,150,164</u>	<u>2,762,174</u>
Total Liabilities and Fund Balances	<u>\$ 1,246,213</u>	<u>\$ 1,412,732</u>	<u>\$ 1,250,505</u>	<u>\$ 3,909,450</u>

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances for Governmental Funds \$ 2,762,174

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental Capital Assets	140,391,248
Less Accumulated Depreciation	(31,239,187)
Capital Assets Used in Governmental Activities	109,152,061

Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual. 694,107

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

General Obligation Bonds	(2,415,000)
Special Assessment Bonds	(635,000)
Revenue Bonds	(675,000)
Certificates of Participation	(45,000)
Deferred Amount on Premium	(59,325)
Capital Leases	(794,200)
Compensated Absences	(1,193,250)
Other Postemployment Benefits	(4,831,346)
Deferred Charges for Bond Issuance	94,614

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 453,010

Total Net Assets of Governmental Activities \$ 102,507,845

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Sales Taxes	\$ 5,717,795	\$ 329,834	\$ -	\$ 6,047,629
Property Taxes	628,070	74,051	229,230	931,351
Franchise Taxes	351,227	-	-	351,227
Intergovernmental	4,965,786	-	1,437,637	6,403,423
Fines and Forfeitures	144,038	-	15,591	159,629
Licenses and Permits	240,600	-	-	240,600
Charges for Services	854,957	-	4,831	859,788
Contributions and Donations	13,407	60,000	2,084	75,491
Development Impact Fees	-	-	81,675	81,675
Special Assessments	-	153,107	-	153,107
Investment Earnings	1,649	-	961	2,610
Other	149,870	-	29,612	179,482
Total Revenues	<u>13,067,399</u>	<u>616,992</u>	<u>1,801,621</u>	<u>15,486,012</u>
EXPENDITURES				
Current				
General Government	3,450,235	-	-	3,450,235
Public Safety	7,763,007	-	-	7,763,007
Highways and Streets	505,584	-	1,562,665	2,068,249
Culture and Recreation	424,773	-	422,745	847,518
Public Works	6,075	-	-	6,075
Community Development	811,327	-	-	811,327
Health and Welfare	267,414	-	-	267,414
Debt Service				
Principal Retirement	40,082	996,477	-	1,036,559
Interest on Long-Term Debt	7,409	190,064	-	197,473
Capital Outlay	-	-	1,052,702	1,052,702
Total Expenditures	<u>13,275,906</u>	<u>1,186,541</u>	<u>3,038,112</u>	<u>17,500,559</u>
Excess (Deficiency) of Revenues Over Expenditures	(208,507)	(569,549)	(1,236,491)	(2,014,547)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	292,454	158,439	450,893
Transfers Out	(423,202)	-	(44,991)	(468,193)
Proceeds from Capital Lease	-	-	611,845	611,845
Total Other Financing Sources (Uses)	<u>(423,202)</u>	<u>292,454</u>	<u>725,293</u>	<u>594,545</u>
Net Change in Fund Balances	(631,709)	(277,095)	(511,198)	(1,420,002)
FUND BALANCES				
Beginning of Year	1,532,459	988,355	1,661,362	4,182,176
End of Year	<u>\$ 900,750</u>	<u>\$ 711,260</u>	<u>\$ 1,150,164</u>	<u>\$ 2,762,174</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances of Governmental Funds \$ (1,420,002)

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 and reported as depreciation expense.

Expenditures for Capital Assets	1,217,201
Less Current Year Depreciation	<u>(1,849,022)</u>
Excess Depreciation Over Capital Expenditures	(631,821)

Governmental funds do not report donated capital assets as a revenue. 177,758

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (54,654)

Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities.

Special Assessments Recognized (124,098)

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

Principal Payments on Long-Term Bonds	855,000
Proceeds on Capital Lease	(611,845)
Principal Payments on Capital Leases	181,559
Amortization of Issuance Costs	(31,254)
Amortization of Deferred Amount on Bond Premium	9,373
Amortization of Deferred Amount on Refunding	(4,720)

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.

Net Change in Compensated Absences	62,079
Net Change in Other Postemployment Benefits	(931,466)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities. (43,001)

Change in Net Assets of Governmental Activities \$ (2,567,092)

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 7,503,600	\$ 6,697,092	\$ (806,508)
Intergovernmental	4,999,901	4,965,786	(34,115)
Fines and Forfeitures	153,000	144,038	(8,962)
Licenses and Permits	1,353,800	240,600	(1,113,200)
Charges for Services	915,300	854,957	(60,343)
Contributions and Donations	9,500	13,407	3,907
Investment Earnings	10,000	1,649	(8,351)
Other	420,900	149,870	(271,030)
Total Revenues	15,366,001	13,067,399	(2,298,602)
EXPENDITURES			
Current			
General Government			
General Government Administration	1,366,300	1,176,083	190,217
Town Clerk	267,000	260,149	6,851
Elections	81,200	27,057	54,143
Town Manager	224,300	198,658	25,642
Town Council	133,600	113,443	20,157
Human Resources	207,300	164,307	42,993
Computer Information Services	425,000	237,317	187,683
Financial Services	354,500	341,601	12,899
Courts	239,400	216,162	23,238
Airport	770,700	382,117	388,583
Attorney	345,600	333,341	12,259
Total General Government	4,414,900	3,450,235	964,665
Public Safety			
Police Department	5,751,400	5,044,906	706,494
Fire Department	3,256,200	2,718,101	538,099
Total Public Safety	9,007,600	7,763,007	1,244,593
Highways and Streets			
Streets	490,100	505,584	(15,484)
Culture and Recreation			
Park Operations	59,700	61,332	(1,632)
Recreation	376,600	328,412	48,188
Aquatics	42,800	30,687	12,113
Trails	25,200	4,342	20,858
Total Culture and Recreation	504,300	424,773	79,527
Public works			
Town Engineer	10,200	6,075	4,125

(Continued)

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES (CONTINUED)			
Current (Continued)			
Community Development			
Planning and Zoning	\$ 275,500	\$ 197,543	\$ 77,957
Building Inspections	381,500	425,402	(43,902)
Tourism - Economic Vitality	196,800	188,382	8,418
Total Community Development	<u>853,800</u>	<u>811,327</u>	<u>42,473</u>
Health and Welfare			
Health and Welfare	116,400	116,400	-
Animal Control	174,100	151,014	23,086
Total Health and Welfare	<u>290,500</u>	<u>267,414</u>	<u>23,086</u>
Debt Service			
Principal Retirement	-	40,082	(40,082)
Interest on Long-Term Debt	-	7,409	(7,409)
Total Expenditures	<u>15,571,400</u>	<u>13,275,906</u>	<u>2,295,494</u>
 Excess (Deficiency) of Revenues Over Expenditures	 (205,399)	 (208,507)	 (3,108)
 OTHER FINANCING SOURCES (USES)			
Transfers In	413,322	-	(413,322)
Transfers Out	-	(423,202)	(423,202)
Total Other Financing Sources (Uses)	<u>413,322</u>	<u>(423,202)</u>	<u>(836,524)</u>
 Net Change in Fund Balance	 207,923	 (631,709)	 (839,632)
 FUND BALANCE			
Beginning of Year	-	1,532,459	1,532,459
End of Year	<u>\$ 207,923</u>	<u>\$ 900,750</u>	<u>\$ 692,827</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Water Fund	Internal Service Funds
ASSETS		
Current Assets		
Cash and Investments	\$ 5,776,628	\$ 647,901
Receivables, Net		
Accounts Receivable	548,328	12,138
Notes Receivable	127,913	-
Restricted Cash and Investments	954,837	-
Total Current Assets	7,407,706	660,039
Noncurrent Assets		
Other Assets	48,547	-
Capital Assets		
Non-Depreciable	12,477,523	-
Depreciable (net)	10,057,162	-
Total Noncurrent Assets	22,583,232	-
Total Assets	29,990,938	660,039
LIABILITIES		
Current Liabilities		
Accounts Payable	98,451	207,029
Accrued Wages and Benefits	59,708	-
Unearned Revenue	11,008	-
Interest Payable	28,296	-
Customer Deposits Payable	502,978	-
Compensated Absences	107,370	-
Notes Payable	312,513	-
Total Current Liabilities	1,120,324	207,029
Noncurrent Liabilities		
Compensated Absences	126,284	-
Other Postemployment Benefits	589,730	-
Notes Payable	2,514,540	-
Total Noncurrent Liabilities	3,230,554	-
Total Liabilities	4,350,878	207,029
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	19,707,632	-
Restricted for		
Debt Service	451,859	-
Unrestricted	5,480,569	453,010
Total Net Assets	\$ 25,640,060	\$ 453,010

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2012**

	Business-Type Activities - <u>Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Water Fund</u>	<u>Internal Service Funds</u>
Operating Revenues		
Charges for Services	\$ 4,064,237	\$ -
Contributions	-	2,482,609
Total Operating Revenues	<u>4,064,237</u>	<u>2,482,609</u>
Operating Expenses		
Cost of Sales and Services	3,300,658	2,525,610
Depreciation	1,024,755	-
Total Operating Expenses	<u>4,325,413</u>	<u>2,525,610</u>
Operating Loss	(261,176)	(43,001)
Nonoperating Revenues (Expenses)		
Intergovernmental	75,000	
Development Impact Fees	56,448	-
Investment Earnings	1,475	-
Interest Expense	(47,715)	-
Gain on Sale of Capital Assets	81,834	
Miscellaneous Nonoperating Revenues	65,584	-
Total Nonoperating Revenues (Expenses)	<u>232,626</u>	<u>-</u>
Income (Loss) Before Capital Contributions and Transfers	(28,550)	(43,001)
Capital Contributions	826,370	-
Transfers In	17,300	-
Change in Net Assets	<u>815,120</u>	<u>(43,001)</u>
Net Assets		
Beginning of Year	24,824,940	496,011
End of Year	<u>\$ 25,640,060</u>	<u>\$ 453,010</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2012**

	Business-type Activities - Enterprise Funds	Governmental Activities
	Water	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from Customers	\$ 4,047,320	\$ 2,473,183
Payments to Suppliers	(2,237,026)	(2,318,581)
Payments to Employees	(1,484,756)	-
Other Receipts	65,584	-
Customer Deposits Payable	15,320	-
Net Cash Flows from Operating Activities	<u>406,442</u>	<u>154,602</u>
Cash Flows from Noncapital Financing Activities		
Intergovernmental Revenues	75,000	-
Transfers In	17,300	-
Development impact Fees	56,448	-
Net Cash Flows from Noncapital Financing Activities	<u>148,748</u>	<u>-</u>
Cash Flows from Capital and Financing Activities		
Capital Grants	2,002,293	-
Purchases of Capital Assets	(3,228,631)	-
Principal Paid on Capital Debt	(303,177)	-
Interest Paid on Capital Debt	(19,419)	-
Issuance of Long-Term Debt	2,361,682	-
Net Cash Flows from Capital and Related Financing Activities	<u>812,748</u>	<u>-</u>
Cash Flows from Investing Activities		
Investment Earnings	1,475	-
Net Change in Cash and Cash Equivalents	1,369,413	154,602
Cash and Cash Equivalents, Beginning of Year	<u>5,362,052</u>	<u>493,299</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,731,465</u>	<u>\$ 647,901</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and Investments	\$ 5,776,628	\$ 647,901
Restricted Cash and Investments	954,837	-
Total Cash and Cash Equivalents	<u>\$ 6,731,465</u>	<u>\$ 647,901</u>

(Continued)

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2012**

	Business-type Activities - Enterprise Funds	Governmental Activities
	Water	Internal Service Funds
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	\$ (261,176)	\$ (43,001)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,024,755	-
Nonoperating Receipts	65,584	-
Loss on Disposal of Capital Assets	57,181	-
Gain on Sale of Capital Assets	81,834	-
Change in Assets/Liabilities:		
Receivables	(22,880)	(9,426)
Other Assets	5,940	-
Accounts Payable	(709,333)	207,029
Accrued Wages and Benefits	4,665	-
Unearned Revenue	23	-
Compensated Absences	11,147	-
Other Postemployment Benefits	133,382	-
Customer Deposits Payable	15,320	-
Net Cash Provided for Operating Activities	\$ 406,442	\$ 154,602

Noncash Investing, Capital and Financing Activities

During the fiscal year, the Town received \$19,440 in donated capital assets.

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**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Payson, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the Town for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the Town's financial statements present only the funds of those entities for which its elected governing board is financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. *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, or 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 a 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 and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences, debt service expenditures and claims and judgments, which are recorded only when payment is due.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the interest, principal and fees incurred due to general obligation and special assessment debt of the Town except those accounted for in the proprietary funds.

The Town reports the following major proprietary fund:

The *Water Fund* accounts for the operations of the Town's drinking water treatment and distribution system. The intent of the Town is that all or most of the costs (expenses, including depreciation) of providing these services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the Town reports the following fund type:

The *Internal Service Fund* consists of the Insurance Fund. It accounts for the Town's self-insurance program for employee health and medical benefits.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the Town's enterprise fund are charges to customers for water services. The principal operating revenues of the Town's internal service fund are Town departmental contributions and charges to employees for health benefits. Operating expenses for the Internal Service Fund include the cost of administrative expenses and health insurance premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities and business-type activities, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables

All trade and property taxes receivables are shown net of an allowance for uncollectibles.

Gila County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Notes Receivable

Notes receivable consist of \$127,913 due to the Town of Payson from Chilton LLC. The note matures July 1, 2011; however, the note has an extension clause to extend the note for three additional years. The note begins accruing interest at 3% per annum on the maturity date.

4. Prepaid Items

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.

5. Restricted Cash and Investments

Certain proceeds of the Town's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Customer deposits in the Enterprise Fund are recorded as restricted assets because their use is limited.

6. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, furniture, machinery, equipment, construction in progress, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets (Continued)

Capital assets, purchased or acquired, are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	30 years
Improvements other than buildings	10-35 years
Infrastructure	35-50 years
Vehicles, furniture, machinery and equipment	5-15 years

Interest incurred for any outstanding debt in the proprietary funds are capitalized (if material), net of any interest earned on unspent debt, during the construction phase of Town projects.

7. Compensated Absences

The liability for compensated absences reported in the government-wide financial statements and proprietary fund financial statements consist of unpaid, accumulated leave balances. The Town switched to a Paid Time Off (PTO) program at the beginning of the 2011 fiscal year. The liability has been calculated based on the Town's compensated absence policy, in which employees will be paid at their full rate for the first 240 hours of PTO. All PTO hours between 241 and 816 will be paid out at half rate. For Firefighters, the first 360 hours of PTO will be paid at full rate and the PTO hours between 361 and 1166.4 will be paid out at half rate. Governmental funds report a liability for compensated absences for those employees who have unused leave outstanding at the end of the year following an employee's resignation or termination. The Town did not report any liability for compensated absences in the fund financial statements.

8. Long-Term Obligations

In the government-wide financial statements and proprietary 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 statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Long-Term Obligations (Continued)

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 actual debt proceeds received, are reported as debt service expenditures.

9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balances.

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either a) not in a spendable form or b) legally or contractually required to be maintained intact.

Fund balance is reported as *restricted* when constraints are placed on the use of resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

The Town reported restricted fund balances in the General Fund (\$390,725 restricted for federal and state grants), the Debt Service Fund (\$711,260 restricted to pay debt service on outstanding debt), and the Nonmajor Governmental Funds (\$675,889 restricted for highway and street activity, capital projects relating to the water trust agreement, and judicial enhancement).

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Balance Classifications (Continued)

Committed fund balances are resources pursuant to constraints imposed by formal action of the government's highest level of decision making authority. These resources cannot be used for any other purpose unless the same authority takes formal action to change the use. The highest level of decision making authority for the Town of Payson is the Town Council. Formal action to modify or rescind a fund balance commitment would be done by Ordinance, Resolution or Council Decision Request, as required. Fund balances must be committed prior to the end of the fiscal year.

The *assigned* fund balance amounts are constrained by the government's intent to be used for specific purpose. Intent must be expressed by a) the governing body itself or b) a committee or official which the governing body has delegated the authority to assign amounts to be used as for a specific purpose. Per Financial Policy 101, section 1.5, adopted by the Town Council, the Finance Manager, after consultation with the Town Manager, has the authority to assign fund balance for a specific purpose.

Unassigned fund balance is the residual classification for the General Fund. This is the balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the policy of the Town to expend fund balance in the following order:

- 1) Restricted – per external requirements
- 2) Committed – per Town Council requirements
- 3) Assigned
- 4) Unassigned

Any expenditure that could fall within multiple fund balance classifications will follow the order above.

It is the policy of the Town to maintain a fund reserve, if possible, for the general fund to pay expenditures caused by unforeseen emergencies, for shortfalls caused by revenue declines and to eliminate any short-term borrowing for cash flow purposes. This reserve shall be maintained at an amount that represents 5% of total General Fund operating budgeted revenues. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level. This is in addition to the carryover balance discussed below.

The Town's General Fund will maintain a year-to-year "carryover balance", if possible, in an amount necessary to maintain adequate cash flow and to reduce the demand for short-term borrowing. The carryover balance will equal 90 days operating expenditures from the prior year.

All other funds must never incur a negative fund balance.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Balance Classifications (Continued)

Reserve funds in the Water utility operating fund should equal 5% of prior year total operating expenses and have a carry-over balance equal to 90 days prior year operating expenses.

The Town has established an equipment reserve fund and when fiscal resources permit, appropriates funds to it annually to provide for the timely replacement of equipment.

All expenditures drawn from reserve accounts shall require prior Town Council approval unless previously specifically authorized by the Town Council for expenditure in the annual budget.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through a passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between departments. The adopted budget cannot be amended in any way without Town Council approval.
5. Legal budgets are adopted in accordance with generally accepted accounting principles for the General, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund	
Streets	15,484
Park Operations	1,632
Building Inspections	43,902
Principal	40,082
Interest	7,409

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**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2012 consist of the following:

Deposits	
Cash on hand	\$ 1,285
Cash in bank	242,551
Cash on deposit with paying agent	438,316
Investments	
State Treasurer's Investment Pool	7,982,520
Cash on deposit with trustee	828,497
Total Deposits and Investments	9,493,169
Less: Restricted cash and investments	(1,497,378)
Cash on deposit with paying agent	(438,316)
Total cash and investments, statement of net assets	\$ 7,557,475

Deposits - The Town had a carrying value of \$242,551 for cash on deposit with a local financial institution and a bank balance of \$1,190,834 at June 30, 2012. The Town's deposits were entirely covered by federal depository insurance. The Town's deposits are not subject to custodial credit risk.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. Cash on deposit with trustee are held in trust for the Town under a Trust Agreement with Bank of New York. The funds held in trust are invested in money market funds, are valued at fair value, and are invested in U.S. Government Securities and U.S. Treasury Money Market Fund. The funds are not subject to credit risk or interest rate risk.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will affect the fair value of an investment. In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting the average maturity of investments to less than one year. Average maturity of the Town's investments are as follows:

Investment	Maturity			Total
	Less Than 1 Year	1-3 Years	> 3 Years	
U.S. Government Security	\$ 232,035	\$ -	\$ -	\$ 232,035
Goldman Sachs Government Securities	17,463	-	-	17,463
U.S. Treasury Money Market	578,999	-	-	578,999
State Treasurer's Investment Pool	7,982,520	-	-	7,982,520
	\$ 8,811,017	\$ -	\$ -	\$ 8,811,017

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. The Town does not have a formal policy with respect to credit risk. The Town's investment in U.S. Government Securities are backed by the full faith and credit of the federal government, the U.S. Treasury Money Market Fund and the Goldman Sachs Government Securities received a rating of Aaa from Moody's, and the State Treasurer's Investment Pool 7 did not receive a credit quality rating from a national rating agency.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment policy requires the Town to invest in obligations secured by the federal government; and, therefore is not subject to custodial credit risk.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy in regards to concentration of credit risk.

2. Restricted Cash and Investments

Restricted assets at June 30, 2012 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Central Arizona Project Trust	\$ 542,541	\$ -	\$ 542,541
Current debt service	-	409,940	409,940
Replacement and extension	-	41,919	41,919
Customer deposits	-	502,978	502,978
Total	<u>\$ 542,541</u>	<u>\$ 954,837</u>	<u>\$ 1,497,378</u>

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Special Assessments Receivable (Debt Service Fund)	<u>\$ 694,107</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,238,995	\$ -	\$ -	\$ 12,238,995
Construction in Progress	1,695,638	33,673	(39,945)	1,689,366
Total Capital Assets, Not Being Depreciated	<u>13,934,633</u>	<u>33,673</u>	<u>(39,945)</u>	<u>13,928,361</u>
Capital Assets, Being Depreciated:				
Infrastructure	100,569,632	177,758	-	100,747,390
Buildings	8,728,618	-	-	8,728,618
Improvements Other Than Buildings	6,908,664	361,569	-	7,270,233
Vehicles, Machinery and Equipment	9,033,579	861,904	(178,837)	9,716,646
Total Capital Assets, Being Depreciated	<u>125,240,493</u>	<u>1,401,231</u>	<u>(178,837)</u>	<u>126,462,887</u>
Accumulated Depreciation for:				
Infrastructure	(15,482,046)	(664,327)	-	(16,146,373)
Buildings	(3,069,299)	(257,281)	-	(3,326,580)
Improvements Other Than Buildings	(4,819,251)	(347,721)	-	(5,166,972)
Vehicles, Machinery and Equipment	(6,143,752)	(579,693)	124,183	(6,599,262)
Total Accumulated Depreciation	<u>(29,514,348)</u>	<u>(1,849,022)</u>	<u>124,183</u>	<u>(31,239,187)</u>
Total Capital Assets, Being Depreciated, Net	<u>95,726,145</u>	<u>(447,791)</u>	<u>(54,654)</u>	<u>95,223,700</u>
Governmental Activities Capital Assets, Net	<u>\$ 109,660,778</u>	<u>\$ (414,118)</u>	<u>\$ (94,599)</u>	<u>\$ 109,152,061</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,504,077	\$ 73,880	\$ -	\$ 1,577,957
Water Rights	3,824,005	-	(1,659)	3,822,346
Construction in Progress	4,476,060	2,601,160	-	7,077,220
Total Capital Assets, Not Being Depreciated	<u>9,804,142</u>	<u>2,675,040</u>	<u>(1,659)</u>	<u>12,477,523</u>
Capital Assets, Being Depreciated:				
Buildings	600,906	-	-	600,906
Improvements Other Than Buildings	23,989,791	500,128	(70,880)	24,419,039
Vehicles, Machinery and Equipment	1,581,817	72,903	(29,224)	1,625,496
Total Capital Assets, Being Depreciated	<u>26,172,514</u>	<u>573,031</u>	<u>(100,104)</u>	<u>26,645,441</u>
Accumulated Depreciation for:				
Buildings	(379,917)	(19,944)	-	(399,861)
Improvements Other Than Buildings	(13,879,960)	(937,793)	15,358	(14,802,395)
Vehicles, Machinery and Equipment	(1,348,229)	(67,018)	29,224	(1,386,023)
Total Accumulated Depreciation	<u>(15,608,106)</u>	<u>(1,024,755)</u>	<u>44,582</u>	<u>(16,588,279)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,564,408</u>	<u>(451,724)</u>	<u>(55,522)</u>	<u>10,057,162</u>
Business-Type Activities Capital Assets, Net	<u>\$ 20,368,550</u>	<u>\$ 2,223,316</u>	<u>\$ (57,181)</u>	<u>\$ 22,534,685</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 82,367
Public Safety	566,914
Highways and Streets	633,357
Culture and Recreation	549,207
Community Development	17,177
Total Depreciation Expense	<u>\$ 1,849,022</u>
Business-Type Activities:	
Water	<u>\$ 1,024,755</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The Town has active construction projects at June 30, 2012. At fiscal year end the Town's commitments with contractors were as follows:

Project	Business-type Activities	
	Spent-to-date	Remaining Commitment
CC Cragin Pipeline (Blue Ridge)	\$ 7,077,220	\$ 3,507,781

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

Transfer Out	Transfer In			Total
	Debt Service Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ 247,463	\$ 158,439	\$ 17,300	\$ 423,202
Nonmajor Governmental Funds	44,991	-	-	44,991
Total	<u>\$ 292,454</u>	<u>\$ 158,439</u>	<u>\$ 17,300</u>	<u>\$ 468,193</u>

Transfers were largely recorded to fund debt service requirements, primarily from the General Fund. The transfer from the General Fund to the Debt Service Fund was recorded to fund annual debt service requirements on outstanding excise tax revenue bonds and Town owned property within special assessment districts. The transfer from the General Fund to the Nonmajor Governmental Funds was to record the annual subsidy to the Library Fund and transfer funds for capital acquisitions. The transfer from the General Fund to the Water Fund was recorded to pay interest on prior borrowing between the funds. The transfer from the Nonmajor Governmental Funds to the Debt Service Fund was recorded for the annual transfer of impact fees for debt service payments.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases

Capital Leases

The Town has entered into lease agreements as a lessee for financing the acquisition of maintenance and public safety vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date. Revenues from the General and Highway Users Revenue Funds are used to pay the capital lease obligations. Accordingly, the principal amount of the assets are capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Vehicles, machinery and equipment	\$ 1,266,254
Less: accumulated depreciation	(611,212)
Total	\$ 655,042

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2012, were as follows:

	Governmental Activities
Year ending June 30,	
2013	\$ 294,855
2014	192,574
2015	192,577
2016	105,750
2017	52,875
Total minimum lease payments	838,631
Less: amount representing interest	(44,431)
Present value of minimum lease payments	\$ 794,200

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Notes Payable

The Town has entered into a note payable for the purchase of real property (Little Note Payable) and a Water Infrastructure Finance Authority of Arizona (WIFA) loan for improvements to the water system. A portion of the WIFA loan is funded through federal ARRA dollars and has an available balance of \$8,177,809, of which \$4,000,000 is forgivable and \$4,177,809 is to be paid back at 1.391%. Revenues from the Water Fund are used for repayment of the note. As of June 30, 2012, the Town has drawn the full \$4,000,000 in ARRA funded forgivable loans (reported as capital contributions in prior year) and has drawn down \$3,168,413 of the available \$4,177,809 loan. The remaining \$1,009,396 was drawn down in July 2012.

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2012	Amount Due Within One Year
Business-type Activities:				
Little Note Payable	3.357%	7/1/12-15	\$ 161,395	\$ 50,184
Water Infrastructure Authority	2.891%	7/1/12-29	2,665,658	262,329
			<u>\$ 2,827,053</u>	<u>\$ 312,513</u>

Annual debt service requirements to maturity (including the \$1,009,396 of the available WIFA loan drawn down in July 2012) on the note payable at June 30, 2012 are summarized as follows:

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2013	\$ 312,513	\$ 103,474
2014	211,231	97,564
2015	217,226	490,726
2016	172,206	84,528
2017	172,424	79,528
2018-2022	939,835	317,672
2023-2027	1,083,774	169,572
2028-2029	727,240	21,390
	<u>\$ 3,836,449</u>	<u>\$ 1,364,454</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations

The Town has long-term bonds and special assessments payable issued to provide funds for the acquisition and construction of major capital facilities. The bonds are both callable and noncallable with the interest payable semiannually. General obligation bonds are backed by the full faith and credit of the Town. The refunding bonds are funded by property taxes in the Debt Service Fund and the Series 2004 is funded by the .12% sales tax. Special assessments imposed on certain parcels of land within the assessment district are used to pay the East Loop Road Improvement District and Westerly Drive Improvement District bonds. The excise tax revenue obligation bonds will be repaid from excise tax revenues of the Town. The certificates of participation will be repaid from park development fees and is guaranteed by a land ground lease. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The Town has pledged secondary property taxes to be levied on all of the taxable property located within the boundaries of the Town to repay \$1.1 million in governmental general obligation refunding bonds issued in 2006. Proceeds of the bonds were used to refund and refinance the outstanding General Obligation Permanent Bond, Series 1996 previously issued by the Town to construct a retention basin for treated sewage known as Green Valley Park. The bonds are payable solely from secondary property taxes and are payable through 2012. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$204,125. Principal and interest paid for the current year and total secondary property taxes were \$198,250 and \$134,051, respectively.

The Town has pledged special sales taxes to repay \$2.0 million in governmental general obligation refunding bonds issued in 2004. Proceeds of the bonds provided financing for various public safety improvements. The bonds are payable solely from special sales taxes and are payable through 2014. Annual principal and interest payments on the bonds are expected to require approximately 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$727,605. Principal and interest paid for the current year and total special sales taxes were \$239,687 and \$329,834, respectively.

The Town has pledged special sales taxes to repay \$1.5 million in governmental general obligation bonds issued in 2009. Proceeds of the bonds provided financing for the construction of a new fire station. The bonds are payable solely from special sales taxes and are payable through 2019. Annual principal and interest payments on the bonds are expected to require more than 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,781,203. Principal and interest paid for the current year and total special sales taxes were \$54,094 and \$90,147 respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town has pledged assessed taxes for each of the homeowners within the improvement district to repay \$0.9 million in governmental special assessments obligations issued in 1996. Proceeds of the bonds provided financing for improvements in the Westerly Drive Improvement District. The bonds are payable solely from special assessments levied against all privately owned lots, pieces and parcels of land lying within the boundaries of the District, all of which have been determined to be benefited by the Project. If there is no purchaser for any assessed parcel offered for sale, it will be struck off to the Town as the purchaser and the bonds will be payable by the General Fund or Debt Service Fund. If there is a deficiency in the funds collected from assessments to pay the principal and interest on the bonds, the Town may make good such deficiency by making a temporary loan from other available funds of the Town. The bonds are payable through 2022. Annual principal and interest payments on the bonds are expected to require more than 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$842,350. Principal and interest paid for the current year and total excise taxes were \$81,163 and 56,276, respectively.

The Town has pledged future excise taxes to repay \$0.9 million in governmental excise tax revenue obligations issued in 2003. Proceeds of the bonds provided financing for a new public works building. The bonds are payable from excise taxes and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 2% of net revenues. The total principal and interest remaining to be paid on the bonds is \$769,137. Principal and interest paid for the current year and total excise taxes were \$125,401 and 7,486,553 respectively.

The Town has pledged park development fees to repay \$0.5 million in certificates of participation issued in 2005. Proceeds of the bonds provided financing for the installation and construction of fencing, lighting and synthetic turf for use as baseball and softball fields. The bonds are payable from park development fees and is guaranteed by a land ground lease. The bonds are payable through 2012. Annual principal and interest payments on the bonds are expected to require more than 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$46,013. Principal and interest paid for the current year and total park development fees were \$95,040 and \$29,625, respectively.

The Town has pledged net revenues from the operation of the Water System to repay \$4.2 million in business-type loans through the Water Infrastructure Finance Authority of Arizona. Proceeds of the loan provide financing to pay the costs of making improvements, extensions, renewals, replacements and repairs to the water system. The loans are payable solely from net revenues from the operation of the Water System and are payable through 2029; however, as of June 30, 2012, the Town has only drawn down \$3.2 million of the loan. Annual principal and interest payments on the loans are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the loan is \$4,629,082, including the \$1,009,396 drawn down in July 2012. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$276,722 and \$905,638, respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town's long-term bonds, special assessments and certificates of participation are as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds				
General obligation bonds, Green Valley Park, Series 2006	4.0-4.125%	7/1/2012	\$ 1,085,000	\$ 200,000
General obligation bonds, Series 2004	3.0-3.65	07/01/12-14	2,030,000	690,000
General obligation bonds, Series 2009	3.0-4.0	07/01/12-18	1,525,000	1,525,000
Total general obligation bonds			<u>4,640,000</u>	<u>2,415,000</u>
Special Assessment Bonds				
Westerly Drive Improvement District, Series 2005	5.5	01/01/12-22	875,000	635,000
Revenue Bonds				
Excise tax revenue obligations, Public Works, Series 2003A	3.75-4.625	10/01/12-17	860,000	675,000
Certificates of Participation				
Certificates of Participation, Series 2005	3.2-4.5	11/1/2012	545,000	45,000
Total governmental activities			<u>\$ 6,920,000</u>	<u>\$ 3,770,000</u>

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TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Governmental Activities					
Bonds and Special Assessments					
General Obligation Bonds	\$ 2,820,000	\$ -	\$ (405,000)	\$ 2,415,000	\$ 420,000
Special Assessment Bonds	900,000	-	(265,000)	635,000	50,000
Revenue Bonds	770,000	-	(95,000)	675,000	100,000
Certificates of Participation	135,000	-	(90,000)	45,000	45,000
	<u>4,625,000</u>	<u>-</u>	<u>(855,000)</u>	<u>3,770,000</u>	<u>615,000</u>
Deferred Amounts:					
Premium	68,698	-	(9,373)	59,325	-
Deferred Amount on Refunding	(4,720)	-	4,720	-	-
Total Bonds and Special Assessments	<u>4,688,978</u>	<u>-</u>	<u>(859,653)</u>	<u>3,829,325</u>	<u>615,000</u>
Other Liabilities:					
Capital Leases	363,914	611,845	(181,559)	794,200	274,003
Compensated Absences	1,255,329	731,496	(793,575)	1,193,250	817,382
Other Postemployment Benefits	3,899,880	931,466	-	4,831,346	-
Total Other Liabilities	<u>5,519,123</u>	<u>2,274,807</u>	<u>(975,134)</u>	<u>6,818,796</u>	<u>1,091,385</u>
Governmental Activities Long-Term Liabilities	<u>\$ 10,208,101</u>	<u>\$ 2,274,807</u>	<u>\$ (1,834,787)</u>	<u>\$ 10,648,121</u>	<u>\$ 1,706,385</u>
	July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Business-type Activities					
Notes Payable	\$ 768,548	\$ 2,361,682	\$ (303,177)	\$ 2,827,053	\$ 312,513
Compensated Absences	222,507	115,390	(104,243)	233,654	107,370
Other Postemployment Benefits	456,348	133,382	-	589,730	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,447,403</u>	<u>\$ 2,610,454</u>	<u>\$ (407,420)</u>	<u>\$ 3,650,437</u>	<u>\$ 419,883</u>

Debt service requirements on long-term debt at June 30, 2012 are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
	2013	\$ 615,000
2014	385,000	122,173
2015	685,000	102,249
2016	470,000	81,181
2017	485,000	62,719
2018 - 2022	1,130,000	90,115
	<u>\$ 3,770,000</u>	<u>\$ 600,433</u>

In prior years, the Town defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2012, the amount of defeased debt outstanding but removed from the Town's financial statements was \$46,000.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool (AMRRP), of which the Town is a participating member. The AMRRP is a public entity risk pool currently operating as a common risk management and insurance program for 70 member cities and towns. The Town pays an annual premium to AMRRP for its general insurance coverage. The agreement provides that AMRRP will be self-sustaining through member premiums. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The AMRRP is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents. Employees' medical needs are met through a Health and Medical Benefits program offered by the Town. There have been no claim settlements in excess of insurance coverage for the past three years.

B. Contingent Liabilities

Lawsuits - The Town is a defendant in various lawsuits. In the opinion of the Town's attorney, the outcome of these lawsuits is not presently determinable and an unfavorable outcome, if any, would be covered by the Town's insurance. The Town's exposure to a loss, if any, would be its deductible on a claims basis.

Ground Lease - In November 2005, the Town executed a ground lease. Under the lease agreement, the Town leased a portion of Rumsey Park related to the two new ball fields to the Trustee. The Trustee, in turn, leased the property back to the Town for seven years or until the certificates of participation are fully paid or defeased. Upon maturity of the certificates, the ground lease will terminate and the Town will become the sole and only owner of the property.

C. Subsequent Events

Subsequent to June 30, 2012, the Water Enterprise Fund de-obligated \$2,407,191 of the original Water Infrastructure Financing Authority (WIFA) loan of \$6,585,000, leaving a balance due of \$4,177,809. Additionally, the Town entered into a \$6,250,000 loan agreement with WIFA. The loan will be used to fund Phase II of the CC Cragin Reservoir Project. The loan will be drawn upon as funds are expended with semi-annual interest and annual principal payments due at 2.80% through fiscal year 2033. The first interest payment is due January 2013.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans

Arizona State Retirement System (ASRS)

Plan Descriptions - The Town contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by State statute. ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes, Title 38, Chapter 5, Article 2.

ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (9.85 percent for retirement, .65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll. The Town was required to contribute an amount equal to the active plan members. The Town's contribution to the plan for the years ended June 30, 2012, 2011 and 2010, which was equal to 100 percent of the required contributions for each year, are presented as follows:

Arizona State Retirement System Contributions
Last Three Fiscal Years

<u>Years ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2012	\$ 366,174	\$ 23,792	\$ 8,922
2011	301,068	19,715	8,354
2010	325,151	25,731	15,595

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 11.64% and 12.26% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2012, the Town of Payson, Arizona's annual pension cost of \$481,295 for police and \$249,612 for fire was equal to the Town of Payson, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) projected salary increases of 5% to 9% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 5.0% to 9.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2012, the plan was 43.5 percent funded for police and 68.6 percent funded for fire. The actuarial accrued liability for benefits was \$12.9 million for police and \$7.9 million for fire, and the actuarial value of assets was \$5.6 million for police and \$5.4 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$7.3 million for police and \$2.5 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.5 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 498.0 percent for police and 166.5 percent for fire.

The actuarial accrued liability for other postemployment benefits was \$0.4 million for police and \$0.3 million for fire, and the actuarial value of assets was \$-0- for police and \$-0- for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.4 million for police and \$0.3 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.5 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 25.6 percent for police and 19.9 percent for fire.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the Town's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

**Three-Year Trend Information
Police**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2010	\$ 426,869	100.0	\$ -
2011	485,067	100.0	-
2012	481,295	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	OPEB Benefit Obligation
2010	\$ 29,528	100.0	\$ -
2011	32,585	100.0	-
2012	33,652	100.0	-

**Three-Year Trend Information
Fire**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2010	\$ 278,987	100.0	\$ -
2011	265,399	100.0	-
2012	249,612	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	OPEB Benefit Obligation
2010	17,724	100.0	\$ -
2011	21,219	100.0	-
2012	22,679	100.0	-

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Additional historical trend information for the Town's PSPRS is disclosed on page 59.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Postemployment Benefits Other Than Pension Benefits (OPEB)

The Town engaged an actuary to determine the Town's liability for postemployment healthcare benefits other than pensions as of June 30, 2012.

Plan Description - The Town provides postretirement health care benefits in accordance with the Town of Payson Personnel Rules and Procedures manual. An employee eligible for the Retirement Medical Benefits Insurance Package from the Town of Payson, Arizona shall meet the requirements of "Rule of 70" with a minimum of ten years of service to be eligible for retirement. An employee must obtain 70 points by computing his/her age and the number of years of continued service to the Town. A Council Member who was elected prior to 1998 and has served eight (8) consecutive years will be eligible for retirement Medical, Dental, Vision and Life Insurance benefits upon reaching sixty (60) years of age. No Council Member who was elected or appointed to the office in the year 1998 or later shall be eligible under any circumstances, for retirement Medical, Dental, Vision and Life Insurance benefits. The Town ended the retirement program and the postretirement health care benefit plan for employees hired after January 2010.

In 2010 the Town implemented a one-time Early Retirement Incentive Program (ERIP). One of the incentives for employees meeting the criteria was 100% medical insurance paid by the Town per the current postretirement health care benefit program. Eight employees accepted the ERIP.

Currently, the plan has 121 active participants and 42 current retirees, beneficiaries and dependents. The Town makes average monthly contributions of \$258 for employee only health care benefits plans and \$588 for employee and family health care benefit plans. The Town makes average monthly contributions of \$513 for retiree only postretirement health care benefits plan and \$1,172 for retiree and family postretirement health care benefits plans.

Funding Policy - During the year ended June 30, 2012, the Town contributed \$867,843 for all eligible retirees.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Postemployment Benefits Other Than Pension Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the Town's net OPEB obligation.

Annual Required Contribution		\$	2,004,097
Interest on Net OPEB Obligation			119,446
Adjustment to Annual Required Contribution			<u>(190,852)</u>
Annual OPEB Cost (Expense)			1,932,691
Contributions Made			<u>(867,843)</u>
Increase in Net OPEB Obligation			1,064,848
Net OPEB Obligation-Beginning of Year			<u>4,356,228</u>
Net OPEB Obligation-End of Year			<u><u>\$ 5,421,076</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 1,769,039	24.3%	\$ 2,654,356
June 30, 2011	1,960,588	13.2%	4,356,228
June 30, 2012	1,932,691	44.9%	5,421,076

Funding Progress – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Postemployment Benefits Other Than Pension Benefits (OPEB) (Continued)

The actuarial accrued liability for other postemployment benefits was \$24.0 million and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$24.0 million.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 1.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.5%, reduced by decrements to an ultimate rate of 5% after seven years. The initial self-pay trend rate was 8.25%, reduced by 5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2010, was 30 years.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

Payson Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	\$ 5,580,905	\$ 10,625,768	52.5%	\$ 5,044,863	\$ 1,661,240	303.7%
2011	5,725,065	11,731,524	48.8%	6,006,459	1,723,654	348.5%
2012	5,597,463	12,877,323	43.5%	7,279,860	1,461,875	498.0%

Other Postemployment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	\$ -	\$ 382,912	0.0%	\$ 382,912	\$ 1,661,240	23.0%
2011	-	375,475	0.0%	375,475	1,723,654	21.8%
2012	-	373,890	0.0%	373,890	1,461,875	25.6%

Payson Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	\$ 4,458,907	\$ 6,332,276	70.4%	\$ 1,873,369	\$ 1,234,935	151.7%
2011	4,871,780	7,095,775	68.7%	2,223,995	1,299,910	171.1%
2012	5,382,932	7,850,792	68.6%	2,467,860	1,482,525	166.5%

Other Postemployment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	\$ -	\$ 254,328	0.0%	\$ 254,328	\$ 1,234,935	20.6%
2011	-	285,709	0.0%	285,709	1,299,910	22.0%
2012	-	294,624	0.0%	294,624	1,482,525	19.9%

Payson Other Postemployment Benefits

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	\$ -	\$ 19,327,774	0.0%	\$ 19,327,774	N/A	N/A
2010	-	23,953,850	0.0%	23,953,850	N/A	N/A

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Highway Users Revenue Fund (HURF) - accounts for the operations of the street maintenance department. Financing is provided by the Town's share of motor fuel tax revenues. State law requires these motor fuel taxes be used to maintain streets.

Library Fund - accounts for the costs associated with the Town's library and is primarily funded by a special property tax assessed by the Gila County Library District specifically for libraries within the county. The tax is distributed by a population-based formula and must be used for library related expenditures.

Judicial Collection Enhancement (JCEF)/Municipal Court Fill the Gap (FTG) - accounts for a \$12 penalty fee established by the State of Arizona to be imposed by the local courts in addition to other fines. The distribution of the fee was split two ways: \$9.00 was remitted to the State Superior Court and \$3.00 was retained by the local court. The use of the \$3.00 fee is for the enhancement of the collection process. The State of Arizona established a 7% increase in surcharges on September 1, 1999 with Senate Bill 1013. A portion of the increase is distributed to Municipal Courts on a quarterly basis. The program is titled "Municipal Court Fill the Gap" or FTG. The monies collected by this program may be used for the same purposes for which local JCEF monies may be used.

CAPITAL PROJECTS FUNDS

Capital Projects Funds - accounts for the financial resources to be used for the acquisition or construction of capital facilities.

**TOWN OF PAYSON, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Special Revenue			Capital Projects
	HURF	Library	JCEF/FTG	Capital Projects
ASSETS				
Cash and Investments	\$ 136,725	\$ 5,925	\$ 84,653	\$ 304,691
Restricted Cash and Investments	-	-	-	542,541
Accounts Receivable	-	1,667	-	32,024
Intergovernmental Receivable	141,815	-	464	-
Total Assets	\$ 278,540	\$ 7,592	\$ 85,117	\$ 879,256
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 72,529	\$ 1,040	\$ -	\$ 531
Accrued Wages and Benefits	19,689	6,552	-	-
Total Liabilities	92,218	7,592	-	531
FUND BALANCES				
Restricted	186,322	-	85,117	404,450
Assigned	-	-	-	474,275
Total Fund Balances	186,322	-	85,117	878,725
Total Liabilities and Balances	\$ 278,540	\$ 7,592	\$ 85,117	\$ 879,256

Total Nonmajor
Governmental
Funds

\$	531,994
	542,541
	33,691
	142,279
<hr/>	
\$	1,250,505
<hr/>	

\$	74,100
	26,241
<hr/>	
	100,341

	675,889
	474,275
<hr/>	
	1,150,164
<hr/>	
\$	1,250,505
<hr/>	

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue			Capital Projects
	HURF	Library	JCEF/FTG	Capital Projects
REVENUES				
Taxes				
Property Taxes	\$ -	\$ 229,230	\$ -	\$ -
Intergovernmental	1,266,058	-	-	171,579
Fines and Forfeitures	-	15,591	-	-
Charges for Services	4,831	-	-	-
Contributions and Donations	-	-	2,084	-
Development Impact Fees	37,050	-	-	44,625
Investment Earnings	-	-	-	961
Other	5,491	24,121	-	-
Total Revenues	1,313,430	268,942	2,084	217,165
EXPENDITURES				
Current				
Highways and Streets	1,562,665	-	-	-
Culture and Recreation	-	422,745	-	-
Capital Outlay	-	-	-	1,052,702
Total Expenditures	1,562,665	422,745	-	1,052,702
Excess (Deficiency) of Revenues Over Expenditures	(249,235)	(153,803)	2,084	(835,537)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	153,800	-	4,639
Transfers Out	-	-	-	(44,991)
Proceeds from Capital Lease	-	-	-	611,845
Total Other Financing Sources (Uses)	-	153,800	-	571,493
Net Change in Fund Balances	(249,235)	(3)	2,084	(264,044)
FUND BALANCES				
Beginning of Year	435,557	3	83,033	1,142,769
End of Year	\$ 186,322	\$ -	\$ 85,117	\$ 878,725

Total Nonmajor
Governmental
Funds

\$ 229,230
1,437,637
15,591
4,831
2,084
81,675
961
29,612

1,801,621

1,562,665
422,745
1,052,702

3,038,112

(1,236,491)

158,439
(44,991)
611,845

725,293

(511,198)

1,661,362

\$ 1,150,164

**TOWN OF PAYSON, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes			
Sales Taxes	\$ 350,000	\$ 329,834	\$ (20,166)
Property Taxes	61,900	74,051	12,151
Contributions and Donations	60,000	60,000	-
Special Assessments	157,400	153,107	(4,293)
Total Revenues	<u>629,300</u>	<u>616,992</u>	<u>(12,308)</u>
EXPENDITURES			
Debt Service			
Principal Retirement	1,565,200	996,477	568,723
Interest on Long-Term Debt	205,300	190,064	15,236
Total Expenditures	<u>1,770,500</u>	<u>1,186,541</u>	<u>583,959</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,141,200)	(569,549)	571,651
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>376,500</u>	<u>292,454</u>	<u>(84,046)</u>
Net Change in Fund Balance	(764,700)	(277,095)	487,605
FUND BALANCE			
Beginning of Year	-	988,355	988,355
End of Year	<u>\$ (764,700)</u>	<u>\$ 711,260</u>	<u>\$ 1,475,960</u>

TOWN OF PAYSON, ARIZONA
HURF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental	\$ 1,337,000	\$ 1,266,058	\$ (70,942)
Charges for Services	10,000	4,831	(5,169)
Development Impact Fees	29,000	37,050	8,050
Other	5,000	5,491	491
Total Revenues	<u>1,381,000</u>	<u>1,313,430</u>	<u>(67,570)</u>
EXPENDITURES			
Current			
Highways and Streets	<u>1,813,000</u>	<u>1,562,665</u>	<u>250,335</u>
Excess (Deficiency) of Revenues Over Expenditures	(432,000)	(249,235)	182,765
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>238,000</u>	<u>-</u>	<u>(238,000)</u>
Net Change in Fund Balance	(194,000)	(249,235)	(55,235)
FUND BALANCE			
Beginning of Year	-	435,557	435,557
End of Year	<u>\$ (194,000)</u>	<u>\$ 186,322</u>	<u>\$ 380,322</u>

**TOWN OF PAYSON, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental	\$ 229,200	\$ 229,230	\$ 30
Fines and Forfeitures	15,500	15,591	91
Other	20,000	24,121	4,121
Total Revenues	<u>264,700</u>	<u>268,942</u>	<u>4,242</u>
EXPENDITURES			
Current			
Culture and Recreation	<u>432,700</u>	<u>422,745</u>	<u>9,955</u>
Excess (Deficiency) of Revenues Over Expenditures	(168,000)	(153,803)	14,197
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>168,000</u>	<u>153,800</u>	<u>(14,200)</u>
Net Change in Fund Balance	-	(3)	(3)
FUND BALANCE			
Beginning of Year	-	3	3
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF PAYSON, ARIZONA
JCEF/FTG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Contributions and Donations	\$ 4,000	\$ 2,084	\$ (1,916)
Investment Earnings	100	-	(100)
Total Revenues	<u>4,100</u>	<u>2,084</u>	<u>(2,016)</u>
 Excess (Deficiency) of Revenues Over Expenditures	 4,100	 2,084	 (2,016)
 FUND BALANCE			
Beginning of Year	-	83,033	83,033
End of Year	<u>\$ 4,100</u>	<u>\$ 85,117</u>	<u>\$ 81,017</u>

**TOWN OF PAYSON, ARIZONA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 389,000	\$ 171,579	\$ (217,421)
Development Impact Fees	31,500	44,625	13,125
Investment Earnings	100	961	861
Total Revenues	<u>420,600</u>	<u>217,165</u>	<u>(203,435)</u>
EXPENDITURES			
Capital Outlay	<u>1,116,200</u>	<u>1,052,702</u>	<u>63,498</u>
Excess (Deficiency) of Revenues Over Expenditures	(695,600)	(835,537)	(139,937)
OTHER FINANCING SOURCES (USES)			
Transfers In	8,200	4,639	(3,561)
Transfers Out	(29,000)	(44,991)	(15,991)
Proceeds from Capital Lease	620,000	611,845	(8,155)
Total Other Financing Sources (Uses)	<u>599,200</u>	<u>571,493</u>	<u>(27,707)</u>
Net Change in Fund Balance	(96,400)	(264,044)	(167,644)
FUND BALANCE			
Beginning of Year	-	1,142,769	1,142,769
End of Year	<u>\$ (96,400)</u>	<u>\$ 878,725</u>	<u>\$ 975,125</u>

STATISTICAL SECTION

This section of the Town of Payson, Arizona's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

**TOWN OF PAYSON, ARIZONA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 23,036,377	\$ 23,208,623	\$ 21,506,684	\$ 22,328,708
Restricted	3,092,732	2,581,423	4,207,316	4,734,371
Unrestricted	2,280,224	3,353,871	5,479,255	5,103,790
Total governmental activities net assets	\$ 28,409,333	\$ 29,143,917	\$ 31,193,255	\$ 32,166,869
Business-type activities				
Invested in capital assets, net of related debt	\$ 11,860,887	\$ 11,741,865	\$ 11,933,965	\$ 13,142,519
Restricted	3,121,234	3,499,111	3,626,754	4,211,504
Unrestricted	1,523,468	2,172,170	3,174,456	3,821,585
Total business-type activities net assets	\$ 16,505,589	\$ 17,413,146	\$ 18,735,175	\$ 21,175,608
Primary government				
Invested in capital assets, net of related debt	\$ 34,897,264	\$ 34,950,488	\$ 33,440,649	\$ 35,471,227
Restricted	6,213,966	6,080,534	7,834,070	8,945,875
Unrestricted	3,803,692	5,526,041	8,653,711	8,925,375
Total primary government net assets	\$ 44,914,922	\$ 46,557,063	\$ 49,928,430	\$ 53,342,477

Source: The Town's Finance Department.

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 101,360,121	\$ 106,049,982	\$ 105,561,440	\$ 103,809,445	\$ 104,607,886	\$ 104,528,536
5,448,557	4,310,080	3,971,451	3,137,935	3,106,342	2,471,981
4,590,792	2,456,973	521,636	1,459,147	(2,639,291)	(4,492,672)
<u>\$ 111,399,470</u>	<u>\$ 112,817,035</u>	<u>\$ 110,054,527</u>	<u>\$ 108,406,527</u>	<u>\$ 105,074,937</u>	<u>\$ 102,507,845</u>
\$ 12,283,170	\$ 14,363,974	\$ 14,720,036	\$ 15,195,051	\$ 19,600,002	\$ 19,707,632
4,681,554	4,909,657	4,921,901	1,065,623	-	451,859
4,707,319	5,282,327	3,890,818	5,898,114	5,224,938	5,480,569
<u>\$ 21,672,043</u>	<u>\$ 24,555,958</u>	<u>\$ 23,532,755</u>	<u>\$ 22,158,788</u>	<u>\$ 24,824,940</u>	<u>\$ 25,640,060</u>
\$ 113,643,291	\$ 120,413,956	\$ 120,281,476	\$ 119,004,496	\$ 124,207,888	\$ 124,236,168
10,130,111	9,219,737	8,893,352	4,203,558	3,106,342	2,923,840
9,298,111	7,739,300	4,412,454	7,357,261	2,585,647	987,897
<u>\$ 133,071,513</u>	<u>\$ 137,372,993</u>	<u>\$ 133,587,282</u>	<u>\$ 130,565,315</u>	<u>\$ 129,899,877</u>	<u>\$ 128,147,905</u>

**TOWN OF PAYSON, ARIZONA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 2,785,934	\$ 2,754,686	\$ 2,727,457	\$ 3,191,559
Public safety	5,178,837	5,338,874	6,239,687	7,375,276
Highways and streets	1,490,366	2,022,194	2,285,810	4,827,042
Culture and recreation	1,672,123	1,751,941	1,772,917	1,738,625
Public works	472,664	687,511	551,668	529,950
Community development	737,479	883,030	871,706	839,792
Health and welfare	193,539	220,005	242,892	256,498
Interest on long-term debt	253,284	272,222	239,528	315,645
Total governmental activities	<u>12,784,226</u>	<u>13,930,463</u>	<u>14,931,665</u>	<u>19,074,387</u>
Business-type activities				
Water	2,831,506	3,156,618	2,632,184	2,046,035
Total primary government expenses	<u>15,615,732</u>	<u>17,087,081</u>	<u>17,563,849</u>	<u>21,120,422</u>
Program Revenues				
Governmental activities:				
Fees, Fines, and Charges for Services				
General government	730,057	2,154,657	1,126,063	1,341,311
Public safety	-	-	404,194	386,291
Highways and streets	-	-	54,843	91,574
Culture and recreation	-	-	116,635	103,873
Public works	-	-	86,489	82,158
Community development	-	-	761,468	841,640
Health and welfare	-	-	10,920	11,104
Interest on long-term debt	-	-	-	-
Operating grants and contributions	165,353	2,063,070	2,689,186	3,941,550
Capital grants and contributions	1,894,936	517,499	453,218	338,142
Total governmental activities program revenues	<u>2,790,346</u>	<u>4,735,226</u>	<u>5,703,016</u>	<u>7,137,643</u>
Business-type activities				
Charges for services:				
Water	2,948,175	3,543,006	3,508,276	4,199,650
Operating grants and contributions	-	194,921	38,752	50,000
Capital grants and contributions	824,073	-	-	210,323
Total business-type activities program revenues	<u>3,772,248</u>	<u>3,737,927</u>	<u>3,547,028</u>	<u>4,459,973</u>
Total primary government program revenues	<u>6,562,594</u>	<u>8,473,153</u>	<u>9,250,044</u>	<u>11,597,616</u>
Net (expense)/revenue				
Governmental activities	(9,993,880)	(9,195,237)	(9,228,649)	(11,936,744)
Business-type activities	940,742	581,309	914,844	2,413,938
Total primary government net expense	<u>\$ (9,053,138)</u>	<u>\$ (8,613,928)</u>	<u>\$ (8,313,805)</u>	<u>\$ (9,522,806)</u>

Source: The Town's Finance Department.

Fiscal Year

	2007	2008	2009	2010	2011	2012
\$	3,595,408	\$ 3,707,867	\$ 4,323,958	\$ 3,133,909	\$ 3,984,961	\$ 3,574,186
	7,818,997	7,939,971	8,376,425	8,164,357	8,645,178	8,845,884
	4,147,353	3,786,087	2,856,499	3,070,365	2,765,928	2,632,098
	2,152,923	2,730,083	1,714,675	1,575,542	1,466,906	1,453,416
	407,578	350,531	445,095	284,563	324,660	212,155
	923,599	1,219,270	1,051,931	1,119,712	1,228,298	880,320
	252,136	259,083	289,710	273,394	259,854	267,331
	317,800	303,148	275,659	267,661	249,925	224,074
	<u>19,615,794</u>	<u>20,296,040</u>	<u>19,333,952</u>	<u>17,889,503</u>	<u>18,925,710</u>	<u>18,089,464</u>
	<u>3,715,985</u>	<u>3,673,943</u>	<u>4,797,060</u>	<u>4,164,224</u>	<u>4,229,154</u>	<u>4,373,128</u>
	<u>23,331,779</u>	<u>23,969,983</u>	<u>24,131,012</u>	<u>22,053,727</u>	<u>23,154,864</u>	<u>22,462,592</u>
	947,152	907,951	657,076	656,861	669,803	741,260
	581,150	658,707	723,194	626,728	404,286	361,472
	90,507	50,876	28,185	4,482	-	4,831
	117,706	148,416	131,966	216,752	138,524	164,088
	98,367	61,272	56,617	87,476	103,004	81,098
	614,968	422,856	268,662	117,147	124,893	150,149
	11,277	10,149	15,139	18,509	19,152	18,276
	880,303	-	-	-	-	-
	2,862,482	2,137,228	2,079,200	1,840,478	2,237,241	2,661,413
	404,433	1,786,891	248,512	448,191	862,801	675,204
	<u>6,608,345</u>	<u>6,184,346</u>	<u>4,208,551</u>	<u>4,016,624</u>	<u>4,559,704</u>	<u>4,857,791</u>
	4,099,518	4,037,662	3,666,635	3,678,173	3,961,028	4,268,103
	39,500	-	-	-	-	75,000
	362,446	270,513	-	117,124	3,100,474	826,370
	<u>4,501,464</u>	<u>4,308,175</u>	<u>3,666,635</u>	<u>3,795,297</u>	<u>7,061,502</u>	<u>5,169,473</u>
	<u>11,109,809</u>	<u>10,492,521</u>	<u>7,875,186</u>	<u>7,811,921</u>	<u>11,621,206</u>	<u>10,027,264</u>
	(13,007,449)	(14,111,694)	(15,125,401)	(13,872,879)	(14,366,006)	(13,231,673)
	785,479	634,232	(1,130,425)	(368,927)	2,832,348	796,345
\$	<u>(12,221,970)</u>	<u>(13,477,462)</u>	<u>(16,255,826)</u>	<u>(14,241,806)</u>	<u>(11,533,658)</u>	<u>(12,435,328)</u>

**TOWN OF PAYSON, ARIZONA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Sales taxes	\$ 5,184,889	\$ 5,434,673	\$ 5,936,919	\$ 7,314,067
Property taxes	618,838	646,156	727,678	784,437
Franchise taxes	300,495	304,226	336,881	336,399
Intergovernmental	3,871,733	2,373,960	2,513,814	3,851,170
Payments in lieu of taxes	810,736	852,815	964,324	-
Investment earnings	83,533	55,183	136,117	361,815
Transfers	45,440	42,350	254,790	262,470
Total governmental activities	<u>10,915,664</u>	<u>9,709,363</u>	<u>10,870,523</u>	<u>12,910,358</u>
Business-type activities:				
Investment earnings	(175,061)	44,156	117,928	288,965
Transfers	(45,440)	(42,350)	(254,790)	(262,470)
Total business-type activities	<u>(220,501)</u>	<u>1,806</u>	<u>(136,862)</u>	<u>26,495</u>
Total primary government	<u>10,695,163</u>	<u>9,711,169</u>	<u>10,733,661</u>	<u>12,936,853</u>
Change in Net Assets				
Governmental activities	921,784	514,126	1,641,874	973,614
Business-type activities	720,241	583,115	777,982	2,440,433
Total primary government	<u>\$ 1,642,025</u>	<u>\$ 1,097,241</u>	<u>\$ 2,419,856</u>	<u>\$ 3,414,047</u>

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 7,503,852	\$ 7,396,678	\$ 6,624,711	\$ 5,919,923	\$ 5,915,905	\$ 6,047,629
834,521	907,545	856,237	1,002,536	1,010,692	960,360
348,166	349,043	339,802	349,061	344,833	351,227
4,194,575	4,602,546	4,473,463	3,988,244	3,533,894	3,320,055
-	-	-	-	-	-
403,108	287,474	68,680	(39,885)	76,978	2,610
312,470	437,734	-	1,005,000	152,114	(17,300)
<u>13,596,692</u>	<u>13,981,020</u>	<u>12,362,893</u>	<u>12,224,879</u>	<u>11,034,416</u>	<u>10,664,581</u>
447,258	253,312	107,222	(40)	(14,082)	1,475
(312,470)	(437,734)	-	(1,005,000)	(152,114)	17,300
<u>134,788</u>	<u>(184,422)</u>	<u>107,222</u>	<u>(1,005,040)</u>	<u>(166,196)</u>	<u>18,775</u>
<u>13,731,480</u>	<u>13,796,598</u>	<u>12,470,115</u>	<u>11,219,839</u>	<u>10,868,220</u>	<u>10,683,356</u>
589,243	(130,674)	(2,762,508)	(1,648,000)	(3,331,590)	(2,567,092)
920,267	449,810	(1,023,203)	(1,373,967)	2,666,152	815,120
<u>\$ 1,509,510</u>	<u>\$ 319,136</u>	<u>\$ (3,785,711)</u>	<u>\$ (3,021,967)</u>	<u>\$ (665,438)</u>	<u>\$ (1,751,972)</u>

**TOWN OF PAYSON, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ -	\$ -	\$ 2,000	\$ -
Unreserved	1,854,581	2,141,833	2,649,209	3,428,794
Nonspendable				
Restricted				
Committed				
Assigned				
Unassigned				
Total General Fund	\$ 1,854,581	\$ 2,141,833	\$ 2,651,209	\$ 3,428,794
All other governmental funds				
Reserved	\$ -	\$ -	\$ -	\$ 6,226
Unreserved, reported in:				
Special revenue funds	442,312	740,890	1,862,531	2,080,199
Debt service funds	633,999	697,199	1,123,656	877,863
Capital projects funds	3,328,898	2,262,426	3,811,793	2,968,412
Restricted				
Assigned				
Total all other governmental funds	\$ 4,405,209	\$ 3,700,515	\$ 6,797,980	\$ 5,932,700

Source: The Town's Finance Department.

Note: The Town implemented the provisions of GASB Statement No. 54 during the fiscal year 2011

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 14,662	\$ -	\$ 14,729	\$ 14,645		
2,934,445	1,052,084	785,962	826,978		
				\$ 7,629	\$ 7,629
				258,357	390,725
				-	-
				341,960	176,048
				924,513	326,348
<u>\$ 2,949,107</u>	<u>\$ 1,052,084</u>	<u>\$ 800,691</u>	<u>\$ 841,623</u>	<u>\$ 1,532,459</u>	<u>\$ 900,750</u>
\$ 250	\$ 250	\$ 250	\$ 3,869		
2,191,308	1,183,909	1,096,303	913,850		
1,164,787	1,553,209	1,416,112	1,198,421		
2,206,560	1,557,772	1,324,306	2,459,190		
				\$ 2,029,780	\$ 1,387,149
				619,937	474,275
<u>\$ 5,562,905</u>	<u>\$ 4,295,140</u>	<u>\$ 3,836,971</u>	<u>\$ 4,575,330</u>	<u>\$ 2,649,717</u>	<u>\$ 1,861,424</u>

TOWN OF PAYSON, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues					
Taxes	\$ 6,104,222	\$ 6,080,829	\$ 7,001,478	\$ 8,434,903	\$ 8,686,539
Intergovernmental	6,254,690	5,666,760	6,500,510	8,000,326	7,332,472
Fines and forfeitures	206,062	250,868	285,048	288,141	265,598
Licenses and permits	422,956	697,611	575,256	634,614	464,571
Charges for services	1,040,039	959,342	931,057	960,699	1,103,001
Other	978,253	1,188,084	1,849,683	1,647,363	1,264,172
Total revenues	<u>15,006,222</u>	<u>14,843,494</u>	<u>17,143,032</u>	<u>19,966,046</u>	<u>19,116,353</u>
Expenditures					
General government and community development	3,268,647	3,359,597	3,428,453	3,967,139	4,133,694
Public safety	4,802,740	4,980,492	5,702,869	7,417,846	7,612,207
Public works & highways and streets	1,495,834	1,621,275	2,423,241	4,526,180	3,705,640
Health and welfare & culture and recreation	1,520,282	1,602,171	1,695,512	1,837,732	2,093,694
Capital outlay	4,542,267	2,906,359	1,936,984	2,746,022	1,063,615
Debt service					
Principal retirement	-	561,170	585,803	844,385	1,249,354
Interest on long-term debt	-	272,222	239,528	315,645	420,101
Other debt service	790,376	-	53,514	365,390	-
Total expenditures	<u>16,420,146</u>	<u>15,303,286</u>	<u>16,065,904</u>	<u>22,020,339</u>	<u>20,278,305</u>
Excess of revenues over (under) expenditures	(1,413,924)	(459,792)	1,077,128	(2,054,293)	(1,161,952)
Other financing sources (uses)					
Transfers in	1,867,050	1,627,291	2,113,691	2,769,621	3,797,776
Transfers out	(1,821,610)	(1,584,941)	(1,858,901)	(2,507,151)	(3,485,306)
Issuance of refunding debt	-	-	-	1,085,000	-
Issuance of long-term debt	1,300,000	-	2,048,723	1,420,000	-
Bond premium	-	-	-	41,531	-
Payment to refunded debt escrow agent	-	-	-	(1,020,403)	-
Proceeds from capital lease	281,577	-	226,200	178,000	-
Total other financing sources (uses)	<u>1,627,017</u>	<u>42,350</u>	<u>2,529,713</u>	<u>1,966,598</u>	<u>312,470</u>
Net change in fund balance	<u>\$ 213,093</u>	<u>\$ (417,442)</u>	<u>\$ 3,606,841</u>	<u>\$ (87,695)</u>	<u>\$ (849,482)</u>
Debt service as a percentage of noncapital expenditures	6.65%	6.72%	6.22%	7.91%	8.69%

Source: The Town's Finance Department.

Note: Debt service principal and interest was not available prior to the fiscal year ended June 30, 2004 to present as separate line items.

Fiscal Year				
2008	2009	2010	2011	2012
\$ 8,653,266	\$ 7,820,750	\$ 7,271,520	\$ 7,236,777	\$ 7,330,207
7,362,721	6,595,255	6,193,464	6,153,959	6,403,423
255,155	235,284	221,523	177,314	159,629
331,783	252,931	209,031	215,695	240,600
1,113,467	1,033,870	937,636	684,754	859,788
1,113,304	660,187	514,413	1,076,976	492,365
<u>18,829,696</u>	<u>16,598,277</u>	<u>15,347,587</u>	<u>15,545,475</u>	<u>15,486,012</u>
5,018,872	4,246,206	4,127,767	3,568,102	4,261,562
7,731,920	7,242,658	7,125,424	7,178,572	7,763,007
4,627,564	2,585,497	2,599,518	2,173,759	2,074,324
2,464,067	1,368,395	1,231,155	1,051,603	1,114,932
1,997,629	593,607	915,780	1,996,313	1,052,702
897,754	988,117	847,866	959,229	1,036,559
277,630	250,141	241,063	223,327	197,473
-	-	55,233	-	-
<u>23,015,436</u>	<u>17,274,621</u>	<u>17,143,806</u>	<u>17,150,905</u>	<u>17,500,559</u>
(4,185,740)	(676,344)	(1,796,219)	(1,605,430)	(2,014,547)
2,955,804	577,983	2,035,274	542,820	450,893
(2,518,070)	(577,983)	(1,030,274)	(390,706)	(468,193)
-	-	-	-	-
-	-	1,525,000	-	-
-	-	45,510	-	-
-	-	-	-	-
550,000	-	-	218,539	611,845
<u>987,734</u>	<u>-</u>	<u>2,575,510</u>	<u>370,653</u>	<u>594,545</u>
<u>\$ (3,198,006)</u>	<u>\$ (676,344)</u>	<u>\$ 779,291</u>	<u>\$ (1,234,777)</u>	<u>\$ (1,420,002)</u>
6.30%	8.02%	7.15%	7.15%	7.58%

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**TOWN OF PAYSON, ARIZONA
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Property Taxes</u>	<u>Franchise Taxes</u>	<u>Bed Tax</u>	<u>Library District</u>	<u>Other</u>	<u>Total</u>
2003	\$ 5,035,165	\$ 468,588	300,495	\$ 149,724	\$ 150,250	-	\$ 6,104,222
2004	5,310,375	490,156	304,226	124,298	156,000	-	6,385,055
2005	5,602,478	727,678	336,881	176,591	157,850	-	7,001,478
2006	7,102,970	593,694	336,399	211,097	190,743	-	8,434,903
2007	7,298,346	634,241	348,166	205,506	200,280	-	8,686,539
2008	7,214,023	695,245	349,043	182,655	212,300	-	8,653,266
2009	6,464,884	629,861	339,802	159,827	226,376	-	7,820,750
2010	5,784,193	773,306	349,060	135,730	229,230	-	7,271,519
2011	5,696,337	746,809	344,834	219,568	229,230	-	7,236,778
2012	5,827,059	702,121	351,227	220,570	229,230	-	7,330,207

Source: The Town's Finance Department.

**TOWN OF PAYSON, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)**

Sales Category	Fiscal Year				
	2003	2004	2005	2006	2007
Retail trade	\$ 2,678,919	\$ 2,811,849	\$ 2,946,388	\$ 3,655,505	\$ 3,809,689
Construction	1,012,819	937,590	1,008,971	1,207,041	1,171,982
Restaurants and bars	428,498	436,403	547,906	615,870	638,635
Communications and utilities	373,978	328,722	510,765	576,592	626,516
Transportation & warehousing	-	3,658	11,028	14,743	25,914
Services	227,783	208,446	137,325	142,882	127,827
Manufacturing	80,935	108,286	138,382	180,369	198,832
Real estate, rental & leasing	180,204	205,040	280,826	320,133	305,467
Finance and insurance	-	4,513	12,269	9,983	8,299
Accommodations	244,273	191,561	287,731	333,627	342,659
Wholesale trade	41,326	40,188	51,102	87,044	63,060
Arts & entertainment	-	22,951	40,820	46,401	67,811
Other	6,562	129,324	136,390	145,489	117,161
Total	\$ 5,275,297	\$ 5,428,531	\$ 6,109,903	\$ 7,335,679	\$ 7,503,852
Town sales tax rate	8.60%	8.60%	8.72%	8.72%	8.72%

Source: Arizona Department of Revenue.

Fiscal Year

2008	2009	2010	2011	2012
\$ 3,644,827	\$ 3,411,550	\$ 3,188,660	\$ 3,190,013	\$ 3,299,193
953,990	897,002	379,158	372,588	411,290
614,752	586,231	554,640	529,279	551,843
812,819	750,808	812,622	787,188	894,790
10,272	8,363	8,783	9,090	9,682
111,830	110,342	126,490	134,700	108,859
188,595	141,061	121,831	132,780	70,963
403,451	356,298	322,460	294,262	266,915
8,612	7,837	5,307	5,547	6,288
313,025	269,210	222,243	300,769	309,848
89,777	82,084	69,460	75,675	61,747
81,039	55,972	53,083	54,470	50,796
69,305	42,293	55,186	29,544	5,415
<u>\$ 7,302,294</u>	<u>\$ 6,719,051</u>	<u>\$ 5,919,923</u>	<u>\$ 5,915,905</u>	<u>\$ 6,047,629</u>
8.72%	8.72%	8.72%	9.72%	9.72%

**TOWN OF PAYSON, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Town Direct Rate	Gila County	Arizona State	Total Tax Rate
2003	2.00 %	1.00 %	5.60 %	8.60 %
2004	2.00	1.00	5.60	8.60
2005	2.12	1.00	5.60	8.72
2006	2.12	1.00	5.60	8.72
2007	2.12	1.00	5.60	8.72
2008	2.12	1.00	5.60	8.72
2009	2.12	1.00	5.60	8.72
2010	2.12	1.00	5.60	8.72
2011	2.12	1.00	6.60	9.72
2012	2.12	1.00	6.60	9.72

Source: Arizona Dept. of Revenue

**TOWN OF PAYSON, ARIZONA
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2003	\$ 143,944,717	0.3407	945,809,543	15.219
2004	153,133,821	0.3481	1,144,148,351	13.384
2005	170,159,572	0.3444	1,251,385,801	13.598
2006	182,522,790	0.3502	1,383,662,572	13.191
2007	201,211,739	0.3447	1,500,887,154	13.406
2008	224,447,881	0.2813	1,745,155,468	12.861
2009	240,139,778	0.3201	2,071,174,745	11.594
2010	236,841,829	0.3150	2,875,030,889	8.238
2011	201,988,013	0.3394	1,778,795,861	11.355
2012	178,102,500	0.3502	1,565,594,980	11.376

Source: The Gila County Assessor's Office.

TOWN OF PAYSON, ARIZONA
NET SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
JUNE 30, 2012
(UNAUDITED)

Description	Net Secondary Assessed Valuation	As a % of the Town's Total Net Secondary Assessed Valuation
Mining, Utilities, Telecommunications, Commercial and Industry	\$ 54,693,163	21.01%
Vacant Land and Agriculture Real Property	43,470,724	16.70%
Agricultural Personal Property	27,627	0.01%
Owner Occupied Residential Property	151,234,455	58.11%
Leased or Rented Residential Property	10,595,183	4.07%
Residential Historical Property	232,805	0.09%
Improvements on Government Property	5,408	0.01%
	<u>\$ 260,259,365</u>	

Source: The Gila County Assessor's Office.

**TOWN OF PAYSON, ARIZONA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Town			Overlapping Rates					
	Town of Payson Primary	Town of Payson Secondary	Total Town Rate	N. Gila Co. Sanitary District	Library District Secondary	Fire District Assistance Secondary	School Equalization Primary	Gila County Primary	Rate Total
2003	0.2754	0.0653	0.3407	0.7000	0.2000	0.1000	0.4717	4.4100	6.2224
2004	0.2867	0.0614	0.3481	0.7000	0.2000	0.1000	0.4560	4.4100	6.2141
2005	0.2752	0.0692	0.3444	0.7000	0.2000	0.1000	0.4358	4.4100	6.1902
2006	0.2640	0.0862	0.3502	0.7000	0.2000	0.1000	N/A	4.3488	5.6990
2007	0.2476	0.0971	0.3447	0.7000	0.2000	0.1000	N/A	4.1100	5.4547
2008	0.2215	0.0598	0.2813	0.7000	0.2000	0.1000	N/A	3.9200	5.2013
2009	0.2215	0.0986	0.3201	0.7000	0.2000	0.1000	0.3306	3.7500	5.4007
2010	0.2560	0.0590	0.3150	0.6000	0.2000	0.1000	0.3564	4.1900	5.7614
2011	0.3065	0.0329	0.3394	0.6000	0.2000	0.1000	0.4259	4.1900	5.8553
2012	0.3502	-	0.3502	0.6000	0.2000	0.1000	0.4717	4.1900	5.9119

Source: The Gila County Treasurer's Office.

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**TOWN OF PAYSON, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2012 AND NINE YEARS PRIOR
(UNAUDITED)**

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service	10,140,506	1	5.69	4,632,780	2	3.22 %
Retail Trust III--Wal-Mart	1,884,589	2	1.06	1,840,268	5	1.28
Payson Regional Hospital	1,690,508	3	0.95	1,552,658	6	1.06
Centurylink / Qwest	1,416,495	4	0.80	2,559,065	3	1.78
Home Depot USA Inc	1,179,128	5	0.66	-	-	-
Payson Village Center I LLC	1,121,621	6	0.63	-	-	-
Black Buffalo Golf LLC	987,174	7	0.55	-	-	-
Sawmill Crossing LLC	858,684	8	0.48	-	-	-
Buffalo Golf LLC	721,242	9	0.40	-	-	-
Rim Golf Club LLC	696,518	10	0.39	-	-	-
	<u>\$ 20,696,465</u>		11.61 %	<u>\$ 10,584,771</u>		7.34 %

Source: The Gila County Treasurer's Office.

**TOWN OF PAYSON, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal	(1) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2003	\$ 480,280	\$ 463,376	96.48	\$ 5,212	\$ 468,588	97.57
2004	496,600	490,156	98.70	8,569	498,725	100.43
2005	522,310	566,054	108.38	3,774	569,828	109.10
2006	588,279	585,930	99.60	7,764	593,694	100.92
2007	641,740	639,190	99.60	(4,949)	634,241	98.83
2008	703,207	690,260	98.16	4,985	695,245	98.87
2009	647,200	621,858	96.08	8,003	629,861	97.32
2010	790,354	760,451	96.22	12,855	773,306	97.84
2011	751,315	728,383	96.95	18,426	746,809	99.40
2012	680,975	674,978	99.12	27,143	702,121	103.11

Source: The Gila County Treasurer's Office.

(1) The amount levied and collected is net of resolutions.

Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
\$ 11,692	2.43
(2,125)	(0.43)
(47,518)	(9.10)
(5,415)	(0.92)
7,499	1.17
7,962	1.13
17,339	2.68
17,048	2.16
4,506	0.60
(21,146)	(3.11)

**TOWN OF PAYSON, ARIZONA
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Governmental Activities						
Fiscal Year	General Obligation Bonds	Certificates of Participation	Excise Tax Revenue Bonds	Special Assessment Bonds	Term Loans	Capital Leases
2003	\$ 1,621,000	\$ -	\$ 1,300,000	\$ 1,590,000	\$ 1,043,192	\$ 321,661
2004	1,486,000	-	1,300,000	1,450,000	891,590	187,090
2005	3,371,000	-	1,235,000	1,305,000	787,385	286,695
2006	3,015,000	515,000	1,165,000	2,025,000	596,334	321,361
2007	2,825,000	445,000	1,095,000	1,830,000	-	193,341
2008	2,465,000	375,000	1,070,000	1,615,000	-	565,587
2009	2,055,000	295,000	940,000	1,390,000	-	372,470
2010	3,205,000	215,000	860,000	1,155,000	-	294,604
2011	2,820,000	135,000	770,000	900,000	-	363,914
2012	2,415,000	45,000	675,000	635,000	-	794,200

Source: The Town of Payson.

Business-type
Activities

Water Revenue Bonds	Notes Payable	Total Primary Government	Percentage of Personal Income	Per Capita
\$ 960,000	\$ -	\$ 6,835,853	1.19	\$ 461
855,000	-	6,169,680	1.05	406
750,000	-	7,735,080	1.27	503
640,000	-	8,277,695	1.34	536
525,000	-	6,913,341	1.03	413
405,000	343,239	6,838,826	0.96	388
140,000	300,464	6,352,934	0.90	368
115,000	1,062,675	6,907,279	0.96	400
-	768,548	5,757,462	0.96	376
-	2,827,053	7,391,253	0.96	483

**TOWN OF PAYSON, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	General Obligation Bonds	Taxable Assessed Value of Property	Percentage of Estimated Actual Value of Property	Population	Net General Obligation Bonded Debt Per Capita
2003	\$ 1,621,000	\$ 1,144,148,351	0.14	14,819	\$ 109
2004	1,486,000	1,251,385,801	0.12	15,200	98
2005	3,371,000	1,383,662,572	0.24	15,375	219
2006	3,015,000	1,500,887,154	0.2	15,430	195
2007	2,825,000	1,745,155,468	0.16	16,742	169
2008	2,465,000	1,745,155,468	0.14	16,742	147
2009	2,055,000	2,071,174,745	0.10	17,281	97
2010	3,205,000	2,875,030,889	0.11	17,281	185
2011	2,820,000	1,778,795,861	0.16	15,301	184
2012	2,415,000	1,565,594,980	0.15	15,301	158

Source: The Town of Payson and the Gila County Treasurer's Office.

**TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2012
(UNAUDITED)**

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
State of Arizona	Not Available	0.35%	\$ -
Gila County	\$ 1,025,000	43.80%	448,950
Gila Community College	None	43.80%	-
Northern Gila County Sanitary District	600,000	100.00%	600,000
Payson Unified School District No. 10	33,745,000	74.42%	25,113,029
Total Overlapping Debt:			<u>26,161,979</u>
Town of Payson	2,820,000	100.00%	<u>2,415,000</u>
Total direct and overlapping debt			<u><u>\$ 28,576,979</u></u>

Source: Gila County Treasurer's Office.

(1) Proportion applicable to the Town of Payson, Arizona, is computed on the ratio of secondary assessed valuation for 2011-12.

**TOWN OF PAYSON, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

6% Debt Limit

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	\$ 8,636,683	\$ 9,188,029	\$ 9,380,449	\$ 10,413,736	\$ 12,669,820
Total applicable to limit	-	-	2,030,000	1,930,000	1,740,000
Legal debt margin	<u>\$ 8,636,683</u>	<u>\$ 9,188,029</u>	<u>\$ 7,350,449</u>	<u>\$ 8,483,736</u>	<u>\$ 10,929,820</u>
Total net debt applicable to the limit as a percentage of the debt limit	N/A	N/A	N/A	18.53%	13.73%

20% Debt Limit

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	\$ 28,938,425	\$ 30,626,764	\$ 31,268,162	\$ 34,712,452	\$ 42,232,733
Total applicable to limit	1,621,000	1,486,000	1,341,000	1,085,000	1,085,000
Legal debt margin	<u>\$ 27,317,425</u>	<u>\$ 29,140,764</u>	<u>\$ 29,927,162</u>	<u>\$ 33,627,452</u>	<u>\$ 41,147,733</u>
Total net debt applicable to the limit as a percentage of the debt limit	5.60%	4.85%	4.29%	3.13%	2.57%

Source: The Gila County Treasurer's Office.

Fiscal Year

2008	2009	2010	2011	2012
\$ 12,669,820	\$ 14,408,387	\$ 14,210,510	\$ 12,119,281	\$ 10,686,150
1,545,000	1,305,000	3,205,000	2,430,000	2,215,000
<u>\$ 11,124,820</u>	<u>\$ 13,103,387</u>	<u>\$ 11,005,510</u>	<u>\$ 9,689,281</u>	<u>\$ 8,471,150</u>
12.19%	9.06%	22.55%	20.05%	20.73%

Fiscal Year

2008	2009	2010	2011	2012
\$ 42,232,733	\$ 48,027,956	\$ 47,368,366	\$ 40,397,603	\$ 35,620,500
920,000	750,000	575,000	390,000	200,000
<u>\$ 41,312,733</u>	<u>\$ 47,277,956</u>	<u>\$ 46,793,366</u>	<u>\$ 40,007,603</u>	<u>\$ 35,420,500</u>
2.18%	1.56%	1.21%	0.97%	0.56%

**TOWN OF PAYSON, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2012
(UNAUDITED)**

Net secondary assessed valuation	\$ 178,102,500
<hr/>	
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds	
<hr/>	
Debt limit - 20% of secondary net assessed valuation	\$ 35,620,500
Net debt applicable to limit	<u>200,000</u>
20% legal debt margin	<u>35,420,500</u>
<hr/> All other general obligation bonds <hr/>	
Debt limit - 6% of secondary net assessed valuation	10,686,150
Net debt applicable to limit	<u>2,215,000</u>
6% legal debt margin	<u>8,471,150</u>
Total legal debt margin	<u><u>\$ 43,891,650</u></u>

Source: Gila County Assessor's Office.

**TOWN OF PAYSON, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Water Revenue Bonds and Notes Payable							Special Assessment Bonds			
Fiscal Year	Utility Service Charges (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage
2003	\$ 3,772,248	\$ 2,831,506	\$ 940,742	\$ 95,000	\$ 50,119	6.48	\$ 274,139	\$ 130,000	\$ 101,480	1.18
2004	3,601,365	2,351,811	1,249,554	105,000	45,119	8.32	292,236	140,000	46,905	1.56
2005	3,664,956	1,796,271	1,868,685	105,000	38,269	13.04	260,854	145,000	85,550	1.13
2006	4,101,235	1,055,410	3,045,825	225,000	16,000	12.64	209,279	155,000	76,995	0.90
2007	4,116,226	2,599,177	1,517,049	120,000	39,657	9.50	160,928	195,000	124,530	0.50
2008	4,099,088	2,681,646	1,417,442	130,000	17,000	9.64	160,985	215,000	98,328	0.51
2009	3,725,307	3,557,361	167,946	135,000	10,375	1.16	121,577	225,000	85,508	0.39
2010	3,678,133	3,121,955	556,178	184,518	6,376	2.91	154,543	235,000	78,591	0.49
2011	3,946,946	3,195,508	751,438	184,518	11,709	3.83	154,239	255,000	57,813	0.49
2012	4,206,296	3,300,658	905,638	303,177	47,715	2.58	146,616	265,000	49,143	0.47

Source: The Town of Payson.

(1): Utility service charges include charges for services, intergovernmental, investment earnings and miscellaneous revenues.

(2): Operating expenses do not include depreciation and interest expense.

**TOWN OF PAYSON, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Population	Personal Income	Median Personal Income	Median Age	School Enrollment	Town of Payson Unemployment Rate
2003	14,819	\$ 573,687,947	\$ 38,713	48.9	2,800	3.8%
2004	15,200	588,437,600	38,713	48.9	2,599	3.4
2005	15,375	607,312,500	39,500	48.9	2,613	3.2
2006	15,430	616,783,390	39,973	48.9	2,806	3.2
2007	16,742	669,227,966	39,973	49.1	2,812	4.1
2008	16,965	678,141,945	39,973	50.5	2,712	4.6
2009	17,281	708,400,033	40,993	49.3	2,657	7.3
2010	17,281	708,400,033	40,993	49.3	2,352	7.9
2011	15,301	562,525,964	36,764	54.2	2,420	7.7
2012	15,301	393,480,516	25,716	53.1	2,225	9.6

Source: The Town of Payson.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2012 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2012			2003		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Payson Unified School District	350	1	15.12%	400	1	18.48%
Payson Regional Medical Center	340	2	14.69%	310	3	14.72
Mazatzal Casino	330	3	14.25%	300	4	16.44
Wal-Mart	311	4	13.43%	370	2	16.68
Town of Payson	173	5	7.47%	140	6	6.87
Rim Country Health	153	6	6.61%	54	11	6.87
Gila County	146	7	6.31%	120	7	4.42
Payson Care Center	140	8	6.05%	145	5	6.23
Safeway Supermarket	105	9	4.54%	110	8	5.00
Home Depot	100	10	4.32%	0	-	N/A
U.S. Forest Service	70	11	3.02%	100	9	4.66
Bashas' Supermarket	64	12	2.76%	74	10	3.88
Chapman Auto	33	13	1.43%	41	12	3.88
	<u>2,315</u>			<u>2,164</u>		

Source: The Town of Payson.

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**TOWN OF PAYSON, ARIZONA
 FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Function	Full-time Equivalent Employees									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Town Manager	2.0	2.0	2.0	2.0	2.0	2.0	4.0	2.0	4.0	4.0
Town Clerks	5.0	5.0	5.0	5.0	7.0	6.0	4.0	4.0	4.0	4.0
Finance	6.0	6.0	8.0	8.0	6.0	7.0	7.0	6.0	6.0	6.0
Community Development	12.5	12.0	12.0	12.0	13.0	13.0	13.0	13.0	14.0	14.0
Legal	5.0	5.0	5.0	5.0	5.0	4.5	4.5	4.0	4.0	4.0
Human Resources	3.5	3.5	3.5	3.5	3.5	1.0	2.0	2.0	3.0	3.0
Police Department	39.0	40.0	42.0	45.0	49.0	49.0	49.0	49.0	48.0	48.0
Fire Department	24.0	24.0	25.0	25.0	25.0	25.0	27.0	27.0	27.0	33.0
Airport	1.0	1.0	1.0	1.0	1.0	-	-	-	1.0	1.0
Engineering & Streets	16.5	16.5	16.5	16.5	17.0	17.0	22.5	22.5	22.0	22.0
Library	6.0	6.0	6.0	7.0	8.0	8.0	8.0	8.0	8.0	8.0
Parks and Recreation	9.5	9.5	9.5	11.5	11.5	11.5	7.0	7.0	6.5	6.5
Water	17.0	17.0	17.0	17.0	17.0	19.0	19.0	20.0	20.0	20.0
Total	<u>147.0</u>	<u>147.5</u>	<u>152.5</u>	<u>158.5</u>	<u>165.0</u>	<u>163.0</u>	<u>167.0</u>	<u>164.5</u>	<u>167.5</u>	<u>173.5</u>

Source: The Town of Payson.

**TOWN OF PAYSON, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function/Program	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Building Permits						
Permits Issued	207	202	374(a)	283	201	103
Value of Buildings in \$	\$ 37,637,997	\$ 29,178,927	\$ 55,123,657	\$ 68,105,715	\$ 45,006,009	\$ 41,597,955
Police						
Average Response Time	5.57	6.56	6.28	5.54	3.47	9.2
Number of Sworn Officers	26	26	27	29	30	31
Total Calls	18,850	19,500	20,085	18,944	24,398	20,726
Calls per Sworn Officer	725	750	744	653	813	669
Officer per 1000 of Population	1.755	1.711	1.756	1.88	1.875	1.938
Total of Index Crimes	691	608	587	577	527	440
Index Crimes per Capital	0.047	0.04	0.038	0.037	0.031	0.026
Number of Drug Arrests	367	582	486	410	275	156
Drug Arrests per Capita	0.025	0.038	0.032	0.027	0.016	0.009
Fire						
Average Response Time	4.18	4.47	5.09	5.4	5.06	4.09
Total Calls	2,101	2,003	2,106	2,197	2,236	2,280
Calls per Capita	0.142	0.132	0.137	0.142	0.013	0.136
Fire Personnel per 1000 of Pop.	1.552	1.513	1.561	1.49	1.434	1.374
Fire Safety Inspections	580	401	486	453	396	418
Event Center						
Number of Events	-	-	-	28	22	21
Number of Days Used	-	-	-	77	104	101
Other Public Works						
Street Slurry sealed (miles)	-	-	-	15	13.6	14.2
Snow Removal (hours)	-	-	-	453	250	277
Parks and recreation						
Use of Facilities - Number of Activities	-	-	-	30	39	90
Program Registrations	-	-	-	2,040	1,951	3,241
Ramada Reservations	-	-	-	372	232	276
Swim Lessons	-	-	-	201	207	395
Pool Passes	-	-	-	2,498	2,420	2,450
Library						
Number of Patrons	12,148	13,950	15,257	17,136	14,432	15,712
Number of Internet Users	17,504	18,725	20,305	18,423	15,095	15,342
Number of New Cards Issued	1,684	1,731	1,605	1,562	1,415	1,400
Circulation per Capita	11.07	11.41	11.71	9.23	9.07	9.07
Patrons as % of Population	82	91.8	99.2	111.1	86.2	93.8
Water						
Number of Water Taps	6,948	7,122	7,399	7,609	7,728	7,777
Average daily consumption (thousand of gallons)	1,523.90	1,462.30	1,533.70	1,561.70	1,502.30	1,534.30
Peak daily consumption (thousand of gallons)	2,349.60	2,117.90	2,094.10	2,169.40	2,055.10	2,384.20
Elections						
Number of Registered Voters	9,272	7,117	7,117	8,828	8,828	8,913
Number Voting in Last Election	3,482	4,149	4,149	5,479	5,479	5,123
% of Participation of Voters	37.55%	58.30%	58.30%	62.06%	62.06%	57.48%

Source: The Town of Payson.

(a) Starting in 2005 Multi-Family Residential is reflected in the total number of permits and building valuation

Fiscal Year			
2009	2010	2011	2012
115	37	34	49
\$ 20,388,596	\$ 9,358,003	\$ 19,087,366	\$ 12,652,967
7.23	5	5.33	8.05
31	31	30	30
24,233	26,233	28,259	20,956
782	846	942	699
1.824	1.824	1.961	1.961
635	617	675	655
0.037	0.036	0.044	0.043
78	126	95	137
0.005	0.007	0.006	0.009
4.2	4.06	4.47	4.42
3	2,387	2,588	2,625
0.161	0.138	0.169	0.172
1.562	1.562	1.765	2.157
576	535	567	398
25	30	35	42
120	127	127	134
0	0	6	0
64	64	0	0
115	118	122	122
3,756	3,464	3,668	3,235
250	264	302	265
325	n/a	n/a	n/a
2,500	n/a	n/a	n/a
16,674	13,474	13,525	14,784
15,532	14,838	18,388	10,269
1,200	1,143	1,267	1,259
9.71	9.53	11.34	10.68
99.9	96.5	88.4	96.62
7,827	7,854	7,800	7,838
1,468.80	1,490.60	1,493.40	1,448.20
2,467.50	2,044.30	2,050.40	2,057.00
8,913	9,304	9,304	9,921
5,123	5,123	5,123	3,146
57.48%	55.06%	55.06%	31.71%

**TOWN OF PAYSON, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function/Program	Fiscal Years									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Area - Square Miles	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Police										
Number of Employees	29	29	31	28	30	32	32	31	31	31
Patrol Vehicles	49	50	43	23	21	23	23	23	22	20
Fire										
Number of Firefighters	21	21	23	24	24	24	24	24	27	33
Number of Fire stations	2	2	2	2	2	2	2	2	3	3
Number of Municipal Employees (excluding Public safety)	81	94	92	98	102	102	102	102	102.5	102.5
Public Works										
Streets (miles)	104.7	105.5	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9
Number of Water taps	6,948	7,122	7,399	7,609	7,728	7,777	7,827	7,854	7,800	7,838
Parks and recreation										
Acreage	169	169	169	169	169	169	169	169	169	169
Playgrounds	3	3	3	3	3	3	3	3	3	3
Swimming Pools	1	1	1	1	1	1	1	1	1	1

Source: The Town of Payson.