

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2013



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TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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Finance Department
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December 19, 2013

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, 2013 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 unmodified (“clean”) opinion on the Town of Payson’s financial statements for the fiscal year ended June 30, 2013. 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 7,908 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 2012-2013. 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, 2013 was 9.3%. This is 0.3% less than last year, and is higher than the State's rate of 8.0% and the County's rate of 6.7%. 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 2012-13.

- 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. In 2012-2013, the Town de-obligated \$2.4 million of the \$10.6 million and received another WIFA loan in the amount of \$6.25 million to continue the construction.
- Construction of the in-town portion of the water pipeline finished during fiscal year 2012-2013.

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, 2012. This was the 14th 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 2012-2013. 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 14th 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

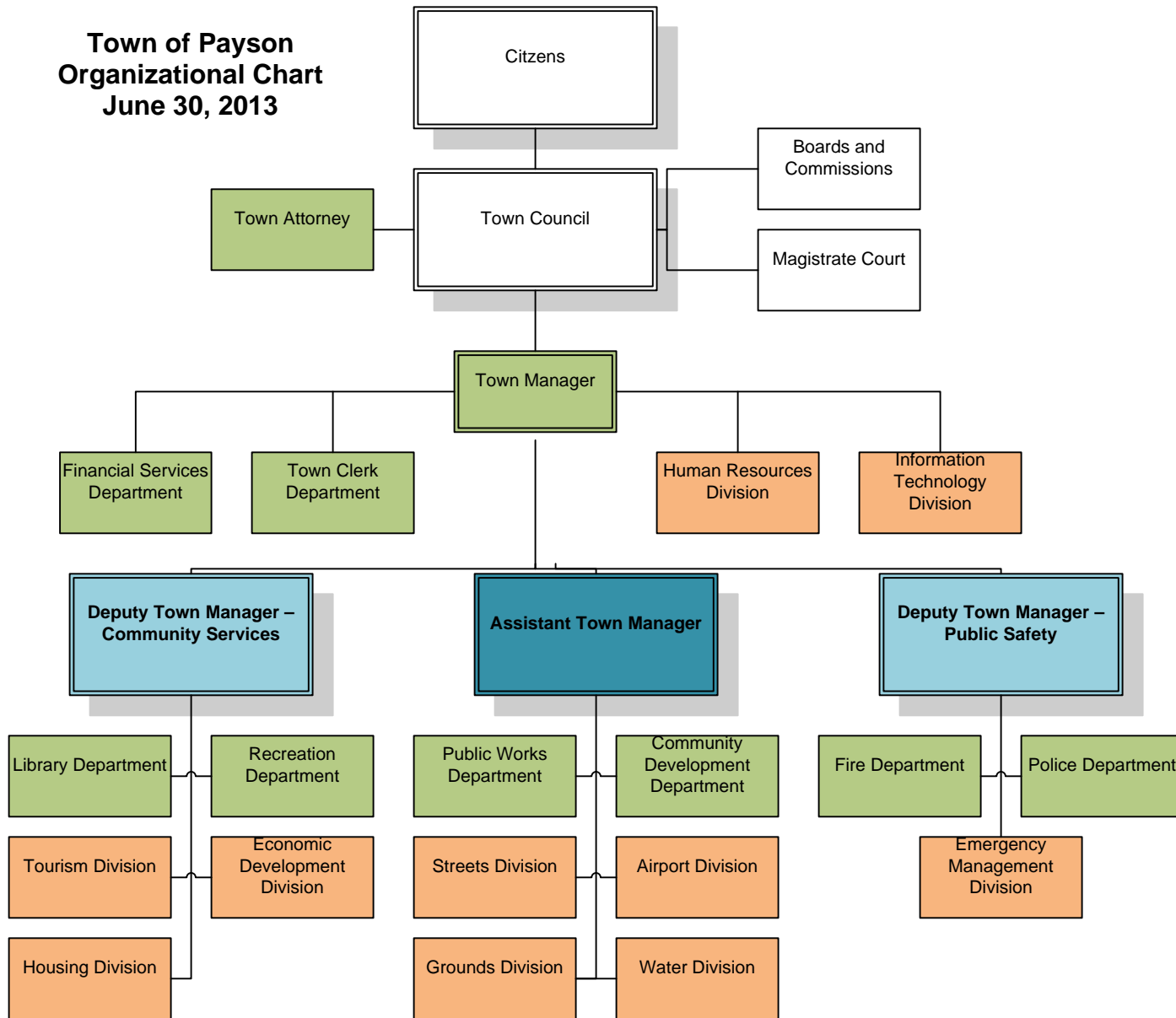
Debra A. Galbraith, Town Manager
LaRon Garrett, Assistant Town Manager
Don Engler, Deputy Town Manager

DEPARTMENT DIRECTORS

Town Clerk
Town Attorney
Magistrate Court
Finance Manager
Police Chief
Fire Chief
Librarian
Public Works
Recreation and Tourism

Silvia Smith
Timothy Wright
Dorothy Little
Hope Cribb
Don Engler
Marty DeMasi
Emily Linkey
LaRon Garrett
Cameron Davis

**Town of Payson
Organizational Chart
June 30, 2013**





Government Finance Officers Association

**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, 2012

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 11–20 and the schedule of pension benefits, and other postemployment benefits other than pensions on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the Town of Payson, Arizona'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Payson, Arizona's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Phoenix, Arizona
December 19, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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 \$126.0 million (net position). Of this amount \$0.6 million is unrestricted and may be used to meet the Town's on-going obligations to citizens and creditors. The decrease in unrestricted net position is largely due to the accounting treatment for health insurance costs, accounting treatment for the completion of the new fire station and payoff of several large debt issues.
- ◆ As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2.4 million, a decrease of \$0.4 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$480,761 or 3.6 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$2.5 million for fiscal year 2013. Additionally, budgetary basis expenditures were 84% (\$2.5 million (16%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$489,400 million; a variance of \$43,200 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, 2013, the Town has drawn down \$6.2 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 notes to the basic financial statements.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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 position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as 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 position changed during the most recent fiscal year. Changes in net position 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 21 - 22 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, 2013**

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 23 - 28 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 29 - 32 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 33 - 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 pensions and other postemployment benefits other than pensions. 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 position may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Position of the Town for June 30, 2013 showing that assets exceeded liabilities by \$126.0 million.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

**Condensed Statement of Net Position
June 30, 2013 and 2012**

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|----------------|--------------------------|---------------|----------------|----------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Assets | | | | | | |
| Current and Other Assets | \$ 3,627,772 | \$ 4,664,103 | \$ 8,915,176 | \$ 7,456,253 | \$ 12,542,948 | \$ 12,120,356 |
| Capital Assets | | | | | | |
| Non-depreciable | 12,238,995 | 13,928,361 | 15,816,504 | 12,477,523 | 28,055,499 | 26,405,884 |
| Depreciable (net) | 95,523,182 | 95,223,700 | 9,233,832 | 10,057,162 | 104,757,014 | 105,280,862 |
| Total Assets | 111,389,949 | 113,816,164 | 33,965,512 | 29,990,938 | 145,355,461 | 143,807,102 |
| Liabilities | | | | | | |
| Current Liabilities | 553,425 | 660,198 | 753,862 | 700,441 | 1,307,287 | 1,360,639 |
| Noncurrent Liabilities | | | | | | |
| Due Within One Year | 1,458,258 | 1,706,385 | 597,607 | 419,883 | 2,055,865 | 2,126,268 |
| Due in More Than One Year | 9,374,397 | 8,941,736 | 6,625,133 | 3,230,554 | 15,999,530 | 12,172,290 |
| Total Liabilities | 11,386,080 | 11,308,319 | 7,976,602 | 4,350,878 | 19,362,682 | 15,659,197 |
| Net Position | | | | | | |
| Net Investment in Capital Assets | 104,037,027 | 104,528,536 | 18,768,107 | 19,707,632 | 122,805,134 | 124,236,168 |
| Restricted | 2,088,595 | 2,471,981 | 451,859 | 451,859 | 2,540,454 | 2,923,840 |
| Unrestricted | (6,121,753) | (4,492,672) | 6,768,944 | 5,480,569 | 647,191 | 987,897 |
| Total Net Position | \$ 100,003,869 | \$ 102,507,845 | \$ 25,988,910 | \$ 25,640,060 | \$ 125,992,779 | \$ 128,147,905 |

Net position consist of three components. The largest portion of the Town's net position (97%) reflects its net 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 position (2.0%) represents resources that are subject to external restrictions. The remaining balance (\$0.6 million) represents unrestricted net position.

At the end of the current fiscal year, the Town was able to report positive balances in all three categories of net position for the government as a whole. The negative unrestricted net position, reported in the governmental activities, was largely due the accounting treatment for health insurance costs, accounting treatment for the completion of the new fire station and payoff of several large debt issues.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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

| Changes in Net Position | | | | | | |
|--|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| Fiscal Years Ended June 30, 2013 and 2012 | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Fees, Fines and Charges for Services | \$ 1,712,074 | \$ 1,521,174 | \$ 4,569,601 | \$ 4,268,103 | \$ 6,281,675 | \$ 5,789,277 |
| Operating Grants and Contributions | 2,946,035 | 2,661,413 | - | 75,000 | 2,946,035 | 2,736,413 |
| Capital Grants and Contributions | 296,246 | 675,204 | - | 826,370 | 296,246 | 1,501,574 |
| General Revenues: | | | | | | |
| Sales Taxes | 6,047,114 | 6,047,629 | - | - | 6,047,114 | 6,047,629 |
| Property Taxes | 882,079 | 960,360 | - | - | 882,079 | 960,360 |
| Franchise Taxes | 356,550 | 351,227 | - | - | 356,550 | 351,227 |
| State Share d Revenues | 2,815,379 | 2,487,041 | - | - | 2,815,379 | 2,487,041 |
| Auto Lieu Taxes | 832,631 | 833,014 | - | - | 832,631 | 833,014 |
| Investment Earnings (Loss) | 388 | 2,610 | 9,324 | 1,475 | 9,712 | 4,085 |
| Total Revenues | <u>15,888,496</u> | <u>15,539,672</u> | <u>4,578,925</u> | <u>5,170,948</u> | <u>20,467,421</u> | <u>20,710,620</u> |
| EXPENSES | | | | | | |
| General Government | 4,075,873 | 3,574,186 | - | - | 4,075,873 | 3,574,186 |
| Public Safety | 8,977,125 | 8,845,884 | - | - | 8,977,125 | 8,845,884 |
| Highways and Streets | 2,479,031 | 2,632,098 | - | - | 2,479,031 | 2,632,098 |
| Culture and Recreation | 1,252,833 | 1,453,416 | - | - | 1,252,833 | 1,453,416 |
| Public Works | 195,693 | 212,155 | - | - | 195,693 | 212,155 |
| Community Development | 982,040 | 880,320 | - | - | 982,040 | 880,320 |
| Health and Welfare | 264,900 | 267,331 | - | - | 264,900 | 267,331 |
| Interest on Long-Term Debt | 147,677 | 224,074 | - | - | 147,677 | 224,074 |
| Water | - | - | 4,247,375 | 4,373,128 | 4,247,375 | 4,373,128 |
| Total Expenses | <u>18,375,172</u> | <u>18,089,464</u> | <u>4,247,375</u> | <u>4,373,128</u> | <u>22,622,547</u> | <u>22,462,592</u> |
| CHANGE IN NET POSITION BEFORE TRANSFERS | (2,486,676) | (2,549,792) | 331,550 | 797,820 | (2,155,126) | (1,751,972) |
| Transfers | (17,300) | (17,300) | 17,300 | 17,300 | - | - |
| CHANGE IN NET POSITION | <u>(2,503,976)</u> | <u>(2,567,092)</u> | <u>348,850</u> | <u>815,120</u> | <u>(2,155,126)</u> | <u>(1,751,972)</u> |
| Net Position - Beginning of Year | 102,507,845 | 105,074,937 | 25,640,060 | 24,824,940 | 128,147,905 | 129,899,877 |
| NET POSITION - END OF YEAR | <u>\$ 100,003,869</u> | <u>\$ 102,507,845</u> | <u>\$ 25,988,910</u> | <u>\$ 25,640,060</u> | <u>\$ 125,992,779</u> | <u>\$ 128,147,905</u> |

Governmental activities. Total governmental revenues increased over the prior year with a net increase of \$0.3 million (2.2%).

Program revenues increased \$96,564 over the prior fiscal year. The increase was the net result of an 11% increase in operating grants and contributions, 13% increase in fees, fines and charges for services, and a 56% decrease in capital grants and contributions. The increase in the operating grants and contributions was mainly due to an increase in fire service grants (\$277,601). The decrease in capital grants and contributions was due to a decline in airport and community development block grant funding. The increase in fees, fines and charges for services was mainly due to the Town increasing the fees related to enterprise activities provided by the general government.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

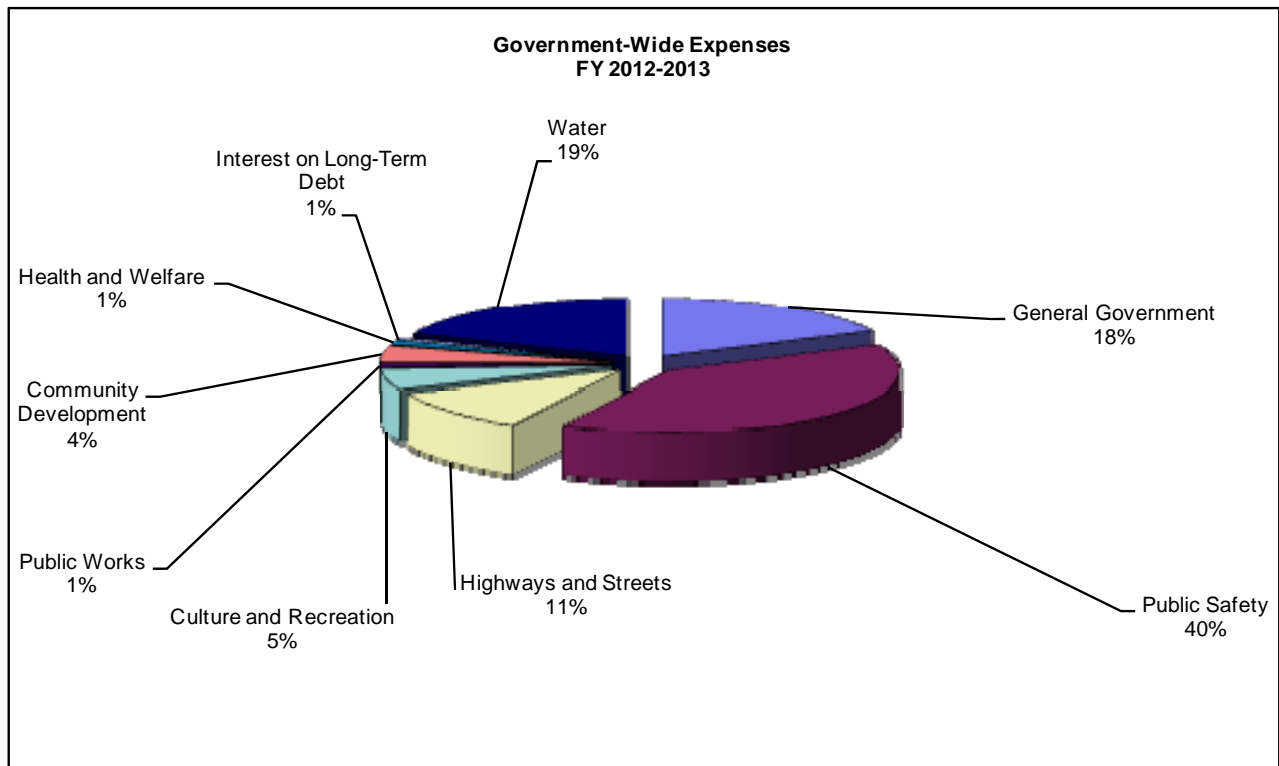
General revenues increased \$252,260. The increase was largely due to an increase in stated shared funding. Specifically, the Town recognized a \$271,548 increase in the state share of income tax revenue. The remaining changes in general revenues were not significant.

Overall, expenses increased \$285,708 from the prior year. The increase was mainly due to expenses for the 6 new firefighters hired for the SAFER grant, increasing public safety expenses by \$131,241. General government increased \$501,687 due to an increase in Other Post Employment Benefit expenses. Conversely, culture and recreation expenses decreased as a result of changes in some of the events.

Business-type activities. Charges for services increased over the prior fiscal year by \$0.3 million. The increase was due to increased rates that were implemented during the fiscal year 2012-13 for water usage. Capital grants decreased \$0.8 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% (\$125,753) reduction 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 position.



**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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 \$2.4 million, a decrease of \$0.4 million in comparison with the prior year. Approximately 41% of this total amount (\$1.0 million) constitutes General Fund fund balance, which is reported as either nonspendable, restricted, committed, assigned or unassigned fund balance. At fiscal year-end 2012-2013 fund balances were as follows:

| Fund | Balance | Increase (Decrease) From 2011-12 |
|-----------------------------|------------|--|
| General Fund | \$ 964,961 | 64,211 |
| Debt Service Fund | 572,960 | (138,300) |
| Nonmajor Governmental Funds | 834,964 | (315,200) |

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 4% of total General Fund expenditures, while total unassigned fund balance represents 3% of total fund expenditures.

The General Fund increase of \$64,211 was not significant.

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 \$138,300 due to the use of carryover funds from prior years for current debt service.

The Nonmajor Governmental Funds decrease of \$315,200 was due to an increase in transfers to pay for debt service costs and an increase in expenditures over revenues for capital purchases.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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 27 - 28. 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 \$13.7 million were less than budgeted revenues of \$16.2 million by \$2.5 million while expenditures of \$13.2 million were 84% of budgeted expenditures (savings of \$2.5 million). Revenues were less than budgeted revenues primarily due to economic downturns. The expenditure savings were derived largely from unspent contingencies, and vacancies savings.

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

Capital Assets

The Town's capital assets for its governmental activities as of June 30, 2013 totaled \$107.8 million (net of accumulated depreciation), a decrease from the prior year of \$1.4 million. Business-type activities capital assets amounted to \$25.1 million (net of accumulated depreciation), a net increase from the prior year of \$2.5 million. 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 \$1.7 million in current year depreciation expense and \$1.7 million in additions to buildings upon the completion of the fire station. Of the \$1.7 million increase to buildings, only \$46,960 was new expenditures for the fiscal year. The Town also purchased \$203,242 in weather system upgrades at the Airport facility. The changes in vehicles, machinery and equipment were not significant during the current year.

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 \$3.1 million in construction in progress additions for the continued construction on the CC Cragin Pipeline. The Town also reported \$0.3 million in additions to water rights.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

The following table provides a breakdown of the capital assets of the Town at June 30, 2013 and 2012.

**Capital Assets (net)
June 30, 2013 and 2012**

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | \$ 12,238,995 | \$ 12,238,995 | \$ 1,577,957 | \$ 1,577,957 | \$ 13,816,952 | \$ 13,816,952 |
| Construction in Progress | - | 1,689,366 | 10,132,051 | 7,077,220 | 10,132,051 | 8,766,586 |
| Water Rights | - | - | 4,106,496 | 3,822,346 | 4,106,496 | 3,822,346 |
| Infrastructure | 83,961,905 | 84,601,017 | - | - | 83,961,905 | 84,601,017 |
| Buildings | 7,083,842 | 5,402,038 | 330,911 | 201,045 | 7,414,753 | 5,603,083 |
| Improvements Other Than Buildings | 1,834,344 | 2,103,261 | 8,687,531 | 9,616,644 | 10,521,875 | 11,719,905 |
| Vehicles, Machinery and Equipment | 2,643,091 | 3,117,384 | 215,390 | 239,473 | 2,858,481 | 3,356,857 |
| Total Capital Assets | \$ 107,762,177 | \$ 109,152,061 | \$ 25,050,336 | \$ 22,534,685 | \$ 132,812,513 | \$ 131,686,746 |

Long-Term Debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$18.1 million. Of the outstanding debt, \$2.0 million (including \$49,952 premium on the bonds) is general obligation bonds and \$6.3 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 \$0.6 million.

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, 2013 is \$8.7 million in the 6% capacity and \$35.7 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (pages 91 - 93).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2013 and 2012. 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, 2013 and 2012**

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General Obligation Bonds | \$ 2,044,952 | \$ 2,474,325 | \$ - | \$ - | \$ 2,044,952 | \$ 2,474,325 |
| Special Assessment Bonds | 585,000 | 635,000 | - | - | 585,000 | 635,000 |
| Revenue Bonds | 575,000 | 675,000 | - | - | 575,000 | 675,000 |
| Certificates of Participation | - | 45,000 | - | - | - | 45,000 |
| Notes Payable | - | - | 6,282,229 | 2,827,053 | 6,282,229 | 2,827,053 |
| Capital Leases | 520,198 | 794,200 | - | - | 520,198 | 794,200 |
| Compensated Absences | 1,212,985 | 1,193,250 | 218,311 | 233,654 | 1,431,296 | 1,426,904 |
| Other Postemployment Benefits | 5,894,520 | 4,831,346 | 722,200 | 589,730 | 6,616,720 | 5,421,076 |
| Total Outstanding Debt | \$ 10,832,655 | \$ 10,648,121 | \$ 7,222,740 | \$ 3,650,437 | \$ 18,055,395 | \$ 14,298,558 |

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

Economic Factors and Next Year's Budgets and Rates

The Town, as well as all other Arizona cities, remains dependent on state shared revenues (18%) and local sales taxes for resources (38%). 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 2013-2014 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 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.
- 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

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TOWN OF PAYSON, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

| | Primary Government | | |
|----------------------------------|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Investments | \$ 1,483,538 | \$ 7,210,108 | \$ 8,693,646 |
| Receivables, Net | | | |
| Accounts Receivable | 61,874 | 562,531 | 624,405 |
| Intergovernmental Receivables | 880,085 | - | 880,085 |
| Property Taxes Receivable | 9,741 | - | 9,741 |
| Special Assessments Receivable | 659,439 | - | 659,439 |
| Notes Receivable | - | 127,913 | 127,913 |
| Prepaid Items | 7,692 | - | 7,692 |
| Restricted Cash and Investments | 525,403 | 972,017 | 1,497,420 |
| Other Assets | - | 42,607 | 42,607 |
| Capital Assets | | | |
| Non-Depreciable | 12,238,995 | 15,816,504 | 28,055,499 |
| Depreciable (Net) | 95,523,182 | 9,233,832 | 104,757,014 |
| Total Assets | <u>111,389,949</u> | <u>33,965,512</u> | <u>145,355,461</u> |
| LIABILITIES | | | |
| Accounts Payable | 253,424 | 124,847 | 378,271 |
| Accrued Wages and Benefits | 273,365 | 31,898 | 305,263 |
| Interest Payable | 14,743 | 76,959 | 91,702 |
| Customer Deposits Payable | 11,893 | 520,158 | 532,051 |
| Noncurrent Liabilities | | | |
| Due Within One Year | 1,458,258 | 597,607 | 2,055,865 |
| Due in More Than One Year | 9,374,397 | 6,625,133 | 15,999,530 |
| Total Liabilities | <u>11,386,080</u> | <u>7,976,602</u> | <u>19,362,682</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 104,037,027 | 18,768,107 | 122,805,134 |
| Restricted for | | | |
| State and Federal Grants | 317,820 | - | 317,820 |
| Public Safety | 86,248 | - | 86,248 |
| Highways and Streets | 143,670 | - | 143,670 |
| Debt Service | 1,232,399 | 409,940 | 1,642,339 |
| Capital Outlay | 308,458 | 41,919 | 350,377 |
| Unrestricted | (6,121,753) | 6,768,944 | 647,191 |
| Total Net Position | <u>\$ 100,003,869</u> | <u>\$ 25,988,910</u> | <u>\$ 125,992,779</u> |

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013**

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|--|--|--|--|-----------------------------|-----------------------|
| | 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 | \$ 4,075,873 | \$ 1,046,540 | \$ 24,729 | \$ 191,820 | \$ (2,812,784) | | \$ (2,812,784) |
| Public Safety | 8,977,125 | 318,429 | 1,551,117 | 40,724 | (7,066,855) | | (7,066,855) |
| Highways and Streets | 2,479,031 | - | 1,358,524 | 10,579 | (1,109,928) | | (1,109,928) |
| Culture and Recreation | 1,252,833 | 63,198 | 11,665 | - | (1,177,970) | | (1,177,970) |
| Public Works | 195,693 | 107,266 | - | - | (88,427) | | (88,427) |
| Community Development | 982,040 | 158,449 | - | 53,123 | (770,468) | | (770,468) |
| Health and Welfare | 264,900 | 18,192 | - | - | (246,708) | | (246,708) |
| Interest on Long-Term Debt | 147,677 | - | - | - | (147,677) | | (147,677) |
| Total Governmental Activities | <u>18,375,172</u> | <u>1,712,074</u> | <u>2,946,035</u> | <u>296,246</u> | <u>(13,420,817)</u> | | <u>(13,420,817)</u> |
| Business-Type Activities | | | | | | | |
| Water | 4,247,375 | 4,569,601 | - | - | - | \$ 322,226 | 322,226 |
| Totals | <u>\$ 22,622,547</u> | <u>\$ 6,281,675</u> | <u>\$ 2,946,035</u> | <u>\$ 296,246</u> | <u>(13,420,817)</u> | <u>322,226</u> | <u>(13,098,591)</u> |
| General Revenues: | | | | | | | |
| Taxes | | | | | | | |
| Sales Taxes | | | | | 6,047,114 | - | 6,047,114 |
| Property Taxes | | | | | 858,817 | - | 858,817 |
| Franchise Taxes | | | | | 356,550 | - | 356,550 |
| Special Assessments | | | | | 23,262 | - | 23,262 |
| State Sales Tax Revenue Sharing - Unrestricted | | | | | 2,815,379 | - | 2,815,379 |
| Auto Lieu Tax Revenue Sharing - Unrestricted | | | | | 832,631 | - | 832,631 |
| Investment Earnings | | | | | 388 | 9,324 | 9,712 |
| Transfers | | | | | (17,300) | 17,300 | - |
| Total General Revenues and Transfers | | | | | <u>10,916,841</u> | <u>26,624</u> | <u>10,943,465</u> |
| Change in Net Position | | | | | (2,503,976) | 348,850 | (2,155,126) |
| Net Position - Beginning | | | | | 102,507,845 | 25,640,060 | 128,147,905 |
| Net Position - Ending | | | | | <u>\$ 100,003,869</u> | <u>\$ 25,988,910</u> | <u>\$ 125,992,779</u> |

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

| | General | Debt Service | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Investments | \$ 658,301 | \$ 587,703 | \$ 212,723 | \$ 1,458,727 |
| Restricted Cash and Investments | - | - | 525,403 | 525,403 |
| Receivables, Net | | | | |
| Taxes Receivable | 9,741 | - | - | 9,741 |
| Accounts Receivable | 56,619 | - | 156 | 56,775 |
| Intergovernmental Receivable | 713,183 | - | 166,902 | 880,085 |
| Special Assessments Receivable | - | 659,439 | - | 659,439 |
| Prepaid Items | 7,692 | - | - | 7,692 |
| Total Assets | <u>\$ 1,445,536</u> | <u>\$ 1,247,142</u> | <u>\$ 905,184</u> | <u>\$ 3,597,862</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 209,029 | \$ - | \$ 43,927 | \$ 252,956 |
| Accrued Wages and Benefits | 247,072 | - | 26,293 | 273,365 |
| Interest Payable | - | 14,743 | - | 14,743 |
| Customer Deposits Payable | 11,893 | - | - | 11,893 |
| Total Liabilities | <u>467,994</u> | <u>14,743</u> | <u>70,220</u> | <u>552,957</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable Revenues | 12,581 | 659,439 | - | 672,020 |
| Fund Balances | | | | |
| Nonspendable for Prepaids | 7,692 | - | - | 7,692 |
| Restricted | 317,820 | 572,960 | 538,376 | 1,429,156 |
| Assigned: | | | | |
| Public Safety | 57,053 | - | - | 57,053 |
| Culture and Recreation | 101,635 | - | - | 101,635 |
| Capital Outlay | - | - | 296,588 | 296,588 |
| Unassigned | 480,761 | - | - | 480,761 |
| Total Fund Balances | <u>964,961</u> | <u>572,960</u> | <u>834,964</u> | <u>2,372,885</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 1,445,536</u> | <u>\$ 1,247,142</u> | <u>\$ 905,184</u> | <u>\$ 3,597,862</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 POSITION
JUNE 30, 2013

Total Fund Balances for Governmental Funds \$ 2,372,885

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 | 140,687,954 |
| Less Accumulated Depreciation | (32,925,777) |
| Capital Assets Used in Governmental Activities | 107,762,177 |

Some revenues are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.

| | |
|----------------------------|---------|
| Property Taxes | 12,581 |
| Special Assessment Revenue | 659,439 |

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 | (1,995,000) |
| Special Assessment Bonds | (585,000) |
| Revenue Bonds | (575,000) |
| Deferred Amount on Premium | (49,952) |
| Capital Leases | (520,198) |
| Compensated Absences | (1,212,985) |
| Other Postemployment Benefits | (5,894,520) |

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 position.

29,442

Total Net Position of Governmental Activities

\$ 100,003,869

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

| | General | Debt Service | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | | | | |
| Sales Taxes | \$ 5,719,536 | \$ 327,578 | \$ - | \$ 6,047,114 |
| Property Taxes | 616,931 | - | 229,305 | 846,236 |
| Franchise Taxes | 356,550 | - | - | 356,550 |
| Intergovernmental | 5,398,671 | - | 1,452,371 | 6,851,042 |
| Fines and Forfeitures | 150,669 | - | 14,541 | 165,210 |
| Licenses and Permits | 247,821 | - | - | 247,821 |
| Charges for Services | 704,572 | - | - | 704,572 |
| Contributions and Donations | 38,118 | - | 1,131 | 39,249 |
| Development Impact Fees | - | - | 65,275 | 65,275 |
| Special Assessments | - | 57,930 | - | 57,930 |
| Investment Earnings | 388 | - | - | 388 |
| Other | 496,031 | - | 33,165 | 529,196 |
| Total Revenues | <u>13,729,287</u> | <u>385,508</u> | <u>1,795,788</u> | <u>15,910,583</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | 3,204,129 | - | - | 3,204,129 |
| Public Safety | 7,973,221 | - | - | 7,973,221 |
| Highways and Streets | 406,447 | - | 1,458,856 | 1,865,303 |
| Culture and Recreation | 433,184 | - | 323,859 | 757,043 |
| Community Development | 914,020 | - | - | 914,020 |
| Health and Welfare | 261,394 | - | - | 261,394 |
| Debt Service | | | | |
| Principal Retirement | 41,819 | 847,183 | - | 889,002 |
| Interest on Long-Term Debt | 5,673 | 151,377 | - | 157,050 |
| Capital Outlay | - | - | 261,410 | 261,410 |
| Total Expenditures | <u>13,239,887</u> | <u>998,560</u> | <u>2,044,125</u> | <u>16,282,572</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 489,400 | (613,052) | (248,337) | (371,989) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | 474,752 | 87,476 | 562,228 |
| Transfers Out | (425,189) | - | (154,339) | (579,528) |
| Total Other Financing Sources (Uses) | <u>(425,189)</u> | <u>474,752</u> | <u>(66,863)</u> | <u>(17,300)</u> |
| Net Change in Fund Balances | 64,211 | (138,300) | (315,200) | (389,289) |
| FUND BALANCES | | | | |
| Beginning of Year | 900,750 | 711,260 | 1,150,164 | 2,762,174 |
| End of Year | <u>\$ 964,961</u> | <u>\$ 572,960</u> | <u>\$ 834,964</u> | <u>\$ 2,372,885</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, 2013**

Net Change in Fund Balances of Governmental Funds \$ (389,289)

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 | 322,793 |
| Less Current Year Depreciation | (1,712,677) |
| Excess Depreciation Over Capital Expenditures | (1,389,884) |

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.

| | |
|---------------------|----------|
| Property Taxes | 12,581 |
| Special Assessments | (34,668) |

The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of 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 | 615,000 |
| Principal Payments on Capital Leases | 274,002 |
| Amortization of Issuance Costs | (94,614) |
| Amortization of Deferred Amount on Bond Premium | 9,373 |

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 | (19,735) |
| Net Change in Other Postemployment Benefits | (1,063,174) |

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.

| | |
|---|----------------|
| | (423,568) |
| Change in Net Position of Governmental Activities | \$ (2,503,976) |

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|--------------------------------------|-------------------|---------------------------------------|
| REVENUES | | | |
| Taxes | \$ 6,905,700 | \$ 6,693,017 | \$ (212,683) |
| Intergovernmental | 7,484,900 | 5,398,671 | (2,086,229) |
| Fines and Forfeitures | 164,500 | 150,669 | (13,831) |
| Licenses and Permits | 97,700 | 247,821 | 150,121 |
| Charges for Services | 887,700 | 704,572 | (183,128) |
| Contributions and Donations | 37,800 | 38,118 | 318 |
| Investment Earnings | 2,000 | 388 | (1,612) |
| Other | 607,300 | 496,031 | (111,269) |
| Total Revenues | <u>16,187,600</u> | <u>13,729,287</u> | <u>(2,458,313)</u> |
| EXPENDITURES | | | |
| Current | | | |
| General Government | | | |
| General Government Administration | 785,700 | 783,967 | 1,733 |
| Town Clerk | 256,100 | 245,135 | 10,965 |
| Elections | 38,200 | - | 38,200 |
| Town Manager | 198,100 | 192,398 | 5,702 |
| Town Council | 118,300 | 98,766 | 19,534 |
| Human Resources | 180,300 | 152,976 | 27,324 |
| Computer Information Services | 532,500 | 498,080 | 34,420 |
| Financial Services | 331,800 | 319,598 | 12,202 |
| Courts | 219,000 | 193,151 | 25,849 |
| Airport | 717,400 | 389,324 | 328,076 |
| Attorney | 348,900 | 330,734 | 18,166 |
| Total General Government | <u>3,726,300</u> | <u>3,204,129</u> | <u>522,171</u> |
| Public Safety | | | |
| Police Department | 6,276,900 | 4,953,716 | 1,323,184 |
| Fire Department | 3,635,500 | 3,019,505 | 615,995 |
| Total Public Safety | <u>9,912,400</u> | <u>7,973,221</u> | <u>1,939,179</u> |
| Highways and Streets | | | |
| Streets | 410,500 | 406,447 | 4,053 |
| Culture and Recreation | | | |
| Park Operations | 65,500 | 71,835 | (6,335) |
| Recreation | 383,000 | 311,687 | 71,313 |
| Aquatics | 45,300 | 46,562 | (1,262) |
| Trails | 11,600 | 3,100 | 8,500 |
| Total Culture and Recreation | <u>505,400</u> | <u>433,184</u> | <u>72,216</u> |

(Continued)

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|--------------------------------------|-------------------|---------------------------------------|
| EXPENDITURES (CONTINUED) | | | |
| Current (Continued) | | | |
| Community Development | | | |
| Planning and Zoning | \$ 303,300 | \$ 303,495 | \$ (195) |
| Building Inspections | 417,800 | 415,595 | 2,205 |
| Tourism - Economic Vitality | 199,400 | 194,930 | 4,470 |
| Total Community Development | <u>920,500</u> | <u>914,020</u> | <u>6,480</u> |
| Health and Welfare | | | |
| Health and Welfare | 116,400 | 116,400 | - |
| Animal Control | 149,900 | 144,994 | 4,906 |
| Total Health and Welfare | <u>266,300</u> | <u>261,394</u> | <u>4,906</u> |
| Debt Service | | | |
| Principal Retirement | - | 41,819 | (41,819) |
| Interest on Long-Term Debt | - | 5,673 | (5,673) |
| Total Expenditures | <u>15,741,400</u> | <u>13,239,887</u> | <u>2,501,513</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 446,200 | 489,400 | 43,200 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | 105,249 | - | (105,249) |
| Transfers Out | <u>(442,000)</u> | <u>(425,189)</u> | <u>16,811</u> |
| Net Change in Fund Balance | 109,449 | 64,211 | (45,238) |
| FUND BALANCE | | | |
| Beginning of Year | - | 900,750 | 900,750 |
| End of Year | <u>\$ 109,449</u> | <u>\$ 964,961</u> | <u>\$ 855,512</u> |

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

| | Business-Type Activities - Enterprise Funds | Governmental Activities |
|----------------------------------|---|----------------------------|
| | Water Fund | Internal Service Funds |
| ASSETS | | |
| Current Assets | | |
| Cash and Investments | \$ 7,210,108 | \$ 24,811 |
| Receivables, Net | | |
| Accounts Receivable | 562,531 | 5,099 |
| Notes Receivable | 127,913 | - |
| Restricted Cash and Investments | 972,017 | - |
| Total Current Assets | 8,872,569 | 29,910 |
| Noncurrent Assets | | |
| Other Assets | 42,607 | - |
| Capital Assets | | |
| Non-Depreciable | 15,816,504 | - |
| Depreciable (net) | 9,233,832 | - |
| Total Noncurrent Assets | 25,092,943 | - |
| Total Assets | 33,965,512 | 29,910 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | 124,847 | 468 |
| Accrued Wages and Benefits | 31,898 | - |
| Interest Payable | 76,959 | - |
| Customer Deposits Payable | 520,158 | - |
| Compensated Absences | 149,008 | - |
| Notes Payable | 448,599 | - |
| Total Current Liabilities | 1,351,469 | 468 |
| Noncurrent Liabilities | | |
| Compensated Absences | 69,303 | - |
| Other Postemployment Benefits | 722,200 | - |
| Notes Payable | 5,833,630 | - |
| Total Noncurrent Liabilities | 6,625,133 | - |
| Total Liabilities | 7,976,602 | 468 |
| NET POSITION | | |
| Net Investment in Capital Assets | 18,768,107 | - |
| Restricted for | | |
| Debt Service | 409,940 | - |
| Capital Outlay | 41,919 | - |
| Unrestricted | 6,768,944 | 29,442 |
| Total Net Position | \$ 25,988,910 | \$ 29,442 |

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2013**

| | Business-Type Activities - <u>Enterprise Funds</u> | Governmental Activities <u>Internal Service Funds</u> |
|--|--|---|
| | <u>Water Fund</u> | |
| Operating Revenues | | |
| Charges for Services | \$ 4,389,473 | \$ - |
| Contributions | - | 1,925,595 |
| Total Operating Revenues | <u>4,389,473</u> | <u>1,925,595</u> |
| Operating Expenses | | |
| Cost of Sales and Services | 3,203,236 | 2,349,163 |
| Depreciation | 1,038,597 | - |
| Total Operating Expenses | <u>4,241,833</u> | <u>2,349,163</u> |
| Operating Income/(Loss) | 147,640 | (423,568) |
| Nonoperating Revenues (Expenses) | | |
| Development Impact Fees | 90,731 | - |
| Investment Earnings | 9,324 | - |
| Interest Expense | (5,542) | - |
| Miscellaneous Nonoperating Revenues | 89,397 | - |
| Total Nonoperating Revenues (Expenses) | <u>183,910</u> | <u>-</u> |
| Income (Loss) Before Capital Contributions and Transfers | 331,550 | (423,568) |
| Transfers In | <u>17,300</u> | <u>-</u> |
| Change in Net Position | 348,850 | (423,568) |
| Net Position | | |
| Beginning of Year | 25,640,060 | 453,010 |
| End of Year | <u>\$ 25,988,910</u> | <u>\$ 29,442</u> |

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2013**

| | Business-type Activities - Enterprise Funds | Governmental Activities |
|--|---|----------------------------|
| | Water | Internal Service Funds |
| Cash Flows from Operating Activities | | |
| Receipts from Customers | \$ 4,364,262 | \$ 1,932,634 |
| Payments to Suppliers | (1,744,849) | (2,555,724) |
| Payments to Employees | (1,342,674) | - |
| Other Receipts | 95,337 | - |
| Customer Deposits Payable | 17,180 | - |
| Net Cash Flows from Operating Activities | <u>1,389,256</u> | <u>(623,090)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Intergovernmental Revenues | - | - |
| Transfers In | 17,300 | - |
| Development impact Fees | 90,731 | - |
| Net Cash Flows from Noncapital Financing Activities | <u>108,031</u> | <u>-</u> |
| Cash Flows from Capital and Financing Activities | | |
| Purchases of Capital Assets | (3,424,214) | - |
| Principal Paid on Capital Debt | (312,513) | - |
| Interest Paid on Capital Debt | (86,913) | - |
| Issuance of Long-Term Debt | 3,767,689 | - |
| Net Cash Flows from Capital and Related Financing Activities | <u>(55,951)</u> | <u>-</u> |
| Cash Flows from Investing Activities | | |
| Investment Earnings | <u>9,324</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | 1,450,660 | (623,090) |
| Cash and Cash Equivalents, Beginning of Year | <u>6,731,465</u> | <u>647,901</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,182,125</u> | <u>\$ 24,811</u> |
| Reconciliation of cash and cash equivalents to the statement of net position | | |
| Cash and Investments | \$ 7,210,108 | \$ 24,811 |
| Restricted Cash and Investments | 972,017 | - |
| Total Cash and Cash Equivalents | <u>\$ 8,182,125</u> | <u>\$ 24,811</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, 2013**

| | Business-type Activities - Enterprise Funds | Governmental Activities |
|---|---|----------------------------|
| | Water | Internal Service Funds |
| Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities | | |
| Operating Income/(Loss) | \$ 147,640 | \$ (423,568) |
| Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by | | |
| Operating Activities: | | |
| Depreciation | 1,038,597 | - |
| Nonoperating Receipts | 89,397 | - |
| Change in Assets/Liabilities: | | |
| Receivables | (14,203) | 7,039 |
| Other Assets | 5,940 | - |
| Accounts Payable | 26,396 | (206,561) |
| Accrued Wages and Benefits | (27,810) | - |
| Unearned Revenue | (11,008) | - |
| Compensated Absences | (15,343) | - |
| Other Postemployment Benefits | 132,470 | - |
| Customer Deposits Payable | 17,180 | - |
| Net Cash Provided for Operating Activities | \$ 1,389,256 | \$ (623,090) |

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

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.

During the year ended June 30, 2013, the Town adopted GASB Statements No. 60, 61, 62, 63, and 65. GASB Statement No. 60, *Accounting and Financial Reporting of Service Concession Arrangements*, provides guidance on reporting service concession arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, relates to the reporting of component units. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, relates to the codification of prior GASB statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

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 position 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.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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.

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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position 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.

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 matured 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 position 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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity
(Continued)**

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.

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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity
(Continued)**

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 position. Bond premiums and discounts 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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 Position

In the government-wide financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because capital assets make up a significant portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the Town. Unrestricted net position are the remaining net position 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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity
(Continued)**

10. Fund Balance Classifications (Continued)

The Town reported restricted fund balances in the General Fund (\$317,820 restricted for federal and state grants), the Debt Service Fund (\$572,960 restricted to pay debt service on outstanding debt), and the Nonmajor Governmental Funds (\$538,376 restricted for highway and street activity, capital projects relating to the water trust agreement, and judicial enhancement).

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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity
(Continued)**

10. Fund Balance Classifications (Continued)

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 would report a negative unassigned fund balance if the fund fell into a deficit.

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).

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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.

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/departments:

| | <u>Amount of Overexpenditure</u> |
|---------------------|--------------------------------------|
| General Fund | |
| Park Operations | \$ 6,335 |
| Aquatics | 1,262 |
| Planning and zoning | 195 |
| Principal | 41,819 |
| Interest | 5,673 |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2013 consist of the following:

| | |
|---|--------------|
| Deposits | |
| Cash on hand | \$ 1,685 |
| Cash in bank | 834,141 |
| Investments | |
| State Treasurer's Investment Pool | 8,829,837 |
| Cash on deposit with trustee | 525,403 |
| Total Deposits and Investments | 10,191,066 |
| Less: Restricted cash and investments | (1,497,420) |
| Total cash and investments, statement of net position | \$ 8,693,646 |

Deposits - The Town had a carrying value of \$834,141 for cash on deposit with a local financial institution and a bank balance of \$1,556,818 at June 30, 2013. Of the bank balance, \$334,048 was insured by federal depository insurance, and \$1,151,822 was secured by pledged collateral. The remaining 70,948 was uninsured and uncollateralized.

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. Treasury Money Market | \$ 525,403 | \$ - | \$ - | \$ 525,403 |
| State Treasurer's Investment Pool | 8,829,837 | - | - | 8,829,837 |
| | \$ 9,355,240 | \$ - | \$ - | \$ 9,355,240 |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

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 received a rating of AA+.

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, 2013 consisted of the following:

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------|----------------------------|-----------------------------|---------------------|
| Central Arizona Project Trust | \$ 525,403 | \$ - | \$ 525,403 |
| Current debt service | - | 409,940 | 409,940 |
| Replacement and extension | - | 41,919 | 41,919 |
| Customer deposits | - | 520,158 | 520,158 |
| Total | <u>\$ 525,403</u> | <u>\$ 972,017</u> | <u>\$ 1,497,420</u> |

3. Receivables and Deferred Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

| | Unavailable |
|--------------------------------|-------------------|
| Property Tax Receivable | |
| General Fund | \$ 12,581 |
| Special Assessments Receivable | |
| Debt Service Fund | 659,439 |
| Total | <u>\$ 672,020</u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2013 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 | 1,689,366 | 46,960 | (1,736,326) | - |
| Total Capital Assets, Not Being Depreciated | <u>13,928,361</u> | <u>46,960</u> | <u>(1,736,326)</u> | <u>12,238,995</u> |
| Capital Assets, Being Depreciated: | | | | |
| Infrastructure | 100,747,390 | - | - | 100,747,390 |
| Buildings | 8,728,618 | 1,939,756 | - | 10,668,374 |
| Improvements Other Than Buildings | 7,270,233 | 10,161 | - | 7,280,394 |
| Vehicles, Machinery and Equipment | 9,716,646 | 62,242 | (26,087) | 9,752,801 |
| Total Capital Assets, Being Depreciated | <u>126,462,887</u> | <u>2,012,159</u> | <u>(26,087)</u> | <u>128,448,959</u> |
| Accumulated Depreciation for: | | | | |
| Infrastructure | (16,146,373) | (639,112) | - | (16,785,485) |
| Buildings | (3,326,580) | (257,952) | - | (3,584,532) |
| Improvements Other Than Buildings | (5,166,972) | (279,078) | - | (5,446,050) |
| Vehicles, Machinery and Equipment | (6,599,262) | (536,535) | 26,087 | (7,109,710) |
| Total Accumulated Depreciation | <u>(31,239,187)</u> | <u>(1,712,677)</u> | <u>26,087</u> | <u>(32,925,777)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>95,223,700</u> | <u>299,482</u> | <u>-</u> | <u>95,523,182</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 109,152,061</u> | <u>\$ 346,442</u> | <u>\$ (1,736,326)</u> | <u>\$ 107,762,177</u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

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 | \$ 1,577,957 | \$ - | \$ - | \$ 1,577,957 |
| Water Rights | 3,822,346 | 284,150 | - | 4,106,496 |
| Construction in Progress | 7,077,220 | 3,054,831 | - | 10,132,051 |
| Total Capital Assets, Not Being Depreciated | <u>12,477,523</u> | <u>3,338,981</u> | - | <u>15,816,504</u> |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 600,906 | 149,808 | - | 750,714 |
| Improvements Other Than Buildings | 24,419,039 | 26,775 | - | 24,445,814 |
| Vehicles, Machinery and Equipment | 1,625,496 | 38,684 | - | 1,664,180 |
| Total Capital Assets, Being Depreciated | <u>26,645,441</u> | <u>215,267</u> | - | <u>26,860,708</u> |
| Accumulated Depreciation for: | | | | |
| Buildings | (399,861) | (19,942) | - | (419,803) |
| Improvements Other Than Buildings | (14,802,395) | (955,888) | - | (15,758,283) |
| Vehicles, Machinery and Equipment | (1,386,023) | (62,767) | - | (1,448,790) |
| Total Accumulated Depreciation | <u>(16,588,279)</u> | <u>(1,038,597)</u> | - | <u>(17,626,876)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>10,057,162</u> | <u>(823,330)</u> | - | <u>9,233,832</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 22,534,685</u> | <u>\$ 2,515,651</u> | <u>\$ -</u> | <u>\$ 25,050,336</u> |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|----------------------------|---------------------|
| General Government | \$ 72,302 |
| Public Safety | 546,200 |
| Highways and Streets | 602,165 |
| Culture and Recreation | 475,188 |
| Community Development | 16,822 |
| Total Depreciation Expense | <u>\$ 1,712,677</u> |

Business-Type Activities:

| | |
|-------|---------------------|
| Water | <u>\$ 1,038,597</u> |
|-------|---------------------|

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2013 consisted of the following:

| | Transfer In | | | |
|-----------------------------|----------------------|-----------------------------------|------------------|-------------------|
| Transfer Out | Debt Service Fund | Nonmajor Governmental Funds | Water Fund | Total |
| General Fund | \$ 320,413 | \$ 87,476 | \$ 17,300 | \$ 425,189 |
| Nonmajor Governmental Funds | 154,339 | - | - | 154,339 |
| Total | <u>\$ 474,752</u> | <u>\$ 87,476</u> | <u>\$ 17,300</u> | <u>\$ 579,528</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.

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 position.

The assets acquired through capital leases are as follows:

| | |
|-----------------------------------|----------------------------|
| | Governmental Activities |
| Assets: | |
| Vehicles, machinery and equipment | \$ 830,384 |
| Less: accumulated depreciation | (476,300) |
| Total | <u>\$ 354,084</u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases (Continued)

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2013, were as follows:

| Year ending June 30, | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2014 | \$ 192,574 |
| 2015 | 192,577 |
| 2016 | 105,750 |
| 2017 | <u>52,874</u> |
| Total minimum lease payments | 543,775 |
| Less: amount representing interest | <u>(23,577)</u> |
| Present value of minimum lease payments | <u><u>\$ 520,198</u></u> |

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. 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.

| <u>Description</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>Outstanding Principal June 30, 2013</u> | <u>Amount Due Within One Year</u> |
|--------------------------------|----------------------|-----------------|--|---|
| Business-type Activities: | | | | |
| Little Note Payable | 3.357% | 7/1/12-15 | \$ 111,211 | \$ 52,227 |
| Water Infrastructure Authority | 2.891% | 7/1/12-29 | <u>6,171,018</u> | <u>396,372</u> |
| | | | <u><u>\$ 6,282,229</u></u> | <u><u>\$ 448,599</u></u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Notes Payable (Continued)

Annual debt service requirements to maturity on the note payable at June 30, 2013 are summarized as follows:

| Year Ending June 30, | Business-type Activities | |
|----------------------|--------------------------|--------------|
| | Principal | Interest |
| 2014 | \$ 459,113 | \$ 181,902 |
| 2015 | 472,782 | 168,011 |
| 2016 | 434,922 | 154,560 |
| 2017 | 442,500 | 142,105 |
| 2018 | 455,051 | 129,312 |
| 2019-2023 | 2,476,352 | 441,603 |
| 2024-2026 | 1,541,509 | 86,575 |
| | \$ 6,282,229 | \$ 1,304,068 |

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. Principal and interest paid for the current year and total secondary property taxes were \$204,125 and \$-0-, respectively. This bond was paid off in the current year.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

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 \$487,165. Principal and interest paid for the current year and total special sales taxes were \$236,810 and \$327,578, 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 \$1,727,109. Principal and interest paid for the current year and total special sales taxes were \$54,094 and \$-0- respectively.

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 \$757,425. Principal and interest paid for the current year and total excise taxes were \$83,550 and 57,930, 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 \$641,738. Principal and interest paid for the current year and total excise taxes were \$126,375 and 7,862,408 respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

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. Principal and interest paid for the current year and total park development fees were \$46,013 and \$23,625, respectively. The certificates of participation were paid in full during the current year.

The Town has pledged net revenues from the operation of the Water System to repay \$10.4 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 2032; however, as of June 30, 2013, the Town has only drawn down \$6.2 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 \$7,470,203. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$448,089 and \$1,289,961, respectively.

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, Series 2004 | 3.0-3.65 | 07/01/13-14 | \$ 2,030,000 | \$ 470,000 |
| General obligation bonds, Series 2009 | 3.0-4.0 | 07/01/13-18 | 1,525,000 | 1,525,000 |
| Total general obligation bonds | | | <u>3,555,000</u> | <u>1,995,000</u> |
| Special Assessment Bonds | | | | |
| Westerly Drive Improvement District, Series 2005 | 5.5 | 01/01/14-22 | 875,000 | 585,000 |
| Revenue Bonds | | | | |
| Excise tax revenue obligations, Public Works, Series 2003A | 3.75-4.625 | 10/01/13-17 | 860,000 | 575,000 |
| Total governmental activities | | | <u>\$ 5,290,000</u> | <u>\$ 3,155,000</u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

| | July 1, 2012 | Increases | Decreases | June 30, 2013 | Due Within One Year |
|--|----------------------|---------------------|-----------------------|----------------------|------------------------|
| Governmental Activities | | | | | |
| Bonds and Special Assessments | | | | | |
| General Obligation Bonds | \$ 2,415,000 | \$ - | \$ (420,000) | \$ 1,995,000 | \$ 230,000 |
| Special Assessment Bonds | 635,000 | - | (50,000) | 585,000 | 50,000 |
| Revenue Bonds | 675,000 | - | (100,000) | 575,000 | 105,000 |
| Certificates of Participation | 45,000 | - | (45,000) | - | - |
| | <u>3,770,000</u> | <u>-</u> | <u>(615,000)</u> | <u>3,155,000</u> | <u>385,000</u> |
| Deferred Amounts: | | | | | |
| Premium | 59,325 | - | (9,373) | 49,952 | 9,373 |
| Total Bonds and Special Assessments | <u>3,829,325</u> | <u>-</u> | <u>(624,373)</u> | <u>3,204,952</u> | <u>394,373</u> |
| Other Liabilities: | | | | | |
| Capital Leases | 794,200 | - | (274,002) | 520,198 | 180,050 |
| Compensated Absences | 1,193,250 | 877,826 | (858,091) | 1,212,985 | 883,835 |
| Other Postemployment Benefits | 4,831,346 | 1,063,174 | - | 5,894,520 | - |
| Total Other Liabilities | <u>6,818,796</u> | <u>1,941,000</u> | <u>(1,132,093)</u> | <u>7,627,703</u> | <u>1,063,885</u> |
| Governmental Activities Long-Term Liabilities | <u>\$ 10,648,121</u> | <u>\$ 1,941,000</u> | <u>\$ (1,756,466)</u> | <u>\$ 10,832,655</u> | <u>\$ 1,458,258</u> |
| | | | | | |
| | July 1, 2012 | Increases | Decreases | June 30, 2013 | Due Within One Year |
| Business-type Activities | | | | | |
| Notes Payable | \$ 2,827,053 | \$ 3,767,689 | \$ (312,513) | \$ 6,282,229 | \$ 448,599 |
| Compensated Absences | 233,654 | 129,325 | (144,668) | 218,311 | 149,008 |
| Other Postemployment Benefits | 589,730 | 132,470 | - | 722,200 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$ 3,650,437</u> | <u>\$ 4,029,484</u> | <u>\$ (457,181)</u> | <u>\$ 7,222,740</u> | <u>\$ 597,607</u> |

Debt service requirements on long-term debt at June 30, 2013 are as follows:

| | | Governmental Activities | |
|----------------------|-------------|-------------------------|-------------------|
| | | Principal | Interest |
| Year Ending June 30, | | | |
| | 2014 | \$ 385,000 | \$ 122,173 |
| | 2015 | 685,000 | 102,249 |
| | 2016 | 470,000 | 81,181 |
| | 2017 | 485,000 | 62,719 |
| | 2018 | 510,000 | 42,091 |
| | 2019 - 2023 | 620,000 | 48,025 |
| | | <u>\$ 3,155,000</u> | <u>\$ 458,438</u> |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

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, all significant claims have been dismissed, are still in discovery and no determination of liability can be made or are covered by insurance.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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, 2013, active plan members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 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, 2013, 2012 and 2011, 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> |
|-----------------------------|------------------------|---|--------------------------------------|
| 2013 | \$ 366,373 | \$ 23,233 | \$ 8,578 |
| 2012 | 366,174 | 23,792 | 8,922 |
| 2011 | 301,068 | 19,715 | 8,354 |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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 12.27% and 11.13% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2013, the Town of Payson, Arizona's annual pension cost of \$576,180 for police and \$307,124 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, 2011 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 7.85% per year compounded annually, (b) projected salary increases of 4.5% to 8.5% (including inflation at 4.5%) per year compounded annually, and (c) additional projected salary increases of 4.5% to 8.5% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2013, the plan was 40.7 percent funded for police and 69.3 percent funded for fire. The actuarial accrued liability for benefits was \$13.0 million for police and \$8.1 million for fire, and the actuarial value of assets was \$5.3 million for police and \$5.6 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$7.7 million for police and \$2.5 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.6 million for police and \$1.7 million for fire, and the ratio of the UAAL to the covered payroll was 487.3 percent for police and 144.4 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 \$1.6 million for police and \$1.7 million for fire, and the ratio of the UAAL to the covered payroll was 26.0 percent for police and 18.5 percent for fire.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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, 2013, 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 |
|-------------------------------|------------------------------|------------------------|---------------------------|
| 2011 | \$ 485,067 | 100.0 % | \$ - |
| 2012 | 481,295 | 100.0 | - |
| 2013 | 576,180 | 100.0 | - |

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percent Contributed | OPEB Benefit Obligation |
|-------------------------------|---------------------|------------------------|----------------------------|
| 2011 | \$ 32,585 | 100.0 % | \$ - |
| 2012 | 33,652 | 100.0 | - |
| 2013 | 30,025 | 100.0 | - |

**Three-Year Trend Information
Fire**

| Fiscal Year Ended June 30, | Annual Pension Cost (APC) | Percent Contributed | Net Pension Obligation |
|-------------------------------|------------------------------|------------------------|---------------------------|
| 2011 | \$ 265,399 | 100.0 % | \$ - |
| 2012 | 249,612 | 100.0 | - |
| 2013 | 307,124 | 100.0 | - |

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percent Contributed | OPEB Benefit Obligation |
|-------------------------------|---------------------|------------------------|----------------------------|
| 2011 | \$ 21,219 | 100.0 % | \$ - |
| 2012 | 22,679 | 100.0 | - |
| 2013 | 22,787 | 100.0 | - |

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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, 2013.

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 112 active participants and 46 current retirees, beneficiaries and dependents. The Town makes average monthly contributions of \$319 for employee only health care benefits plans and \$695 for employee and family health care benefit plans. The Town makes average monthly contributions of \$643 for retiree only postretirement health care benefits plan and \$1,584 for retiree and family postretirement health care benefits plans.

Funding Policy - During the year ended June 30, 2013, the Town contributed \$697,516 for all eligible retirees.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. 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 | | \$ | 1,862,258 |
| Interest on Net OPEB Obligation | | | 243,948 |
| Adjustment to Annual Required Contribution | | | <u>(213,046)</u> |
| Annual OPEB Cost (Expense) | | | 1,893,160 |
| Contributions Made | | | <u>(697,516)</u> |
| Increase in Net OPEB Obligation | | | 1,195,644 |
| Net OPEB Obligation-Beginning of Year | | | <u>5,421,076</u> |
| Net OPEB Obligation-End of Year | | | <u><u>\$ 6,616,720</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 2013, 2012 and 2011 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|---|------------------------|
| June 30, 2011 | \$ 1,960,588 | 13.2% | \$ 4,356,228 |
| June 30, 2012 | 1,932,691 | 44.9% | 5,421,076 |
| June 30, 2013 | 1,893,160 | 36.8% | 6,616,720 |

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, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

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

The actuarial accrued liability for other postemployment benefits was \$23.4 million and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$23.4 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, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% 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 8.0%, reduced by decrements to an ultimate rate of 5% over six years. The initial self-pay trend rate was 8.0%, reduced to 5% over six years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2012, was 30 years.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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**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 |
|----------------------------|---------------------------|---|----------------|--------------|------------------------|---|
| 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% |
| 2013 | 5,304,593 | 13,046,224 | 40.7% | 7,741,631 | 1,588,546 | 487.3% |

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 |
|----------------------------|---------------------------|---|----------------|--------------|------------------------|---|
| 2011 | \$ - | \$ 375,475 | 0.0% | \$ 375,475 | \$ 1,723,654 | 21.8% |
| 2012 | - | 373,890 | 0.0% | 373,890 | 1,461,875 | 25.6% |
| 2013 | - | 413,422 | 0.0% | 413,422 | 1,588,546 | 26.0% |

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 |
|----------------------------|---------------------------|---|----------------|--------------|------------------------|---|
| 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% |
| 2013 | 5,600,975 | 8,076,587 | 69.3% | 2,475,612 | 1,714,959 | 144.4% |

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 |
|----------------------------|---------------------------|---|----------------|--------------|------------------------|---|
| 2011 | \$ - | \$ 285,709 | 0.0% | \$ 285,709 | \$ 1,299,910 | 22.0% |
| 2012 | - | 294,624 | 0.0% | 294,624 | 1,482,525 | 19.9% |
| 2013 | - | 318,034 | 0.0% | 318,034 | 1,714,959 | 18.5% |

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 |
| 2012 | - | 23,427,368 | 0.0% | 23,427,368 | N/A | N/A |

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**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.

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**TOWN OF PAYSON, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | Special Revenue | | | Capital Projects | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------|----------|-----------|---------------------|--|
| | HURF | Library | JCEF/FTG | Capital Projects | |
| ASSETS | | | | | |
| Cash and Investments | \$ 76,127 | \$ 7,816 | \$ 85,895 | \$ 42,885 | \$ 212,723 |
| Restricted Cash and Investments | - | - | - | 525,403 | 525,403 |
| Accounts Receivable | - | 156 | - | - | 156 |
| Intergovernmental Receivable | 129,710 | - | 353 | 36,839 | 166,902 |
| Total Assets | \$ 205,837 | \$ 7,972 | \$ 86,248 | \$ 605,127 | \$ 905,184 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 42,344 | \$ 1,502 | \$ - | \$ 81 | \$ 43,927 |
| Accrued Wages and Benefits | 19,823 | 6,470 | - | - | 26,293 |
| Total Liabilities | 62,167 | 7,972 | - | 81 | 70,220 |
| FUND BALANCES | | | | | |
| Restricted | 143,670 | - | 86,248 | 308,458 | 538,376 |
| Assigned | - | - | - | 296,588 | 296,588 |
| Total Fund Balances | 143,670 | - | 86,248 | 605,046 | 834,964 |
| Total Liabilities and Balances | \$ 205,837 | \$ 7,972 | \$ 86,248 | \$ 605,127 | \$ 905,184 |

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

| | Special Revenue | | | Capital Projects | Total Nonmajor Governmental Funds |
|--|-----------------|------------|-----------|---------------------|--|
| | HURF | Library | JCEF/FTG | Capital Projects | |
| REVENUES | | | | | |
| Taxes | | | | | |
| Property Taxes | \$ - | \$ 229,305 | \$ - | \$ - | \$ 229,305 |
| Intergovernmental | 1,358,524 | - | - | 93,847 | 1,452,371 |
| Fines and Forfeitures | - | 14,541 | - | - | 14,541 |
| Contributions and Donations | - | - | 1,131 | - | 1,131 |
| Development Impact Fees | 29,640 | - | - | 35,635 | 65,275 |
| Other | 28,040 | 5,125 | - | - | 33,165 |
| Total Revenues | 1,416,204 | 248,971 | 1,131 | 129,482 | 1,795,788 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Highways and Streets | 1,458,856 | - | - | - | 1,458,856 |
| Culture and Recreation | - | 323,859 | - | - | 323,859 |
| Capital Outlay | - | - | - | 261,410 | 261,410 |
| Total Expenditures | 1,458,856 | 323,859 | - | 261,410 | 2,044,125 |
| Excess (Deficiency) of Revenues Over Expenditures | (42,652) | (74,888) | 1,131 | (131,928) | (248,337) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | - | 74,888 | - | 12,588 | 87,476 |
| Transfers Out | - | - | - | (154,339) | (154,339) |
| Total Other Financing Sources (Uses) | - | 74,888 | - | (141,751) | (66,863) |
| Net Change in Fund Balances | (42,652) | - | 1,131 | (273,679) | (315,200) |
| FUND BALANCES | | | | | |
| Beginning of Year | 186,322 | - | 85,117 | 878,725 | 1,150,164 |
| End of Year | \$ 143,670 | \$ - | \$ 86,248 | \$ 605,046 | \$ 834,964 |

**TOWN OF PAYSON, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|--------------------------------------|-------------------|---------------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Sales Taxes | \$ 350,000 | \$ 327,578 | \$ (22,422) |
| Special Assessments | 58,000 | 57,930 | (70) |
| Total Revenues | <u>408,000</u> | <u>385,508</u> | <u>(22,492)</u> |
| EXPENDITURES | | | |
| Debt Service | | | |
| Principal Retirement | 852,500 | 847,183 | 5,317 |
| Interest on Long-Term Debt | 162,900 | 151,377 | 11,523 |
| Total Expenditures | <u>1,015,400</u> | <u>998,560</u> | <u>16,840</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (607,400) | (613,052) | (5,652) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | <u>622,605</u> | <u>474,752</u> | <u>(147,853)</u> |
| Net Change in Fund Balance | 15,205 | (138,300) | (153,505) |
| FUND BALANCE | | | |
| Beginning of Year | - | 711,260 | 711,260 |
| End of Year | <u>\$ 15,205</u> | <u>\$ 572,960</u> | <u>\$ 557,755</u> |

**TOWN OF PAYSON, ARIZONA
HURF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|--------------------------------------|-------------------|---------------------------------------|
| REVENUES | | | |
| Intergovernmental | \$ 1,536,900 | \$ 1,358,524 | \$ (178,376) |
| Development Impact Fees | 50,000 | 29,640 | (20,360) |
| Other | 36,800 | 28,040 | (8,760) |
| Total Revenues | <u>1,623,700</u> | <u>1,416,204</u> | <u>(207,496)</u> |
| EXPENDITURES | | | |
| Current | | | |
| Highways and Streets | <u>1,655,800</u> | <u>1,458,856</u> | <u>196,944</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (32,100) | (42,652) | (10,552) |
| FUND BALANCE | | | |
| Beginning of Year | - | 186,322 | 186,322 |
| End of Year | <u>\$ (32,100)</u> | <u>\$ 143,670</u> | <u>\$ 175,770</u> |

**TOWN OF PAYSON, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|--------------------------------------|----------------|---------------------------------------|
| REVENUES | | | |
| Intergovernmental | \$ 229,200 | \$ 229,305 | \$ 105 |
| Fines and Forfeitures | 15,500 | 14,541 | (959) |
| Other | 21,600 | 5,125 | (16,475) |
| Total Revenues | <u>266,300</u> | <u>248,971</u> | <u>(17,329)</u> |
| EXPENDITURES | | | |
| Current | | | |
| Culture and Recreation | <u>373,800</u> | <u>323,859</u> | <u>49,941</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (107,500) | (74,888) | 32,612 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | <u>198,100</u> | <u>74,888</u> | <u>(123,212)</u> |
| Net Change in Fund Balance | 90,600 | - | (90,600) |
| FUND BALANCE | | | |
| Beginning of Year | - | - | - |
| End of Year | <u>\$ 90,600</u> | <u>\$ -</u> | <u>\$ (90,600)</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, 2013**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|--------------------------------------|------------------|---------------------------------------|
| REVENUES | | | |
| Contributions and Donations | \$ 3,000 | \$ 1,131 | \$ (1,869) |
| EXPENDITURES | | | |
| Current | | | |
| General Government | <u>4,600</u> | <u>-</u> | <u>4,600</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (1,600) | 1,131 | 2,731 |
| FUND BALANCE | | | |
| Beginning of Year | - | 85,117 | 85,117 |
| End of Year | <u>\$ (1,600)</u> | <u>\$ 86,248</u> | <u>\$ 87,848</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, 2013**

| | Original and Final Budget | Actual | Variance with Final Budget |
|--|------------------------------|------------|-------------------------------|
| REVENUES | | | |
| Intergovernmental | \$ 1,047,200 | \$ 93,847 | \$ (953,353) |
| Development Impact Fees | - | 35,635 | 35,635 |
| Total Revenues | 1,047,200 | 129,482 | (917,718) |
| EXPENDITURES | | | |
| Capital Outlay | 2,033,700 | 261,410 | 1,772,290 |
| Excess (Deficiency) of Revenues Over Expenditures | (986,500) | (131,928) | 854,572 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | 12,000 | 12,588 | 588 |
| Transfers Out | (199,605) | (154,339) | 45,266 |
| Proceeds from Capital Lease | 450,000 | - | (450,000) |
| Total Other Financing Sources (Uses) | 262,395 | (141,751) | (404,146) |
| Net Change in Fund Balance | (724,105) | (273,679) | 450,426 |
| FUND BALANCE | | | |
| Beginning of Year | - | 878,725 | 878,725 |
| End of Year | \$ (724,105) | \$ 605,046 | \$ 1,329,151 |

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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 POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

| | Fiscal Year | | | |
|---|----------------------|----------------------|----------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 |
| Governmental activities | | | | |
| Net Investment in Capital Assets | \$ 23,208,623 | \$ 21,506,684 | \$ 22,328,708 | \$ 101,360,121 |
| Restricted | 2,581,423 | 4,207,316 | 4,734,371 | 5,448,557 |
| Unrestricted | 3,353,871 | 5,479,255 | 5,103,790 | 4,590,792 |
| Total governmental activities net position | <u>\$ 29,143,917</u> | <u>\$ 31,193,255</u> | <u>\$ 32,166,869</u> | <u>\$ 111,399,470</u> |
| Business-type activities | | | | |
| Net Investment in Capital Assets | \$ 11,741,865 | \$ 11,933,965 | \$ 13,142,519 | \$ 12,283,170 |
| Restricted | 3,499,111 | 3,626,754 | 4,211,504 | 4,681,554 |
| Unrestricted | 2,172,170 | 3,174,456 | 3,821,585 | 4,707,319 |
| Total business-type activities net position | <u>\$ 17,413,146</u> | <u>\$ 18,735,175</u> | <u>\$ 21,175,608</u> | <u>\$ 21,672,043</u> |
| Primary government | | | | |
| Net Investment in Capital Assets | \$ 34,950,488 | \$ 33,440,649 | \$ 35,471,227 | \$ 113,643,291 |
| Restricted | 6,080,534 | 7,834,070 | 8,945,875 | 10,130,111 |
| Unrestricted | 5,526,041 | 8,653,711 | 8,925,375 | 9,298,111 |
| Total primary government net position | <u>\$ 46,557,063</u> | <u>\$ 49,928,430</u> | <u>\$ 53,342,477</u> | <u>\$ 133,071,513</u> |

Source: The Town's Finance Department.

Fiscal Year

| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 106,049,982 | \$ 105,561,440 | \$ 103,809,445 | \$ 104,607,886 | \$ 104,528,536 | \$ 104,037,027 |
| 4,310,080 | 3,971,451 | 3,137,935 | 3,106,342 | 2,471,981 | 2,088,595 |
| 2,456,973 | 521,636 | 1,459,147 | (2,639,291) | (4,492,672) | (6,121,753) |
| <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> | <u>\$ 100,003,869</u> |
| \$ 14,363,974 | \$ 14,720,036 | \$ 15,195,051 | \$ 19,600,002 | \$ 19,707,632 | \$ 18,768,107 |
| 4,909,657 | 4,921,901 | 1,065,623 | - | 451,859 | 451,859 |
| 5,282,327 | 3,890,818 | 5,898,114 | 5,224,938 | 5,480,569 | 6,768,944 |
| <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> | <u>\$ 25,988,910</u> |
| \$ 120,413,956 | \$ 120,281,476 | \$ 119,004,496 | \$ 124,207,888 | \$ 124,236,168 | \$ 122,805,134 |
| 9,219,737 | 8,893,352 | 4,203,558 | 3,106,342 | 2,923,840 | 2,540,454 |
| 7,739,300 | 4,412,454 | 7,357,261 | 2,585,647 | 987,897 | 647,191 |
| <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> | <u>\$ 125,992,779</u> |

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

| | Fiscal Year | | | |
|---|-----------------------|-----------------------|-----------------------|------------------------|
| | 2004 | 2005 | 2006 | 2007 |
| Expenses | | | | |
| Governmental activities: | | | | |
| General government | \$ 2,754,686 | \$ 2,727,457 | \$ 3,191,559 | \$ 3,595,408 |
| Public safety | 5,338,874 | 6,239,687 | 7,375,276 | 7,818,997 |
| Highways and streets | 2,022,194 | 2,285,810 | 4,827,042 | 4,147,353 |
| Culture and recreation | 1,751,941 | 1,772,917 | 1,738,625 | 2,152,923 |
| Public works | 687,511 | 551,668 | 529,950 | 407,578 |
| Community development | 883,030 | 871,706 | 839,792 | 923,599 |
| Health and welfare | 220,005 | 242,892 | 256,498 | 252,136 |
| Interest on long-term debt | 272,222 | 239,528 | 315,645 | 317,800 |
| Total governmental activities | <u>13,930,463</u> | <u>14,931,665</u> | <u>19,074,387</u> | <u>19,615,794</u> |
| Business-type activities | | | | |
| Water | 3,156,618 | 2,632,184 | 2,046,035 | 3,715,985 |
| Total primary government expenses | <u>17,087,081</u> | <u>17,563,849</u> | <u>21,120,422</u> | <u>23,331,779</u> |
| Program Revenues | | | | |
| Governmental activities: | | | | |
| Fees, Fines, and Charges for Services | | | | |
| General government | 2,154,657 | 1,126,063 | 1,341,311 | 947,152 |
| Public safety | - | 404,194 | 386,291 | 581,150 |
| Highways and streets | - | 54,843 | 91,574 | 90,507 |
| Culture and recreation | - | 116,635 | 103,873 | 117,706 |
| Public works | - | 86,489 | 82,158 | 98,367 |
| Community development | - | 761,468 | 841,640 | 614,968 |
| Health and welfare | - | 10,920 | 11,104 | 11,277 |
| Interest on long-term debt | - | - | - | 880,303 |
| Operating grants and contributions | 2,063,070 | 2,689,186 | 3,941,550 | 2,862,482 |
| Capital grants and contributions | 517,499 | 453,218 | 338,142 | 404,433 |
| Total governmental activities program revenues | <u>4,735,226</u> | <u>5,703,016</u> | <u>7,137,643</u> | <u>6,608,345</u> |
| Business-type activities | | | | |
| Charges for services: | | | | |
| Water | 3,543,006 | 3,508,276 | 4,199,650 | 4,099,518 |
| Operating grants and contributions | 194,921 | 38,752 | 50,000 | 39,500 |
| Capital grants and contributions | - | - | 210,323 | 362,446 |
| Total business-type activities program revenues | <u>3,737,927</u> | <u>3,547,028</u> | <u>4,459,973</u> | <u>4,501,464</u> |
| Total primary government program revenues | <u>8,473,153</u> | <u>9,250,044</u> | <u>11,597,616</u> | <u>11,109,809</u> |
| Net (expense)/revenue | | | | |
| Governmental activities | (9,195,237) | (9,228,649) | (11,936,744) | (13,007,449) |
| Business-type activities | 581,309 | 914,844 | 2,413,938 | 785,479 |
| Total primary government net expense | <u>\$ (8,613,928)</u> | <u>\$ (8,313,805)</u> | <u>\$ (9,522,806)</u> | <u>\$ (12,221,970)</u> |

Source: The Town's Finance Department.

Fiscal Year

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ | 3,707,867 | \$ 4,323,958 | \$ 3,133,909 | \$ 3,984,961 | \$ 3,574,186 | \$ 4,075,873 |
| | 7,939,971 | 8,376,425 | 8,164,357 | 8,645,178 | 8,845,884 | 8,977,125 |
| | 3,786,087 | 2,856,499 | 3,070,365 | 2,765,928 | 2,632,098 | 2,479,031 |
| | 2,730,083 | 1,714,675 | 1,575,542 | 1,466,906 | 1,453,416 | 1,252,833 |
| | 350,531 | 445,095 | 284,563 | 324,660 | 212,155 | 195,693 |
| | 1,219,270 | 1,051,931 | 1,119,712 | 1,228,298 | 880,320 | 982,040 |
| | 259,083 | 289,710 | 273,394 | 259,854 | 267,331 | 264,900 |
| | 303,148 | 275,659 | 267,661 | 249,925 | 224,074 | 147,677 |
| | <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>18,375,172</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>4,247,375</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> | <u>22,622,547</u> |
| | | | | | | |
| | 907,951 | 657,076 | 656,861 | 669,803 | 741,260 | 1,046,540 |
| | 658,707 | 723,194 | 626,728 | 404,286 | 361,472 | 318,429 |
| | 50,876 | 28,185 | 4,482 | - | 4,831 | - |
| | 148,416 | 131,966 | 216,752 | 138,524 | 164,088 | 63,198 |
| | 61,272 | 56,617 | 87,476 | 103,004 | 81,098 | 107,266 |
| | 422,856 | 268,662 | 117,147 | 124,893 | 150,149 | 158,449 |
| | 10,149 | 15,139 | 18,509 | 19,152 | 18,276 | 18,192 |
| | - | - | - | - | - | - |
| | 2,137,228 | 2,079,200 | 1,840,478 | 2,237,241 | 2,661,413 | 2,946,035 |
| | 1,786,891 | 248,512 | 448,191 | 862,801 | 675,204 | 296,246 |
| | <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> | <u>4,954,355</u> |
| | | | | | | |
| | 4,037,662 | 3,666,635 | 3,678,173 | 3,961,028 | 4,268,103 | 4,569,601 |
| | - | - | - | - | 75,000 | - |
| | 270,513 | - | 117,124 | 3,100,474 | 826,370 | - |
| | <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>4,569,601</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> | <u>9,523,956</u> |
| | | | | | | |
| | (14,111,694) | (15,125,401) | (13,872,879) | (14,366,006) | (13,231,673) | (13,420,817) |
| | 634,232 | (1,130,425) | (368,927) | 2,832,348 | 796,345 | 322,226 |
| \$ | <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> | <u>(13,098,591)</u> |

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

| | Fiscal Year | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2006 | 2007 |
| General Revenues and Other Changes in Net Position | | | | |
| Governmental activities: | | | | |
| Taxes: | | | | |
| Sales taxes | \$ 5,434,673 | \$ 5,936,919 | \$ 7,314,067 | \$ 7,503,852 |
| Property taxes | 646,156 | 727,678 | 784,437 | 834,521 |
| Franchise taxes | 304,226 | 336,881 | 336,399 | 348,166 |
| Intergovernmental | 2,373,960 | 2,513,814 | 3,851,170 | 4,194,575 |
| Payments in lieu of taxes | 852,815 | 964,324 | - | - |
| Investment earnings | 55,183 | 136,117 | 361,815 | 403,108 |
| Transfers | 42,350 | 254,790 | 262,470 | 312,470 |
| Total governmental activities | <u>9,709,363</u> | <u>10,870,523</u> | <u>12,910,358</u> | <u>13,596,692</u> |
| Business-type activities: | | | | |
| Investment earnings | 44,156 | 117,928 | 288,965 | 447,258 |
| Transfers | (42,350) | (254,790) | (262,470) | (312,470) |
| Total business-type activities | <u>1,806</u> | <u>(136,862)</u> | <u>26,495</u> | <u>134,788</u> |
| Total primary government | <u>9,711,169</u> | <u>10,733,661</u> | <u>12,936,853</u> | <u>13,731,480</u> |
| Change in Net Position | | | | |
| Governmental activities | 514,126 | 1,641,874 | 973,614 | 589,243 |
| Business-type activities | 583,115 | 777,982 | 2,440,433 | 920,267 |
| Total primary government | <u>\$ 1,097,241</u> | <u>\$ 2,419,856</u> | <u>\$ 3,414,047</u> | <u>\$ 1,509,510</u> |

Fiscal Year

| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| \$ 7,396,678 | \$ 6,624,711 | \$ 5,919,923 | \$ 5,915,905 | \$ 6,047,629 | \$ 6,047,114 |
| 907,545 | 856,237 | 1,002,536 | 1,010,692 | 960,360 | 882,079 |
| 349,043 | 339,802 | 349,061 | 344,833 | 351,227 | 356,550 |
| 4,602,546 | 4,473,463 | 3,988,244 | 3,533,894 | 3,320,055 | 3,648,010 |
| - | - | - | - | - | - |
| 287,474 | 68,680 | (39,885) | 76,978 | 2,610 | 388 |
| 437,734 | - | 1,005,000 | 152,114 | (17,300) | (17,300) |
| <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> | <u>10,916,841</u> |
| 253,312 | 107,222 | (40) | (14,082) | 1,475 | 9,324 |
| (437,734) | - | (1,005,000) | (152,114) | 17,300 | 17,300 |
| <u>(184,422)</u> | <u>107,222</u> | <u>(1,005,040)</u> | <u>(166,196)</u> | <u>18,775</u> | <u>26,624</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> | <u>10,943,465</u> |
| (130,674) | (2,762,508) | (1,648,000) | (3,331,590) | (2,567,092) | (2,503,976) |
| 449,810 | (1,023,203) | (1,373,967) | 2,666,152 | 815,120 | 348,850 |
| <u>\$ 319,136</u> | <u>\$ (3,785,711)</u> | <u>\$ (3,021,967)</u> | <u>\$ (665,438)</u> | <u>\$ (1,751,972)</u> | <u>\$ (2,155,126)</u> |

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

| | Fiscal Year | | | | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| General Fund | | | | | |
| Reserved | \$ - | \$ 2,000 | \$ - | \$ 14,662 | \$ - |
| Unreserved | 2,141,833 | 2,649,209 | 3,428,794 | 2,934,445 | 1,052,084 |
| Nonspendable | | | | | |
| Restricted | | | | | |
| Assigned | | | | | |
| Unassigned | | | | | |
| Total General Fund | <u>\$ 2,141,833</u> | <u>\$ 2,651,209</u> | <u>\$ 3,428,794</u> | <u>\$ 2,949,107</u> | <u>\$ 1,052,084</u> |
| All other governmental funds | | | | | |
| Reserved | \$ - | \$ - | \$ 6,226 | \$ 250 | \$ 250 |
| Unreserved, reported in: | | | | | |
| Special revenue funds | 740,890 | 1,862,531 | 2,080,199 | 2,191,308 | 1,183,909 |
| Debt service funds | 697,199 | 1,123,656 | 877,863 | 1,164,787 | 1,553,209 |
| Capital projects funds | 2,262,426 | 3,811,793 | 2,968,412 | 2,206,560 | 1,557,772 |
| Restricted | | | | | |
| Assigned | | | | | |
| Total all other governmental funds | <u>\$ 3,700,515</u> | <u>\$ 6,797,980</u> | <u>\$ 5,932,700</u> | <u>\$ 5,562,905</u> | <u>\$ 4,295,140</u> |

Source: The Town's Finance Department.

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

Fiscal Year

| 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 14,729 | \$ 14,645 | | | |
| 785,962 | 826,978 | | | |
| | | \$ 7,629 | \$ 7,629 | \$ 7,692 |
| | | 258,357 | 390,725 | 317,820 |
| | | 341,960 | 176,048 | 158,688 |
| | | 924,513 | 326,348 | 480,761 |
| <u>\$ 800,691</u> | <u>\$ 841,623</u> | <u>\$ 1,532,459</u> | <u>\$ 900,750</u> | <u>\$ 964,961</u> |
| | | | | |
| \$ 250 | \$ 3,869 | | | |
| 1,096,303 | 913,850 | | | |
| 1,416,112 | 1,198,421 | | | |
| 1,324,306 | 2,459,190 | | | |
| | | \$ 2,029,780 | \$ 1,387,149 | \$ 1,111,336 |
| | | 619,937 | 474,275 | 296,588 |
| <u>\$ 3,836,971</u> | <u>\$ 4,575,330</u> | <u>\$ 2,649,717</u> | <u>\$ 1,861,424</u> | <u>\$ 1,407,924</u> |

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

| | Fiscal Year | | | | |
|---|---------------------|---------------------|--------------------|---------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Revenues | | | | | |
| Taxes | \$ 6,080,829 | \$ 7,001,478 | \$ 8,434,903 | \$ 8,686,539 | \$ 8,653,266 |
| Intergovernmental | 5,666,760 | 6,500,510 | 8,000,326 | 7,332,472 | 7,362,721 |
| Fines and forfeitures | 250,868 | 285,048 | 288,141 | 265,598 | 255,155 |
| Licenses and permits | 697,611 | 575,256 | 634,614 | 464,571 | 331,783 |
| Charges for services | 959,342 | 931,057 | 960,699 | 1,103,001 | 1,113,467 |
| Other | 1,188,084 | 1,849,683 | 1,647,363 | 1,264,172 | 1,113,304 |
| Total revenues | <u>14,843,494</u> | <u>17,143,032</u> | <u>19,966,046</u> | <u>19,116,353</u> | <u>18,829,696</u> |
| Expenditures | | | | | |
| General government and community development | 3,359,597 | 3,428,453 | 3,967,139 | 4,133,694 | 5,018,872 |
| Public safety | 4,980,492 | 5,702,869 | 7,417,846 | 7,612,207 | 7,731,920 |
| Public works & highways and streets | 1,621,275 | 2,423,241 | 4,526,180 | 3,705,640 | 4,627,564 |
| Health and welfare & culture and recreation | 1,602,171 | 1,695,512 | 1,837,732 | 2,093,694 | 2,464,067 |
| Capital outlay | 2,906,359 | 1,936,984 | 2,746,022 | 1,063,615 | 1,997,629 |
| Debt service | | | | | |
| Principal retirement | 561,170 | 585,803 | 844,385 | 1,249,354 | 897,754 |
| Interest on long-term debt | 272,222 | 239,528 | 315,645 | 420,101 | 277,630 |
| Other debt service | - | 53,514 | 365,390 | - | - |
| Total expenditures | <u>15,303,286</u> | <u>16,065,904</u> | <u>22,020,339</u> | <u>20,278,305</u> | <u>23,015,436</u> |
| Excess of revenues over (under) expenditures | (459,792) | 1,077,128 | (2,054,293) | (1,161,952) | (4,185,740) |
| Other financing sources (uses) | | | | | |
| Transfers in | 1,627,291 | 2,113,691 | 2,769,621 | 3,797,776 | 2,955,804 |
| Transfers out | (1,584,941) | (1,858,901) | (2,507,151) | (3,485,306) | (2,518,070) |
| Issuance of refunding debt | - | - | 1,085,000 | - | - |
| Issuance of long-term debt | - | 2,048,723 | 1,420,000 | - | - |
| Bond premium | - | - | 41,531 | - | - |
| Payment to refunded debt escrow agent | - | - | (1,020,403) | - | - |
| Proceeds from capital lease | - | 226,200 | 178,000 | - | 550,000 |
| Total other financing sources (uses) | <u>42,350</u> | <u>2,529,713</u> | <u>1,966,598</u> | <u>312,470</u> | <u>987,734</u> |
| Net change in fund balance | <u>\$ (417,442)</u> | <u>\$ 3,606,841</u> | <u>\$ (87,695)</u> | <u>\$ (849,482)</u> | <u>\$ (3,198,006)</u> |
| Debt service as a percentage of noncapital expenditures | 6.72% | 6.22% | 7.91% | 8.69% | 6.30% |

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 | | | | |
|---------------------|-------------------|-----------------------|-----------------------|---------------------|
| 2009 | 2010 | 2011 | 2012 | 2013 |
| \$ 7,820,750 | \$ 7,271,520 | \$ 7,236,777 | \$ 7,330,207 | \$ 7,249,900 |
| 6,595,255 | 6,193,464 | 6,153,959 | 6,403,423 | 6,851,042 |
| 235,284 | 221,523 | 177,314 | 159,629 | 165,210 |
| 252,931 | 209,031 | 215,695 | 240,600 | 247,821 |
| 1,033,870 | 937,636 | 684,754 | 859,788 | 704,572 |
| 660,187 | 514,413 | 1,076,976 | 492,365 | 692,038 |
| <u>16,598,277</u> | <u>15,347,587</u> | <u>15,545,475</u> | <u>15,486,012</u> | <u>15,910,583</u> |
| 4,246,206 | 4,127,767 | 3,568,102 | 4,261,562 | 4,118,149 |
| 7,242,658 | 7,125,424 | 7,178,572 | 7,763,007 | 7,973,221 |
| 2,585,497 | 2,599,518 | 2,173,759 | 2,074,324 | 1,865,303 |
| 1,368,395 | 1,231,155 | 1,051,603 | 1,114,932 | 1,018,437 |
| 593,607 | 915,780 | 1,996,313 | 1,052,702 | 261,410 |
| 988,117 | 847,866 | 959,229 | 1,036,559 | 889,002 |
| 250,141 | 241,063 | 223,327 | 197,473 | 157,050 |
| - | 55,233 | - | - | - |
| <u>17,274,621</u> | <u>17,143,806</u> | <u>17,150,905</u> | <u>17,500,559</u> | <u>16,282,572</u> |
| (676,344) | (1,796,219) | (1,605,430) | (2,014,547) | (371,989) |
| 577,983 | 2,035,274 | 542,820 | 450,893 | 562,228 |
| (577,983) | (1,030,274) | (390,706) | (468,193) | (579,528) |
| - | - | - | - | - |
| - | 1,525,000 | - | - | - |
| - | 45,510 | - | - | - |
| - | - | - | - | - |
| - | - | 218,539 | 611,845 | - |
| - | <u>2,575,510</u> | <u>370,653</u> | <u>594,545</u> | <u>(17,300)</u> |
| <u>\$ (676,344)</u> | <u>\$ 779,291</u> | <u>\$ (1,234,777)</u> | <u>\$ (1,420,002)</u> | <u>\$ (389,289)</u> |
| 8.02% | 7.15% | 7.15% | 7.58% | 6.30% |

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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>Total</u> |
|--------------------|--------------------|-----------------------|------------------------|----------------|-------------------------|--------------|
| 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 |
| 2013 | 5,787,208 | 616,931 | 356,550 | 259,906 | 229,305 | 7,249,900 |

Source: The Town's Finance Department.

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

| Sales Category | Fiscal Year | | | | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Retail trade | \$ 2,811,849 | \$ 2,946,388 | \$ 3,655,505 | \$ 3,809,689 | \$ 3,644,827 |
| Construction | 937,590 | 1,008,971 | 1,207,041 | 1,171,982 | 953,990 |
| Restaurants and bars | 436,403 | 547,906 | 615,870 | 638,635 | 614,752 |
| Communications and utilities | 328,722 | 510,765 | 576,592 | 626,516 | 812,819 |
| Transportation & warehousing | 3,658 | 11,028 | 14,743 | 25,914 | 10,272 |
| Services | 208,446 | 137,325 | 142,882 | 127,827 | 111,830 |
| Manufacturing | 108,286 | 138,382 | 180,369 | 198,832 | 188,595 |
| Real estate, rental & leasing | 205,040 | 280,826 | 320,133 | 305,467 | 403,451 |
| Finance and insurance | 4,513 | 12,269 | 9,983 | 8,299 | 8,612 |
| Accommodations | 191,561 | 287,731 | 333,627 | 342,659 | 313,025 |
| Wholesale trade | 40,188 | 51,102 | 87,044 | 63,060 | 89,777 |
| Arts & entertainment | 22,951 | 40,820 | 46,401 | 67,811 | 81,039 |
| Other | 129,324 | 136,390 | 145,489 | 117,161 | 69,305 |
| Total | \$ 5,428,531 | \$ 6,109,903 | \$ 7,335,679 | \$ 7,503,852 | \$ 7,302,294 |
| Town sales tax rate | 8.60% | 8.72% | 8.72% | 8.72% | 8.72% |

Source: Arizona Department of Revenue.

Fiscal Year

| 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 3,411,550 | \$ 3,188,660 | \$ 3,190,013 | \$ 3,299,193 | \$ 3,323,438 |
| 897,002 | 379,158 | 372,588 | 411,290 | 335,958 |
| 586,231 | 554,640 | 529,279 | 551,843 | 567,341 |
| 750,808 | 812,622 | 787,188 | 894,790 | 805,044 |
| 8,363 | 8,783 | 9,090 | 9,682 | 8,740 |
| 110,342 | 126,490 | 134,700 | 108,859 | 120,009 |
| 141,061 | 121,831 | 132,780 | 70,963 | 122,048 |
| 356,298 | 322,460 | 294,262 | 266,915 | 288,228 |
| 7,837 | 5,307 | 5,547 | 6,288 | 6,221 |
| 269,210 | 222,243 | 300,769 | 309,848 | 333,205 |
| 82,084 | 69,460 | 75,675 | 61,747 | 45,678 |
| 55,972 | 53,083 | 54,470 | 50,796 | 52,012 |
| 42,293 | 55,186 | 29,544 | 5,415 | 39,192 |
| <u>\$ 6,719,051</u> | <u>\$ 5,919,923</u> | <u>\$ 5,915,905</u> | <u>\$ 6,047,629</u> | <u>\$ 6,047,114</u> |
| 8.72% | 8.72% | 9.72% | 9.72% | 8.72% |

**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 |
|----------------|---------------------|----------------|------------------|-------------------|
| 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 |
| 2013 | 2.12 | 1.00 | 5.60 | 8.72 |

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 |
|----------------|---------------------------------|--------------------------|-----------------------------------|--|
| 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 |
| 2013 | 178,737,829 | 0.3828 | 1,575,224,664 | 11.347 |

Source: The Gila County Assessor's Office.

TOWN OF PAYSON, ARIZONA
NET SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
JUNE 30, 2013
(UNAUDITED)

| Description | Net Secondary Assessed Valuation | As a % of the Town's Total Net Secondary Assessed Valuation |
|--|-------------------------------------|---|
| Mining, Utilities, Telecommunications, Commercial and Industry | \$ 43,496,558 | 16.71% |
| Vacant Land and Agriculture Real Property | 17,612,309 | 6.77% |
| Agricultural Personal Property | 26,177 | 0.01% |
| Owner Occupied Residential Property | 69,531,519 | 26.72% |
| Leased or Rented Residential Property | 48,033,584 | 18.46% |
| Residential Historical Property | 34,795 | 0.01% |
| Improvements on Government Property | 2,887 | 0.01% |
| | <u>\$ 178,737,829</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 |
| 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 |
| 2013 | 0.3828 | - | 0.3828 | 0.6000 | 0.2000 | 0.1000 | 0.5123 | 4.1900 | 5.9851 |

Source: The Gila County Treasurer's Office.

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**TOWN OF PAYSON, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2013 AND NINE YEARS PRIOR
(UNAUDITED)**

| Taxpayer | 2013 | | | 2004 | | |
|--------------------------------|------------------------|------|--|------------------------|------|--|
| | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| Arizona Public Service | 10,169,572 | 1 | 5.69% | 4,575,018 | 2 | 2.99% |
| Retail Trust III--Wal-Mart | 1,837,474 | 2 | 1.03% | 1,840,303 | 5 | 1.20% |
| Payson Regional Hospital | 1,648,245 | 3 | 0.92% | 1,703,599 | 6 | 1.11% |
| Centurylink / Qwest | 1,040,104 | 4 | 0.58% | 2,335,407 | 3 | 1.53% |
| Home Depot USA Inc | 989,617 | 5 | 0.55% | - | - | 0.00% |
| Payson Village Center I LLC | 962,463 | 6 | 0.54% | - | - | 0.00% |
| Black Buffalo Golf LLC | 928,441 | 7 | 0.52% | - | - | 0.00% |
| Sawmill Crossing LLC | 786,635 | 8 | 0.44% | - | - | 0.00% |
| Buffalo Golf LLC | 676,518 | 9 | 0.38% | - | - | 0.00% |
| Double A Investments LLP | 631,505 | 10 | 0.35% | - | - | 0.00% |
| First American Title | - | - | - | 6,550,444 | 1 | 4.28% |
| PLP Payson LLC | - | - | - | 2,136,158 | 4 | 1.39% |
| First American Title Insurance | - | - | - | 1,365,111 | 7 | 0.89% |
| Rim County Mall LLC | - | - | - | 1,129,023 | 8 | 0.74% |
| Cablevision of Payson | - | - | - | 849,322 | 9 | 0.55% |
| Safeway Inc. | - | - | - | 829,983 | 10 | 0.54% |
| | <u>\$ 19,670,574</u> | | 11.01% | <u>\$ 23,314,368</u> | | 15.22% |

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 |
|--------|--------------------------|-------------------------------|--|----------------------------------|--------------------------|--|
| 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 | 5,997 | 680,975 | 100.00 |
| 2013 | 623,716 | 611,478 | 98.04 | - | 611,478 | 98.04 |

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 |
|------------------------------------|---|
| \$ (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 |
| - | - |
| 12,238 | 1.96 |

**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 |
| 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 |
| 2013 | 1,995,000 | - | 575,000 | 585,000 | - | 520,198 |

Source: The Town of Payson.

Business-type
Activities

| Water Revenue Bonds | Notes Payable | Total Primary Government | Percentage of Personal Income | Per Capita |
|---------------------------|------------------|-----------------------------|----------------------------------|------------|
| \$ 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 | 0.98 | 400 |
| - | 768,548 | 5,757,462 | 1.02 | 376 |
| - | 2,827,053 | 7,391,253 | 1.14 | 483 |
| - | 6,282,229 | 9,957,427 | 1.50 | 654 |

**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 |
|----------------|--------------------------------|--|---|------------|--|
| 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 | 0.20 | 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 |
| 2013 | 1,995,000 | 1,575,224,664 | 0.13 | 15,215 | 131 |

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

**TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2013
(UNAUDITED)**

| Governmental Unit | Outstanding Debt | Estimated Percentage Applicable (1) | Estimated Share of Overlapping Debt |
|--|---------------------|---|--|
| State of Arizona | Not Available | 0.35% | \$ - |
| Gila County | \$ 7,215,000 | 43.80% | 3,160,170 |
| Gila Community College | None | 43.80% | - |
| Northern Gila County Sanitary District | 489,000 | 100.00% | 489,000 |
| Payson Unified School District No. 10 | 33,245,000 | 74.42% | 24,740,929 |
| Total Overlapping Debt: | | | <u>28,390,099</u> |
| Town of Payson | 3,675,198 | 100.00% | <u>3,675,198</u> |
| Total direct and overlapping debt | | | <u><u>\$ 32,065,297</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 2012-13.

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

6% Debt Limit

| | Fiscal Year | | | | |
|--|---------------------|---------------------|---------------------|----------------------|----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Debt limit | \$ 9,188,029 | \$ 9,380,449 | \$ 10,413,736 | \$ 12,669,820 | \$ 12,669,820 |
| Total applicable to limit | - | 2,030,000 | 1,930,000 | 1,740,000 | 1,545,000 |
| Legal debt margin | <u>\$ 9,188,029</u> | <u>\$ 7,350,449</u> | <u>\$ 8,483,736</u> | <u>\$ 10,929,820</u> | <u>\$ 11,124,820</u> |
| Total net debt applicable to the limit as a percentage of the debt limit | N/A | N/A | 18.53% | 13.73% | 12.19% |

20% Debt Limit

| | Fiscal Year | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Debt limit | \$ 30,626,764 | \$ 31,268,162 | \$ 34,712,452 | \$ 42,232,733 | \$ 42,232,733 |
| Total applicable to limit | 1,486,000 | 1,341,000 | 1,085,000 | 1,085,000 | 920,000 |
| Legal debt margin | <u>\$ 29,140,764</u> | <u>\$ 29,927,162</u> | <u>\$ 33,627,452</u> | <u>\$ 41,147,733</u> | <u>\$ 41,312,733</u> |
| Total net debt applicable to the limit as a percentage of the debt limit | 4.85% | 4.29% | 3.13% | 2.57% | 2.18% |

Source: The Gila County Treasurer's Office.

Fiscal Year

| 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------|----------------------|---------------------|---------------------|---------------------|
| \$ 14,408,387 | \$ 14,210,510 | \$ 12,119,281 | \$ 10,686,150 | \$ 10,724,270 |
| 1,305,000 | 3,205,000 | 2,430,000 | 2,215,000 | 1,995,000 |
| <u>\$ 13,103,387</u> | <u>\$ 11,005,510</u> | <u>\$ 9,689,281</u> | <u>\$ 8,471,150</u> | <u>\$ 8,729,270</u> |
| 9.06% | 22.55% | 20.05% | 20.73% | 18.60% |

Fiscal Year

| 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 48,027,956 | \$ 47,368,366 | \$ 40,397,603 | \$ 35,620,500 | \$ 35,747,566 |
| 750,000 | 575,000 | 390,000 | 200,000 | - |
| <u>\$ 47,277,956</u> | <u>\$ 46,793,366</u> | <u>\$ 40,007,603</u> | <u>\$ 35,420,500</u> | <u>\$ 35,747,566</u> |
| 1.56% | 1.21% | 0.97% | 0.56% | 0.00% |

**TOWN OF PAYSON, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2013
(UNAUDITED)**

| | |
|--|-----------------------------|
| Net secondary assessed valuation | \$ 178,737,829 |
| <hr/> | |
| Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds | |
| <hr/> | |
| Debt limit - 20% of secondary net assessed valuation | \$ 35,747,566 |
| Net debt applicable to limit | <u> -</u> |
| 20% legal debt margin | <u>35,747,566</u> |
| | |
| <hr/> | |
| All other general obligation bonds | |
| <hr/> | |
| Debt limit - 6% of secondary net assessed valuation | 10,724,270 |
| Net debt applicable to limit | <u>1,995,000</u> |
| 6% legal debt margin | <u>8,729,270</u> |
| Total legal debt margin | <u><u>\$ 44,476,836</u></u> |

Source: Gila County Assessor's Office.

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

| Fiscal Year | Water Revenue Bonds and Notes Payable | | | | | | Special Assessment Bonds | | | |
|-------------|---------------------------------------|------------------------------|-----------------------|------------------------|-----------------------|----------|--------------------------------|------------------------|-----------------------|----------|
| | 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 |
| 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 | 5,542 | 2.93 | 146,616 | 265,000 | 49,143 | 0.47 |
| 2013 | 4,488,194 | 3,203,236 | 1,284,961 | 312,513 | 135,576 | 2.87 | 57,930 | 50,000 | 33,550 | 0.69 |

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 |
|-------------|------------|-----------------|------------------------|------------|-------------------|----------------------------------|
| 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 | 647,874,942 | 42,342 | 53.1 | 2,225 | 9.6 |
| 2013 | 15,215 | 665,519,315 | 43,741 | 53.1 | 2,485 | 9.6 |

Source: The Town of Payson.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2013 AND NINE YEARS PRIOR
(UNAUDITED)**

| Employer | 2013 | | | 2004 | | |
|-------------------------------------|--------------|------|-------------------------------------|--------------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total Town Employment | Employees | Rank | Percentage of Total Town Employment |
| Mazatzal Casino | 319 | 1 | 13.88% | 294 | 4 | 13.37% |
| Wal-Mart | 315 | 2 | 13.70% | 360 | 2 | 16.37% |
| Payson Regional Medical Center | 312 | 3 | 13.57% | 303 | 3 | 13.78% |
| Payson Unified School District | 307 | 4 | 13.35% | 402 | 1 | 18.28% |
| Gila County | 175 | 5 | 7.61% | 150 | 6 | 6.82% |
| Town of Payson | 157 | 6 | 6.83% | 151 | 5 | 6.87% |
| Rim Country Health/Manzanita Manor | 156 | 7 | 6.79% | 75 | 10 | 3.41% |
| Payson Care Center/Life Care Center | 152 | 8 | 6.61% | 135 | 7 | 6.14% |
| Home Depot | 121 | 9 | 5.26% | 0 | 13 | 0.00% |
| Safeway Supermarket | 114 | 10 | 4.96% | 110 | 8 | 5.00% |
| US Forest Service | 75 | 11 | 3.26% | 100 | 9 | 4.55% |
| Bashas' Supermarket | 63 | 12 | 2.74% | 74 | 11 | 3.37% |
| Chapman Auto | 33 | 13 | 1.44% | 45 | 12 | 2.05% |
| | <u>2,299</u> | | | <u>2,199</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 | | | | | | | | | |
|-----------------------|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| General government | | | | | | | | | | |
| Town Manager | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 4.0 | 2.0 | 4.0 | 4.0 | 4.0 |
| Town Clerks | 5.0 | 5.0 | 5.0 | 7.0 | 6.0 | 4.0 | 4.0 | 4.0 | 4.0 | 3.0 |
| Central Services | | | | | | | | | | 1.5 |
| Finance | 6.0 | 8.0 | 8.0 | 6.0 | 7.0 | 7.0 | 6.0 | 6.0 | 6.0 | 7.0 |
| Community Development | 12.0 | 12.0 | 12.0 | 13.0 | 13.0 | 13.0 | 13.0 | 14.0 | 14.0 | 12.0 |
| Legal | 5.0 | 5.0 | 5.0 | 5.0 | 4.5 | 4.5 | 4.0 | 4.0 | 4.0 | 4.5 |
| Human Resources | 3.5 | 3.5 | 3.5 | 3.5 | 1.0 | 2.0 | 2.0 | 3.0 | 3.0 | 3.0 |
| Police Department | 40.0 | 42.0 | 45.0 | 49.0 | 49.0 | 49.0 | 49.0 | 48.0 | 48.0 | 50.0 |
| Fire Department | 24.0 | 25.0 | 25.0 | 25.0 | 25.0 | 27.0 | 27.0 | 27.0 | 33.0 | 32.0 |
| Airport | 1.0 | 1.0 | 1.0 | 1.0 | - | - | - | 1.0 | 1.0 | 1.5 |
| Engineering & Streets | 16.5 | 16.5 | 16.5 | 17.0 | 17.0 | 22.5 | 22.5 | 22.0 | 22.0 | 22.0 |
| Library | 6.0 | 6.0 | 7.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Parks and Recreation | 9.5 | 9.5 | 11.5 | 11.5 | 11.5 | 7.0 | 7.0 | 6.5 | 6.5 | 6.5 |
| Water | 17.0 | 17.0 | 17.0 | 17.0 | 19.0 | 19.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Total | <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> | <u>175.0</u> |

Source: The Town of Payson.

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

| Function/Program | Fiscal Year | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Building Permits | | | | | | |
| Permits Issued | 202 | 374(a) | 283 | 201 | 103 | 115 |
| Value of Buildings in \$ | \$ 29,178,927 | \$ 55,123,657 | \$ 68,105,715 | \$ 45,006,009 | \$ 41,597,955 | \$ 20,388,596 |
| Police | | | | | | |
| Average Response Time | 6.56 | 6.28 | 5.54 | 3.47 | 9.2 | 7.23 |
| Number of Sworn Officers | 26 | 27 | 29 | 30 | 31 | 31 |
| Total Calls | 19,500 | 20,085 | 18,944 | 24,398 | 20,726 | 24,233 |
| Calls per Sworn Officer | 750 | 744 | 653 | 813 | 669 | 782 |
| Officer per 1000 of Population | 1.711 | 1.756 | 1.88 | 1.875 | 1.938 | 1.824 |
| Total of Index Crimes | 608 | 587 | 577 | 527 | 440 | 635 |
| Index Crimes per Capital | 0.04 | 0.038 | 0.037 | 0.031 | 0.026 | 0.037 |
| Number of Drug Arrests | 582 | 486 | 410 | 275 | 156 | 78 |
| Drug Arrests per Capita | 0.038 | 0.032 | 0.027 | 0.016 | 0.009 | 0.005 |
| Fire | | | | | | |
| Average Response Time | 4.47 | 5.09 | 5.4 | 5.06 | 4.09 | 4.2 |
| Total Calls | 2,003 | 2,106 | 2,197 | 2,236 | 2,280 | 3 |
| Calls per Capita | 0.132 | 0.137 | 0.142 | 0.013 | 0.136 | 0.161 |
| Fire Personnel per 1000 of Pop. | 1.513 | 1.561 | 1.49 | 1.434 | 1.374 | 1.562 |
| Fire Safety Inspections | 401 | 486 | 453 | 396 | 418 | 576 |
| Event Center | | | | | | |
| Number of Events | - | - | 28 | 22 | 21 | 25 |
| Number of Days Used | - | - | 77 | 104 | 101 | 120 |
| Other Public Works | | | | | | |
| Street Slurry sealed (miles) | - | - | 15 | 13.6 | 14.2 | 0 |
| Snow Removal (hours) | - | - | 453 | 250 | 277 | 64 |
| Parks and recreation | | | | | | |
| Use of Facilities - Number of Activities | - | - | 30 | 39 | 90 | 115 |
| Program Registrations | - | - | 2,040 | 1,951 | 3,241 | 3,756 |
| Ramada Reservations | - | - | 372 | 232 | 276 | 250 |
| Swim Lessons | - | - | 201 | 207 | 395 | 325 |
| Pool Passes | - | - | 2,498 | 2,420 | 2,450 | 2,500 |
| Library | | | | | | |
| Number of Patrons | 13,950 | 15,257 | 17,136 | 14,432 | 15,712 | 16,674 |
| Number of Internet Users | 18,725 | 20,305 | 18,423 | 15,095 | 15,342 | 15,532 |
| Number of New Cards Issued | 1,731 | 1,605 | 1,562 | 1,415 | 1,400 | 1,200 |
| Circulation per Capita | 11.41 | 11.71 | 9.23 | 9.07 | 9.07 | 9.71 |
| Patrons as % of Population | 91.8 | 99.2 | 111.1 | 86.2 | 93.8 | 99.9 |
| Water | | | | | | |
| Number of Water Taps | 7,122 | 7,399 | 7,609 | 7,728 | 7,777 | 7,827 |
| Average daily consumption (thousand of gallons) | 1,462.30 | 1,533.70 | 1,561.70 | 1,502.30 | 1,534.30 | 1,468.80 |
| Peak daily consumption (thousand of gallons) | 2,117.90 | 2,094.10 | 2,169.40 | 2,055.10 | 2,384.20 | 2,467.50 |
| Elections | | | | | | |
| Number of Registered Voters | 7,117 | 7,117 | 8,828 | 8,828 | 8,913 | 8,913 |
| Number Voting in Last Election | 4,149 | 4,149 | 5,479 | 5,479 | 5,123 | 5,123 |
| % of Participation of Voters | 58.30% | 58.30% | 62.06% | 62.06% | 57.48% | 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 | | | | |
|-------------|-----------|---------------|---------------|---------------|
| | 2010 | 2011 | 2012 | 2013 |
| | 37 | 34 | 49 | 38 |
| \$ | 9,358,003 | \$ 19,087,366 | \$ 12,652,967 | \$ 11,747,997 |
| | 5 | 5.33 | 8.05 | 5.21 |
| | 31 | 30 | 30 | 30 |
| | 26,233 | 28,259 | 20,956 | 20,030 |
| | 846 | 942 | 699 | 668 |
| | 1.824 | 1.961 | 1.961 | 1972 |
| | 617 | 675 | 655 | 674 |
| | 0.036 | 0.044 | 0.043 | 0.044 |
| | 126 | 95 | 137 | 39 |
| | 0.007 | 0.006 | 0.009 | 0.003 |
| | 4.06 | 4.47 | 4.42 | 4.36 |
| | 2,387 | 2,588 | 2,625 | 2,680 |
| | 0.138 | 0.169 | 0.172 | 0.176 |
| | 1.562 | 1.765 | 2.157 | 2.169 |
| | 535 | 567 | 398 | 453 |
| | 30 | 35 | 42 | 49 |
| | 127 | 127 | 134 | 185 |
| | 0 | 6 | 0 | 0 |
| | 64 | 0 | 0 | 0 |
| | 118 | 122 | 122 | 93 |
| | 3,464 | 3,668 | 3,235 | 3,366 |
| | 264 | 302 | 265 | 247 |
| | n/a | n/a | n/a | n/a |
| | n/a | n/a | n/a | n/a |
| | 13,474 | 13,525 | 14,784 | 15,708 |
| | 14,838 | 18,388 | 10,269 | 12,128 |
| | 1,143 | 1,267 | 1,259 | 1,131 |
| | 9.53 | 11.34 | 10.68 | 8.85 |
| | 96.5 | 88.4 | 96.62 | 1.03 |
| | 7,854 | 7,800 | 7,838 | 7,886 |
| | 1,490.60 | 1,493.40 | 1,448.20 | 1,473.00 |
| | 2,044.30 | 2,050.40 | 2,057.00 | 2,522.00 |
| | 9,304 | 9,304 | 9,921 | 9,921 |
| | 5,123 | 5,123 | 3,146 | 3,146 |
| | 55.06% | 55.06% | 31.71% | 31.71% |

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

| Function/Program | Fiscal Year | | | | | | | | | |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 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 | 31 | 28 | 30 | 32 | 32 | 31 | 31 | 31 | 31 |
| Patrol Vehicles | 50 | 43 | 23 | 21 | 23 | 23 | 23 | 22 | 20 | 21 |
| Fire | | | | | | | | | | |
| Number of Firefighters | 21 | 23 | 24 | 24 | 24 | 24 | 24 | 27 | 33 | 32 |
| Number of Fire stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 |
| Number of Municipal Employees (excluding Public safety) | 94 | 92 | 98 | 102 | 102 | 102 | 102 | 102.5 | 102.5 | 105.0 |
| Public Works | | | | | | | | | | |
| Streets (miles) | 105.5 | 105.9 | 105.9 | 105.9 | 105.9 | 105.9 | 105.9 | 105.9 | 105.9 | 105.9 |
| Number of Water taps | 7,122 | 7,399 | 7,609 | 7,728 | 7,777 | 7,827 | 7,854 | 7,800 | 7,838 | 7,886 |
| 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.