

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Green Valley Park

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**TOWN OF PAYSON
303 N. BEELINE HWY.
PAYSON, AZ 85541
PHONE: (928) 474-5242
FAX: (928) 474-4610
TDD: (928) 474-6449
WWW.PAYSONAZ.GOV**





TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

Prepared By
Finance Department

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**TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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Town of Payson
303 N. Beeline Highway
Payson, Arizona 85541-4306

TOWN OF PAYSON
Finance Department
303 N. Beeline Hwy
Payson, AZ 85541

(928) 474-5242
(928) 472-6449 TDD
(928) 474-4610 Fax
www.paysonaz.gov

December 12, 2016

To the Honorable Mayor, Members of the 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, 2016 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, 2016. The independent auditor’s 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 20.5 square miles in northern Gila County and serve a population of 15,675. 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 in 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 in the potential annexation area 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 and 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 resolution 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 8,158 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 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 began to experience a slight increase, approximately 5.6%, in the economic environment during fiscal year 2015-2016. According to the 2010 Census, the population of the Town was 15,301. Over the last six years, the population increased 2.4%. The Town's unemployment rate, as of June 30, 2016 was 4.8%. This is 36% less than last year, and is less than the State unemployment rate (5.2%) and the County's rate of 7.3%. The region (which includes Payson, another town and the surrounding non-incorporated areas within northern Gila County) has an employed labor force of approximately 6,500 that has increased significantly over the last fifteen years.

LONG-TERM 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. Every three years, 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 needs of the Town's constituency. 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 with 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 in 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 June, the Tentative Budget is adopted and 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 tax rate where it is then adopted by ordinance. Upon adoption, it is certified to the County Treasurer.

MAJOR INITIATIVES

Although the tough economic climate of the past few years has slowed down the progress of some of the strategic objectives of the Town, a few initiatives were undertaken in fiscal year 2015-16.

- Construction of the C.C. Cragin pipeline project continues.
- Upgrades to water system infrastructure.
- Park enhancements including the installation of artificial turf on the soccer fields and new field lighting for the ballfields.
- Airport upgrades to the runway and taxiways.

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, 2015. This was the 17th consecutive year that the Town 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 2015-2016. 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 17th 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 unflinching support for maintaining the highest standards of professionalism in the management of the Town of Payson's finances.

Respectfully submitted,



LaRon Garrett, PE
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

Chris Higgins, Council Member
Richard Croy, Council Member
Fred Carpenter, Council Member

ADMINISTRATION

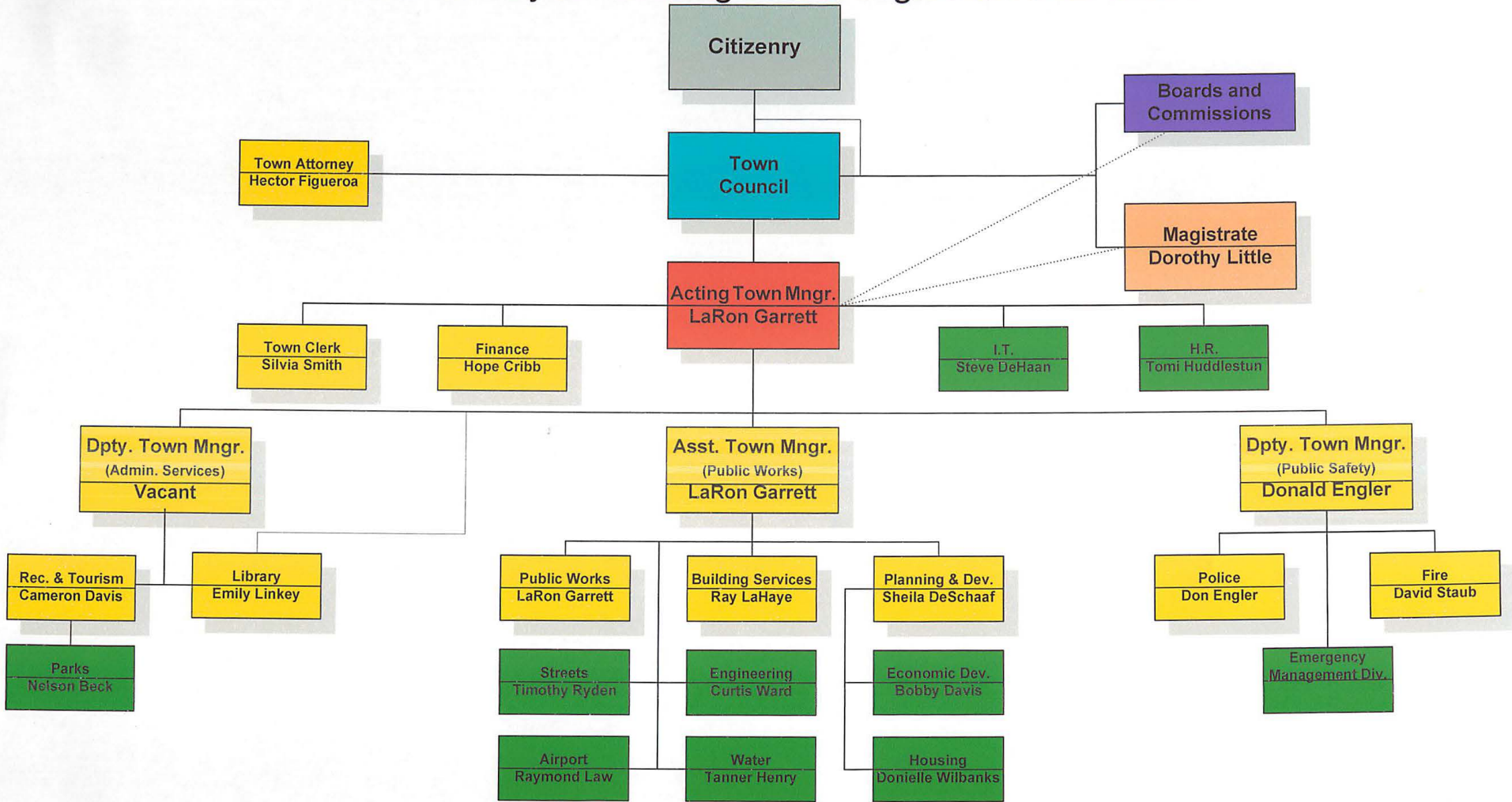
LaRon Garrett, Town Manager
Don Engler, Deputy Town Manager

DEPARTMENT DIRECTORS

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

Silvia Smith
Hector Figeroua
Dorothy Little
Hope Cribb
Don Engler
David Staub
Emily Linkey
LaRon Garrett
Cameron Davis

Town of Payson Management Organizational Chart





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, 2015

Executive Director/CEO

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, 2016, 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 Town'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 Town'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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison schedules of the General Fund and HURF 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 10–19 and the pension schedules, and other postemployment benefits other than pensions on pages 73-80 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 12, 2016, 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 "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
December 12, 2016

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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, 2016**

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, 2016. The intended purpose of 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 and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$108.9 million (net position). Due to the Town's pension and other post-employment benefit liabilities, the Town reports a deficit unrestricted net position.
- ◆ As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3.2 million, an increase of \$0.1 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.6 million or 11% of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$0.4 million for fiscal year 2016. Additionally, budgetary basis expenditures were 93% (\$1.1 million (7%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues were less than expenditures by \$0.4 million; a positive variance of \$0.7 million from the final budget.
- ◆ The Town's outstanding debt in the governmental activities decreased \$0.5 million due to scheduled principal payments. Business-type activities notes payable increased a net \$5.1 million due to draws on outstanding Water Infrastructure Finance Authority notes for phase II of the CC Cragin Pipeline project.

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, notes the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds and notes to the basic financial statements.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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 20 - 21 of this report.

Fund financial statements – Also presented are the fund financial statements. 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 three categories: governmental funds, proprietary funds and fiduciary 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, 2016**

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 HURF Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The basic governmental fund financial statements can be found on pages 22 - 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.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary Funds are not reflected in the government-wide financial statements because the *resources* of those funds are not available to support the Town's own programs. The fiduciary funds are custodial in nature and do not present results of operations or a measurement focus.

The Town has an agency fund; however, at June 30, 2016, the Town did not hold any assets in a fiduciary capacity and basic fiduciary fund financial statements are not presented. The Town received and disbursed funds in an agent capacity and therefore a combining statement of changes in assets and liabilities is presented on page 88.

Notes to the basic financial statements. The notes to the basic financial statements (pages 33 - 72) 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 on pages 73- 80.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016 showing that assets exceeded liabilities by \$108.9 million.

**Condensed Statement of Net Position
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$ 5,055,302	\$ 4,891,660	\$ 11,810,902	\$ 10,758,989	\$ 16,866,204	\$ 15,650,649
Capital Assets:						
Non-depreciable	12,493,047	12,319,207	27,168,000	19,258,225	39,661,047	31,577,432
Depreciable (Net)	95,222,823	95,184,646	6,982,418	7,734,069	102,205,241	102,918,715
Total Assets	112,771,172	112,395,513	45,961,320	37,751,283	158,732,492	150,146,796
Deferred Outflows of Resources	4,639,447	3,998,046	245,677	220,905	4,885,124	4,218,951
Liabilities						
Current Liabilities	1,234,121	1,109,393	1,765,712	842,915	2,999,833	1,952,308
Noncurrent Liabilities:						
Due Within One Year	1,537,653	726,818	779,556	454,542	2,317,209	1,181,360
Due in More Than One Year	32,672,364	31,105,190	15,614,668	10,712,347	48,287,032	41,817,537
Total Liabilities	35,444,138	32,941,401	18,159,936	12,009,804	53,604,074	44,951,205
Deferred Inflows of Resources	953,756	1,440,868	162,464	307,200	1,116,220	1,748,068
Net Position						
Net Investment in Capital Assets	105,017,442	105,190,507	20,771,062	18,707,310	125,788,504	123,897,817
Restricted	1,659,351	1,519,013	977,431	762,942	2,636,782	2,281,955
Unrestricted	(25,664,068)	(24,698,230)	6,136,104	6,184,932	(19,527,964)	(18,513,298)
Total Net Position	\$ 81,012,725	\$ 82,011,290	\$ 27,884,597	\$ 25,655,184	\$ 108,897,322	\$ 107,666,474

Net position consists of three components. The largest portion of the Town's net position (116%) 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 (2.4%) represents resources that are subject to external restrictions. Due to the Town's pension and other post-employment benefit obligations, the Town reports a deficit unrestricted net position.

At the end of the current fiscal year, the Town was able to report positive balances in two of the three categories of net position for the government as a whole. The negative unrestricted net position, reported in the governmental activities, was largely due to the recognition of the other postemployment healthcare benefits and pension obligations in the current and prior years.

The pension liabilities and other postemployment healthcare liability recognized for services rendered through June 30, 2016 were estimated at \$23.8 million and \$9.6 million, respectively.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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

Changes in Net Position Fiscal Years Ended June 30, 2016 and 2015						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,786,107	\$ 1,941,191	\$ 5,744,974	\$ 5,069,019	\$ 7,531,081	\$ 7,010,210
Operating Grants and Contributions	2,517,832	2,055,678	22,654	39,386	2,540,486	2,095,064
Capital Grants and Contributions	771,135	1,520,135	1,000,000	49,454	1,771,135	1,569,589
General Revenues:						
Sales Taxes	7,269,401	6,870,982	-	-	7,269,401	6,870,982
Property Taxes	830,980	925,329	-	-	830,980	925,329
Franchise Taxes	380,413	364,064	-	-	380,413	364,064
State Shared Revenues	3,285,609	3,250,620	-	-	3,285,609	3,250,620
Auto Lieu Taxes	917,957	874,316	-	-	917,957	874,316
Investment Earnings	5,325	1,481	22,736	3,145	28,061	4,626
Total Revenues	17,764,759	17,803,796	6,790,364	5,161,004	24,555,123	22,964,800
EXPENSES						
General Government	3,774,712	3,091,983	-	-	3,774,712	3,091,983
Public Safety	8,831,717	9,445,724	-	-	8,831,717	9,445,724
Highways and Streets	2,509,734	2,173,743	-	-	2,509,734	2,173,743
Culture and Recreation	1,588,679	1,281,108	-	-	1,588,679	1,281,108
Public Works	669,206	1,553,820	-	-	669,206	1,553,820
Community Development	929,499	950,372	-	-	929,499	950,372
Health and Welfare	241,307	232,944	-	-	241,307	232,944
Interest on Long-Term Debt	87,709	104,058	-	-	87,709	104,058
Water	-	-	4,691,712	4,337,892	4,691,712	4,337,892
Total Expenses	18,632,563	18,833,752	4,691,712	4,337,892	23,324,275	23,171,644
Change in Net Position						
Before Transfers	(867,804)	(1,029,956)	2,098,652	823,112	1,230,848	(206,844)
Transfers	(130,761)	(17,300)	130,761	17,300	-	-
Change in Net Position	(998,565)	(1,047,256)	2,229,413	840,412	1,230,848	(206,844)
Net Position - Beginning of Year	82,011,290	83,058,546	25,655,184	24,814,772	107,666,474	107,873,318
Net Position - End of Year	\$ 81,012,725	\$ 82,011,290	\$ 27,884,597	\$ 25,655,184	\$ 108,897,322	\$ 107,666,474

Governmental activities. Total governmental revenues were consistent with the prior year, decreasing \$39,037.

Program revenues decreased \$0.4 million over the prior fiscal year. The decrease was driven by a 49% decrease in capital grants and contributions. The decrease in capital grants and contributions was due to the Town's completion of its Airport Improvement Grant in the prior year with no corresponding grant in the current year. The 22% increase in operating grants and contributions was due to the Town receiving several small grants from ADOT and other state agencies in the current year. The decrease in fees, fines and charges for services was mainly related to one-time charges from the prior year that was not received in the current year.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

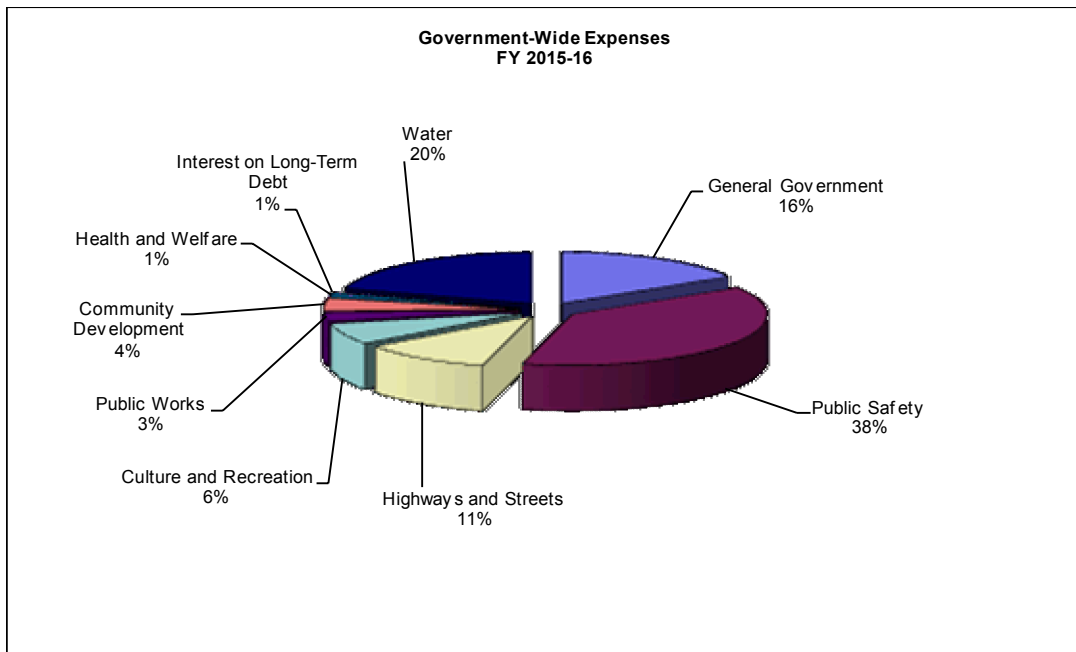
General revenues increased \$0.4 million. The increase was largely due to an improvement in economic activity resulting in the Town's local sales and state shared revenues increasing. The remaining changes in general revenues were not significant.

Overall, expenses decreased \$0.2 million. The decrease was driven by declines in police and fire personnel costs due to significant vacancies in the department (\$0.6 million) and declines in public works expenses due to reclassification of public works personnel due to not having ongoing airport projects in the current year (\$0.9 million). This decline was offset by increases in street maintenance costs (\$0.3 million), culture and recreation expenses (\$0.3 million) for additional program expenses and reallocation of public works personnel and General Government (\$0.7 million) related to an increase in retiree health premiums, the Town incurring charges from the State of Arizona related to the operation of the state shared revenue program and reallocation of public works personnel.

Business-type activities. Charges for services increased over the prior fiscal year by \$0.7 million. The increase was due to increased rates that were implemented during the fiscal year 2014-15 for water usage and in effect for all of the 2015-16 fiscal year. Capital grants and contributions increased \$1.0 million in the current year due to the Town drawing down the forgivable grant portion of its WIFA loan in the current year for work on the C.C. Cragin pipeline.

Expenses increased \$0.3 million from the prior year due to increased operating costs for the C.C. Cragin pipeline.

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, 2016**

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 \$3.2 million, an increase of \$0.1 million in comparison with the prior year. Approximately 63% of this total amount (\$2.0 million) constitutes General Fund balance, which is reported as either nonspendable, restricted, assigned or unassigned fund balance. At the end of fiscal year 2015-16, fund balances were as follows:

Fund	Balance	Increase (Decrease) from 2014-15
General Fund	\$ 2,044,247	\$ 54,990
HURF Fund	641,333	305,091
Nonmajor Governmental Funds	552,170	(231,078)

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 11% of total General Fund expenditures, while total unassigned fund balance represents 8.8% of total fund expenditures.

The General Fund increase of \$54,990 is not considered significant and is largely attributable to increased sales tax revenues resultant of increasing economic activity.

The HURF Fund increase of \$0.3 million was the result of an increase in state shared revenues. This increase in revenues was primarily the result of an increase in economic activity which leads to greater distributions to the state and local governments.

The \$0.2 million decrease in Nonmajor governmental fund balance in the current year was not considered significant and was largely due to the use of carryover funds for capital projects and debt service.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 26 – 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 that the national and regional economy would experience slight increases. Although the economy seems to have largely stabilized, 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 has shown some improvement, but is still at a level far below the requirements of the Town.

General Fund revenues of \$14.2 million were less than budgeted revenues of \$14.6 million by \$0.4 million while expenditures of \$14.6 million were 93% of budgeted expenditures (savings of \$1.1 million). Revenues were less than budgeted revenues primarily due to lower than expected state shared revenues and less license, permit and other fee based activity than anticipated. The expenditure savings were derived largely from unspent contingencies, and staff vacancy 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, 2016 totaled \$107.7 million (net of accumulated depreciation), an increase from the prior year of \$0.2 million. Business-type activities capital assets amounted to \$34.2 million (net of accumulated depreciation), an increase from the prior year of \$7.2 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 \$0.9 million in lighting, turf and other improvements to Rumsey Park. Additionally, the Town purchased \$0.3 million in vehicles and equipment for street repair and maintenance. The Town also had \$1.8 million in depreciation expense for governmental assets in the current year.

Business-Type Activities – The most significant change in capital assets in the Business Type Activities was \$1.1 million in current year depreciation expense and \$7.6 million in construction in progress additions for the continued construction of the CC Cragin Pipeline.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

The following table provides a breakdown of the capital assets of the Town at June 30, 2016 and 2015.

**Capital Assets (Net)
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 12,238,995	\$ 12,238,995	\$ 1,590,144	\$ 1,590,144	\$ 13,829,139	\$ 13,829,139
Construction in Progress	254,052	80,212	21,857,084	14,066,507	22,111,136	14,146,719
Pipeline Right of Way	-	-	3,720,772	3,601,574	3,720,772	3,601,574
Infrastructure	84,423,394	85,047,088	-	-	84,423,394	85,047,088
Buildings	5,994,340	6,287,054	259,905	282,622	6,254,245	6,569,676
Improvements Other Than Buildings	2,356,407	1,617,711	6,446,833	7,187,265	8,803,240	8,804,976
Vehicles, Machinery and Equipment	2,448,682	2,232,793	275,680	264,182	2,724,362	2,496,975
Total Capital Assets	\$ 107,715,870	\$ 107,503,853	\$ 34,150,418	\$ 26,992,294	\$ 141,866,288	\$ 134,496,147

Long-Term Debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$26.8 million. Of the outstanding debt, \$1.0 million (including \$25,583 premium on the bonds) is general obligation bonds and \$13.4 million are notes payable backed by the full faith and credit of the Town. An additional \$0.4 million of special assessment bonds are backed by a guaranteed investment contract with the developer of the special assessment district property. All other outstanding debt is secured by pledges of specific revenue sources in the Town, including revenue bonds of \$0.2 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, 2016 is \$9.1 million in the 6% capacity and \$33.6 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (pages 112 - 114).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2016 and 2015. Further detail on the Town's outstanding debt may be found in Notes 3.C., 3.D. and 3.E. on pages 48 – 53.

**Outstanding Debt
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 975,583	\$ 1,278,083	\$ -	\$ -	\$ 975,583	\$ 1,278,083
Special Assessment Bonds	420,000	480,000	-	-	420,000	480,000
Revenue Bonds	245,000	360,000	-	-	245,000	360,000
Notes Payable	-	-	13,379,356	8,284,984	13,379,356	8,284,984
Capital Leases	1,057,845	195,263	-	-	1,057,845	195,263
Compensated Absences	1,041,662	1,158,088	123,200	188,484	1,164,862	1,346,572
Other Postemployment Benefits	8,608,515	8,218,092	967,853	936,679	9,576,368	9,154,771
Total Outstanding Debt	\$ 12,348,605	\$ 11,689,526	\$ 14,470,409	\$ 9,410,147	\$ 26,819,014	\$ 21,099,673

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

Economic Factors and Next Year's Budgets and Rates

The Town, as well as all other Arizona cities, remains dependent on state shared revenues (13%) and local sales taxes for resources (30%). 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 2016-17 budget preparation was influenced by the following factors:

- Anticipation of additional revenue for dispatching services.
- Possible construction of the university campus.
- Utilization of gas tax revenues for road construction and improvements.
- The pursuit of grants.
- Continued construction of the C.C. Cragin pipeline.
- Upgrades to the water system infrastructure

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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 3,138,681	\$ 9,301,032	\$ 12,439,713
Receivables, Net:			
Accounts Receivable	202,164	908,209	1,110,373
Intergovernmental Receivables	892,822	-	892,822
Property Taxes Receivable	11,117	-	11,117
Special Assessments Receivable	545,035	-	545,035
Prepaid Items	-	13,390	13,390
Restricted Cash and Investments	265,483	1,563,484	1,828,967
Other Assets	-	24,787	24,787
Capital Assets:			
Non-Depreciable	12,493,047	27,168,000	39,661,047
Depreciable (Net)	95,222,823	6,982,418	102,205,241
Total Assets	<u>112,771,172</u>	<u>45,961,320</u>	<u>158,732,492</u>
DEFERRED OUTFLOWS OF RESOURCES	4,639,447	245,677	4,885,124
LIABILITIES			
Accounts Payable	484,376	761,539	1,245,915
Accrued Wages and Benefits	381,587	49,229	430,816
Retainage Payable	9,615	216,190	225,805
Interest Payable	37,192	152,701	189,893
Customer Deposits Payable	26,351	586,053	612,404
Matured Debt Principal Payable	295,000	-	295,000
Noncurrent Liabilities:			
Net Pension Liability	21,861,412	1,923,815	23,785,227
Due Within One Year	1,537,653	779,556	2,317,209
Due in More Than One Year	10,810,952	13,690,853	24,501,805
Total Liabilities	<u>35,444,138</u>	<u>18,159,936</u>	<u>53,604,074</u>
DEFERRED INFLOWS OF RESOURCES	<u>953,756</u>	<u>162,464</u>	<u>1,116,220</u>
NET POSITION			
Net Investment in Capital Assets	105,017,442	20,771,062	125,788,504
Restricted for:			
Court Enhancement	164,761	-	164,761
Highways and Streets	641,333	-	641,333
Debt Service	664,981	857,345	1,522,326
Capital Outlay	188,276	120,086	308,362
Unrestricted	(25,664,068)	6,136,104	(19,527,964)
Total Net Position	<u>\$ 81,012,725</u>	<u>\$ 27,884,597</u>	<u>\$ 108,897,322</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities:							
General Government	\$ 3,774,712	\$ 826,574	\$ 37,564	\$ 73,021	\$ (2,837,553)		\$ (2,837,553)
Public Safety	8,831,717	350,901	195,439	35,971	(8,249,406)		(8,249,406)
Highways and Streets	2,509,734	-	2,282,579	588,598	361,443		361,443
Culture and Recreation	1,588,679	95,528	2,250	-	(1,490,901)		(1,490,901)
Public Works	669,206	205,146	-	-	(464,060)		(464,060)
Community Development	929,499	284,393	-	73,545	(571,561)		(571,561)
Health and Welfare	241,307	23,565	-	-	(217,742)		(217,742)
Interest on Long-Term Debt	87,709	-	-	-	(87,709)		(87,709)
Total Governmental Activities	18,632,563	1,786,107	2,517,832	771,135	(13,557,489)		(13,557,489)
Business-Type Activities:							
Water	4,691,712	5,744,974	22,654	1,000,000	-	\$ 2,075,916	2,075,916
Totals	\$ 23,324,275	\$ 7,531,081	\$ 2,540,486	\$ 1,771,135	(13,557,489)	2,075,916	(11,481,573)
General Revenues:							
Taxes:							
Sales Taxes					7,269,401	-	7,269,401
Property Taxes					813,819	-	813,819
Franchise Taxes					380,413	-	380,413
Special Assessments					17,161	-	17,161
State Sales Tax Revenue Sharing - Unrestricted					3,285,609	-	3,285,609
Auto Lieu Tax Revenue Sharing - Unrestricted					917,957	-	917,957
Investment Earnings					5,325	22,736	28,061
Transfers					(130,761)	130,761	-
Total General Revenues and Transfers					12,558,924	153,497	12,712,421
Change in Net Position					(998,565)	2,229,413	1,230,848
Net Position - Beginning of Year					82,011,290	25,655,184	107,666,474
Net Position - Ending					\$ 81,012,725	\$ 27,884,597	\$ 108,897,322

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	HURF Fund	Funds	Funds
ASSETS				
Cash and Investments	\$ 1,747,200	\$ 490,667	\$ 721,948	\$ 2,959,815
Restricted Cash and Investments	77,212	-	188,271	265,483
Receivables, Net:				
Taxes Receivable	11,117	-	-	11,117
Accounts Receivable	195,024	-	-	195,024
Intergovernmental Receivable	681,647	210,101	1,074	892,822
Special Assessments Receivable	-	-	545,035	545,035
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,712,200</u>	<u>\$ 700,768</u>	<u>\$ 1,456,328</u>	<u>\$ 4,869,296</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 293,322	\$ 16,513	\$ 18,832	\$ 328,667
Accrued Wages and Benefits	340,181	33,307	8,099	381,587
Retainage Payable	-	9,615	-	9,615
Matured Principal Payable	-	-	295,000	295,000
Interest Payable	-	-	37,192	37,192
Customer Deposits Payable	26,351	-	-	26,351
Total Liabilities	<u>659,854</u>	<u>59,435</u>	<u>359,123</u>	<u>1,078,412</u>
Deferred Inflows of Resources:				
Unavailable Revenues	8,099	-	545,035	553,134
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Restricted	75,362	641,333	397,621	1,114,316
Assigned:				
Public Safety - Police	40,714	-	-	40,714
Culture and Recreation	312,301	-	-	312,301
Capital Outlay	-	-	154,549	154,549
Unassigned	1,615,870	-	-	1,615,870
Total Fund Balances	<u>2,044,247</u>	<u>641,333</u>	<u>552,170</u>	<u>3,237,750</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,712,200</u>	<u>\$ 700,768</u>	<u>\$ 1,456,328</u>	<u>\$ 4,869,296</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, 2016

Total Fund Balances for Governmental Funds \$ 3,237,750

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	145,254,699
Less Accumulated Depreciation	(37,538,829)
Capital Assets Used in Governmental Activities	107,715,870

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	8,099
Special Assessment Revenue	545,035

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	(950,000)
Special Assessment Bonds	(420,000)
Revenue Bonds	(245,000)
Premium	(25,583)
Capital Leases	(1,057,845)
Compensated Absences	(1,041,662)
Other Postemployment Benefits	(8,608,515)
Net Pension Liability	(21,861,412)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	4,639,447
Deferred inflows of resources related to pensions	(953,756)

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.

30,297

Total Net Position of Governmental Activities \$ 81,012,725

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	General	HURF Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales Taxes	\$ 6,875,972	\$ -	\$ 393,429	\$ 7,269,401
Property Taxes	629,021	-	230,400	859,421
Franchise Taxes	380,413	-	-	380,413
Intergovernmental	4,532,588	2,282,579	89,016	6,904,183
Fines and Forfeitures	154,855	-	16,810	171,665
Licenses and Permits	379,990	-	-	379,990
Charges for Services	926,170	-	-	926,170
Contributions and Donations	85,549	-	1,222	86,771
Special Assessments	-	-	58,762	58,762
Investment Earnings	5,320	-	6	5,326
Other	251,809	50,550	5,922	308,281
Total Revenues	<u>14,221,687</u>	<u>2,333,129</u>	<u>795,567</u>	<u>17,350,383</u>
EXPENDITURES				
Current:				
General Government	3,553,383	-	-	3,553,383
Public Safety	7,667,705	-	-	7,667,705
Highways and Streets	-	2,336,730	-	2,336,730
Culture and Recreation	759,516	-	345,649	1,105,165
Public Works	778,557	-	-	778,557
Community Development	813,031	-	-	813,031
Health and Welfare	241,256	-	-	241,256
Debt Service:				
Principal Retirement	81,152	32,828	572,859	686,839
Interest on Long-Term Debt	1,300	3,886	90,023	95,209
Capital Outlay	734,015	-	271,611	1,005,626
Total Expenditures	<u>14,629,915</u>	<u>2,373,444</u>	<u>1,280,142</u>	<u>18,283,501</u>
Deficiency of Revenues Under Expenditures	(408,228)	(40,315)	(484,575)	(933,118)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	253,497	253,497
Transfers Out	(270,797)	-	-	(270,797)
Issuance of Capital Lease	734,015	345,406	-	1,079,421
Total Other Financing Sources (Uses)	<u>463,218</u>	<u>345,406</u>	<u>253,497</u>	<u>1,062,121</u>
Net Change in Fund Balances	54,990	305,091	(231,078)	129,003
FUND BALANCES				
Beginning of Year	1,989,257	336,242	783,248	3,108,747
End of Year	<u>\$ 2,044,247</u>	<u>\$ 641,333</u>	<u>\$ 552,170</u>	<u>\$ 3,237,750</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, 2016**

Net Change in Fund Balances of Governmental Funds \$ 129,003

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	1,521,122
Less Current Year Depreciation	(1,790,298)
Excess Capital Expenditures Over Depreciation	(269,176)

Governmental funds do not report donated capital assets as a revenue. 501,580

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (20,387)

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	(45,602)
Special Assessments	(41,601)

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 amortized over the term of the long-term debt in the statement of activities.

Principal Payments on Long-Term Bonds	470,000
Issuance of Capital Lease	(1,079,421)
Principal Payments on Capital Leases	216,839
Amortization of Bond Premium	7,500

Governmental funds report Town pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows or resources related to pensions, and the investment experience.

Pension Contributions	1,721,913
Pension Expense	(2,312,330)
	(590,417)

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	116,426
Net Change in Other Postemployment Benefits	(390,423)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service fund is reported with governmental activities. (2,886)

Change in Net Position of Governmental Activities \$ (998,565)

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 7,799,700	\$ 7,885,406	\$ 85,706
Intergovernmental	4,907,500	4,532,588	(374,912)
Fines and Forfeitures	110,000	154,855	44,855
Licenses and Permits	546,000	379,990	(166,010)
Charges for Services	972,200	926,170	(46,030)
Contributions and Donations	-	85,549	85,549
Investment Earnings	-	5,320	5,320
Other	292,700	251,809	(40,891)
Total Revenues	14,628,100	14,221,687	(406,413)
EXPENDITURES			
Current:			
General Government:			
General Government Administration	1,373,300	1,187,603	185,697
Town Clerk	218,600	210,700	7,900
Elections	40,000	899	39,101
Town Manager	188,900	317,298	(128,398)
Town Council	103,100	83,525	19,575
Human Resources	236,400	205,786	30,614
Computer Information Services	626,700	615,772	10,928
Financial Services	408,500	357,791	50,709
Courts	216,900	206,881	10,019
Attorney	378,300	367,128	11,172
Total General Government	3,790,700	3,553,383	237,317
Public Safety:			
Police Department	5,151,200	4,469,122	682,078
Fire Department	3,602,700	3,198,583	404,117
Total Public Safety	8,753,900	7,667,705	1,086,195
Culture and Recreation:			
Recreation	315,100	289,805	25,295
Aquatics	123,600	74,722	48,878
Event Center	223,200	170,961	52,239
Tourism	218,000	218,487	(487)
Trails	13,600	5,541	8,059
Total Culture and Recreation	893,500	759,516	133,984
Public Works:			
Airport	424,300	230,493	193,807
Park Operations	667,100	544,390	122,710
Town Engineer	4,800	3,674	1,126
Total Public Works	1,096,200	778,557	317,643

(Continued)

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
EXPENDITURES (CONTINUED)			
Current (Continued):			
Community Development:			
Planning and Zoning	\$ 423,800	\$ 392,817	\$ 30,983
Building Inspections	370,300	313,988	56,312
Economic Development	156,300	106,226	50,074
Total Community Development	<u>950,400</u>	<u>813,031</u>	<u>137,369</u>
Health and Welfare:			
Health and Welfare	116,400	116,400	-
Animal Control	126,900	124,856	2,044
Total Health and Welfare	<u>243,300</u>	<u>241,256</u>	<u>2,044</u>
Debt Service:			
Principal Retirement	-	81,152	(81,152)
Interest on Long-Term Debt	-	1,300	(1,300)
Capital Outlay	-	734,015	(734,015)
Total Expenditures	<u>15,728,000</u>	<u>14,629,915</u>	<u>1,098,085</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 (1,099,900)	 (408,228)	 691,672
OTHER FINANCING SOURCES (USES)			
Transfers In	156,154	-	(156,154)
Transfers Out	(367,300)	(270,797)	96,503
Issuance of Capital Lease	-	734,015	734,015
Total Other Financing Sources (Uses)	<u>(211,146)</u>	<u>463,218</u>	<u>674,364</u>
 Net Change in Fund Balance	 (1,311,046)	 54,990	 1,366,036
FUND BALANCE			
Beginning of Year	1,989,257	1,989,257	-
End of Year	<u>\$ 678,211</u>	<u>\$ 2,044,247</u>	<u>\$ 1,366,036</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 2,267,700	\$ 2,282,579	\$ 14,879
Charges for Services	130,000	-	(130,000)
Other	33,800	50,550	16,750
Total Revenues	2,431,500	2,333,129	(98,371)
EXPENDITURES			
Current:			
Highways and Streets	2,550,900	2,336,730	214,170
Debt Service:			
Principal Retirement	-	32,828	(32,828)
Interest on Long-Term Debt	-	3,886	(3,886)
Total Expenditures	2,550,900	2,373,444	177,456
Excess (Deficiency) of Revenues Over (Under) Expenditures	(119,400)	(40,315)	79,085
OTHER FINANCING SOURCES			
Proceeds from Capital Lease	-	345,406	345,406
Net Change in Fund Balance	(119,400)	305,091	424,491
FUND BALANCE			
Beginning of Year	336,242	336,242	-
End of Year	\$ 216,842	\$ 641,333	\$ 424,491

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Water Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and Investments	\$ 9,301,032	\$ 178,866
Receivables, Net:		
Accounts Receivable	908,209	7,140
Restricted Cash and Investments	1,563,484	-
Prepaid Items	13,390	-
Total Current Assets	<u>11,786,115</u>	<u>186,006</u>
Noncurrent Assets:		
Other Assets	24,787	-
Capital Assets:		
Non-Depreciable	27,168,000	-
Depreciable (Net)	6,982,418	-
Total Noncurrent Assets	<u>34,175,205</u>	<u>-</u>
Total Assets	45,961,320	186,006
DEFERRED OUTFLOWS OF RESOURCES	245,677	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	761,539	155,709
Accrued Wages and Benefits	49,229	-
Retainage Payable	216,190	-
Interest Payable	152,701	-
Customer Deposits Payable	586,053	-
Compensated Absences	99,160	-
Notes Payable	680,396	-
Total Current Liabilities	<u>2,545,268</u>	<u>155,709</u>
Noncurrent Liabilities		
Compensated Absences	24,040	-
Other Postemployment Benefits	967,853	-
Net Pension Liability	1,923,815	-
Notes Payable	12,698,960	-
Total Noncurrent Liabilities	<u>15,614,668</u>	<u>-</u>
Total Liabilities	18,159,936	155,709
DEFERRED INFLOWS OF RESOURCES	162,464	-
NET POSITION		
Net Investment in Capital Assets	20,771,062	-
Restricted for:		
Debt Service	857,345	-
Capital Outlay	120,086	-
Unrestricted	6,136,104	30,297
Total Net Position	<u>\$ 27,884,597</u>	<u>\$ 30,297</u>

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, 2016**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Water Fund</u>	<u>Internal Service Funds</u>
Operating Revenues:		
Charges for Services	\$ 5,329,050	\$ -
Contributions	-	1,877,406
Total Operating Revenues	<u>5,329,050</u>	<u>1,877,406</u>
Operating Expenses:		
Cost of Sales and Services	3,597,231	1,880,294
Depreciation	1,089,825	-
Total Operating Expenses	<u>4,687,056</u>	<u>1,880,294</u>
Operating Income (Loss)	641,994	(2,888)
Nonoperating Revenues (Expenses):		
Intergovernmental	22,654	-
Development Impact Fees	329,538	-
Investment Earnings	22,736	2
Interest Expense	(4,656)	-
Loss on Sale of Capital Assets	(1,340)	-
Miscellaneous Nonoperating Revenues	87,726	-
Total Nonoperating Revenues (Expenses)	<u>456,658</u>	<u>2</u>
Income (Loss) Before Capital Contributions and Transfers	1,098,652	(2,886)
Capital Contributions	1,113,461	-
Transfers In	17,300	-
Total Capital Contributions and Transfers	<u>1,130,761</u>	<u>-</u>
Change in Net Position	2,229,413	(2,886)
Net Position		
Beginning of Year	<u>25,655,184</u>	<u>33,183</u>
End of Year	<u>\$ 27,884,597</u>	<u>\$ 30,297</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Water</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 4,994,161	\$ 1,877,600
Payments to Suppliers	(2,222,192)	(1,875,807)
Payments to Employees	(1,387,285)	-
Customer Deposits Payable	24,130	-
Miscellaneous Revenue	87,726	-
Net Cash Flows from Operating Activities	<u>1,496,540</u>	<u>1,793</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental Revenues	47,040	-
Transfers In	17,300	-
Development Impact Fees	329,538	-
Net Cash Flows from Noncapital Financing Activities	<u>393,878</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Grants	1,000,000	-
Purchases of Capital Assets	(7,033,453)	-
Principal Paid on Capital Debt	(421,705)	-
Interest Paid on Capital Debt	(240,113)	-
Issuance of Long-Term Debt	5,516,077	-
Net Cash Flows from Capital and Related Financing Activities	<u>(1,179,194)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	<u>22,736</u>	<u>2</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	733,960	1,795
Cash and Cash Equivalents - Beginning of Year	<u>10,130,556</u>	<u>177,071</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,864,516</u>	<u>\$ 178,866</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and Investments	\$ 9,301,032	\$ 178,866
Restricted Cash and Investments	1,563,484	-
Total Cash and Cash Equivalents	<u>\$ 10,864,516</u>	<u>\$ 178,866</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, 2016**

	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)	\$ 641,994	\$ (2,888)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:		
Adjustments to Operating Activity:		
Depreciation	1,089,825	-
Nonoperating Receipts	87,726	-
Adjustment for Pension Expense	(2,435)	-
Change in Assets/Liabilities:		
Receivables	(334,889)	194
Prepaid Items	(13,390)	-
Other Assets	5,940	-
Accounts Payable	24,186	4,487
Accrued Wages and Benefits	7,563	-
Customer Deposits Payable	24,130	-
Compensated Absences	(65,284)	-
Other Postemployment Benefits	31,174	-
Net Cash Provided by Operating Activities	\$ 1,496,540	\$ 1,793

Noncash Capital Financing Activities

During the fiscal year ended June 30, 2016, the Town's Governmental Funds contributed \$113,461 in assets and the Town capitalized \$272,271 in interest expenses incurred during the fiscal year.

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TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

For the year ended June 30, 2016, the Town implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain provisions of GASB Statements 67 and 68*; GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statements No. 82 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

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
JUNE 30, 2016

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, proprietary funds and fiduciary funds. However, fiduciary funds are not included in the government-wide financial statements. 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
JUNE 30, 2016

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.

Highway Users Revenue Fund (HURF) is a special revenue fund used to account 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.

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 types:

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

The *General Services Administration Agency Fund* accounts for the monies the Town receives in an agency capacity to purchase vehicles for other agencies. At June 30, 2016, the Town did not hold any assets; therefore, a statement of assets and liabilities is not presented. Current year additions and deletions are presented in the combining statements for the agency fund.

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
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, 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. Accounts Receivable and Property Tax Receivable

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

Gila County levies real and personal 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. Intergovernmental Receivables

Intergovernmental receivables reported in the government-wide financial statements for the governmental activities include amounts due from the state for city sales tax (\$463,883), state shared sales tax (\$114,700), highway user revenue fuel tax (\$140,013), vehicle license tax (\$40,631), Gila County road tax extension (\$70,089) and miscellaneous state and federal grants (\$63,506).

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method in both government-wide and fund financial statements.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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. Deferred Outflows of Resources

In the government-wide financial statements and proprietary fund financial statements, the Town recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. 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 governmental fund financial statements.

9. 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 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.

10. Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from ASRS/PSPRS's fiduciary net position have been determined on the same basis as they are reported by ASRS/PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Deferred Inflows of Resources

In the Government-wide financial statements, the Town recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

The deferred inflows of resources reported in the governmental fund financial statements represent resources that are not available to the Town as of June 30, 2016 or within 60 days of fiscal year end. The deferred inflows of resources represent a reconciling item between the governmental fund financial statements and the government-wide financial statements.

12. 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 is the remaining net position not included in the previous two categories.

13. 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
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Fund Balance Classifications (Continued)

Committed fund balances are resources pursuant to constraints imposed by formal action of the government's highest level of decision making authority. These resources cannot be used for any other purpose unless the same authority takes formal action to change the use. The highest level of decision making authority for the Town of Payson is the Town Council. Formal action to modify or rescind a fund balance commitment would be done by resolution or ordinance of the council, as required. Both actions by the council are equally binding. 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 who the governing body has delegated the authority to assign amounts to be used 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 – per finance manager requirements
- 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 contributions 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
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. 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 of 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 expenditures 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
 JUNE 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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 (except for the JCEF/FTG Fund, in which the Town does not adopt a budget) 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:	
General Government	
Town manager	\$ 128,398
Culture and Recreation	
Tourism	487
Debt Service:	
Principal	81,152
Interest	1,300
Capital Outlay	734,015

Cash was available to meet all the over expenditures listed above.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2016 consist of the following:

Deposits:	
Cash on hand	\$ 1,685
Cash in bank	1,907,717
Investments:	
State Treasurer's Investment Pool	12,149,939
Cash on Deposit with Trustee	209,339
Total Deposits and Investments	14,268,680
Less: Restricted Cash and Investments	(1,828,967)
Total Cash and Investments, Statement of Net Position	\$ 12,439,713

Deposits – The Town had a carrying value of \$1,907,717 for cash on deposit with a local financial institution and a bank balance of \$1,691,762 at June 30, 2016. Of the bank balance, \$325,452 was insured by federal depository insurance through two different institutions, with the remaining \$1,366,310 secured by pledged collateral.

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 amortized cost, 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 is as follows:

Investment	Maturity			Total
	Less Than 1 Year	1-3 Years	> 3 Years	
Money Market	\$ 209,339	\$ -	\$ -	\$ 209,339
State Treasurer's Investment Pool	12,149,939	-	-	12,149,939
Total	\$ 12,359,278	\$ -	\$ -	\$ 12,359,278

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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 is backed by the full faith and credit of the federal government and the State Treasurer's Investment Pool 7 received a rating of AAA.

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, 2016 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Central Arizona Project Trust	\$ 188,271	\$ -	\$ 188,271
Current Debt Service	-	857,345	857,345
Replacement and Extension	-	120,086	120,086
Customer Deposits	-	586,053	586,053
Court Deposits	77,212	-	77,212
Total	<u>\$ 265,483</u>	<u>\$ 1,563,484</u>	<u>\$ 1,828,967</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	\$ 8,099
Special Assessments Receivable:	
Debt Service Fund	545,035
Total	<u>\$ 553,134</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2016 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	80,212	239,733	(65,893)	254,052
Total Capital Assets, Not Being Depreciated	<u>12,319,207</u>	<u>239,733</u>	<u>(65,893)</u>	<u>12,493,047</u>
Capital Assets, Being Depreciated:				
Infrastructure	103,153,503	65,893	-	103,219,396
Buildings	10,464,942	-	-	10,464,942
Improvements Other Than Buildings	7,585,950	984,015	(53,258)	8,516,707
Vehicles, Machinery and Equipment	10,282,401	798,954	(520,748)	10,560,607
Total Capital Assets, Being Depreciated	<u>131,486,796</u>	<u>1,848,862</u>	<u>(574,006)</u>	<u>132,761,652</u>
Accumulated Depreciation for:				
Infrastructure	(18,106,415)	(689,587)	-	(18,796,002)
Buildings	(4,177,888)	(292,714)	-	(4,470,602)
Improvements Other Than Buildings	(5,968,239)	(245,319)	53,258	(6,160,300)
Vehicles, Machinery and Equipment	(8,049,608)	(562,678)	500,361	(8,111,925)
Total Accumulated Depreciation	<u>(36,302,150)</u>	<u>(1,790,298)</u>	<u>553,619</u>	<u>(37,538,829)</u>
Total Capital Assets, Being Depreciated, Net	<u>95,184,646</u>	<u>58,564</u>	<u>(20,387)</u>	<u>95,222,823</u>
Governmental Activities Capital Assets, Net	<u>\$ 107,503,853</u>	<u>\$ 298,297</u>	<u>\$ (86,280)</u>	<u>\$ 107,715,870</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 25,480
Public Safety	619,140
Highways and Streets	641,781
Culture and Recreation	484,805
Community Development	19,092
Total Depreciation Expense	<u>\$ 1,790,298</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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	\$ 1,590,144	\$ -	\$ -	\$ 1,590,144
Pipeline Right of Way	3,601,574	119,198	-	3,720,772
Construction in Progress	14,066,507	7,832,861	(42,284)	21,857,084
Total Capital Assets, Not Being Depreciated	19,258,225	7,952,059	(42,284)	27,168,000
Capital Assets, Being Depreciated:				
Buildings	750,714	-	-	750,714
Improvements Other Than Buildings	24,542,698	244,469	-	24,787,167
Vehicles, Machinery and Equipment	1,806,360	95,045	(229,213)	1,672,192
Total Capital Assets, Being Depreciated	27,099,772	339,514	(229,213)	27,210,073
Accumulated Depreciation for:				
Buildings	(468,092)	(22,717)	-	(490,809)
Improvements Other Than Buildings	(17,355,433)	(984,901)	-	(18,340,334)
Vehicles, Machinery and Equipment	(1,542,178)	(82,207)	227,873	(1,396,512)
Total Accumulated Depreciation	(19,365,703)	(1,089,825)	227,873	(20,227,655)
Total Capital Assets, Being Depreciated, Net	7,734,069	(750,311)	(1,340)	6,982,418
Business-Type Activities Capital Assets, Net	\$ 26,992,294	\$ 7,201,748	\$ (43,624)	\$ 34,150,418

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Water \$ 1,089,825

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The Town has active construction projects at June 30, 2016. At fiscal year-end, the Town's commitments with contractors were as follows:

Project	Spent-to-date	Remaining Commitment
Airport Infield Drainage	\$ 69,369	\$ 19,912
Business-Type Activities		
Project	Spent-to-date	Remaining Commitment
CC Cragin Pipeline Project	\$ 21,771,451	\$ 746,578
Manzanita Water Line	35,122	27,870
Total	\$ 21,806,572	\$ 774,448

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

Transfer Out	Transfer In		Total
	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ 253,497	\$ 17,300	\$ 270,797

The transfer(s) from the General Fund to the Nonmajor Governmental Funds were recorded to fund annual debt service requirements on outstanding excise tax revenue bonds (\$134,242), pay special assessments on Town owned property within the special assessment district (\$26,738) and to record the annual subsidy to the Library Fund (\$92,517). The transfer from the General Fund to the Water Fund was recorded to pay interest on prior borrowing between the funds.

The above interfund transfers were adjusted in the government-wide financial statements to eliminate transfers between governmental activities and reclassify capital assets donated from the governmental activities to the business-type activities from an expense to a transfer out in the governmental activities and from a capital contribution to a transfer in in the business-type activities in the amount of \$113,461.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases

Capital Leases

The Town has entered into lease agreements as a lessee for financing the acquisition of maintenance and public safety vehicles and equipment and land and improvements. 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 is capitalized in the government-wide statement of net position.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Land Improvements	\$ 734,015
Vehicles, Machinery and Equipment	1,114,461
Less: Accumulated Depreciation	(878,756)
Total	\$ 969,720

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2016, were as follows:

	Governmental Activities
<u>Year Ending June 30,</u>	
2017	\$ 241,645
2018	188,772
2019	174,631
2020	174,631
2021	137,917
2022 - 2026	301,204
Total Minimum Lease Payments	1,218,800
Less: Amount Representing Interest	(160,955)
Present Value of Minimum Lease Payments	\$ 1,057,845

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Notes Payable

The Town has entered into four Water Infrastructure Finance Authority of Arizona (WIFA) loans for improvements to the Town's 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 of \$4,177,809. Additionally, the Town entered into a \$6,250,000 loan agreement and two additional \$10,000,000 loan agreements with WIFA. The loans 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 2.2%-2.891% through fiscal year 2036.

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2016	Amount Due Within One Year
Business-type Activities:				
Water Infrastructure Authority	2.2-2.891%	7/1/16-45	\$ 13,379,356	\$ 680,396

Annual debt service requirements to maturity on the note payable at June 30, 2016 are summarized as follows:

<u>Year Ending June 30,</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 680,396	\$ 459,009
2018	698,103	441,302
2019	716,278	423,127
2020	734,932	404,473
2021	754,079	385,326
2022-2026	4,075,789	1,621,235
2027-2031	4,378,256	1,060,682
2032-2036	1,341,523	572,737
Total	<u>\$ 13,379,356</u>	<u>\$ 5,367,891</u>

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 semi-annually. General obligation bonds are backed by the full faith and credit of the Town. Special assessments imposed on certain parcels of land within the assessment district are used to pay the Westerly Drive Improvement District bonds. The excise tax revenue obligation bonds will be repaid from excise tax revenues of the Town. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

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 2018. Annual principal and interest payments on the bonds are expected to require approximately 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,007,038. Principal and interest paid for the current year and total special sales taxes were \$340,694 and \$393,429, 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 \$504,425. Principal and interest paid for the current year and total excise taxes were \$84,750 and 58,762, 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 \$256,372. Principal and interest paid for the current year and total excise taxes were \$127,439 and 9,842,767, respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town has pledged net revenues from the operation of the Water System to repay \$30.4million 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 2036; however, as of June 30, 2016, the Town has only drawn down \$13.4 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 \$18,747,247. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$693,992 and \$1,864,935, respectively.

The Town's long-term bonds and special assessments are as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds 2009	3.0-4.0	07/01/17-18	\$ 1,525,000	\$ 950,000
Special Assessment Bonds Westerly Drive Improvement District, Series 2005	5.5	01/01/17-22	875,000	420,000
Revenue Bonds Excise tax revenue obligations, Public Works, Series 2003A	3.75-4.625	10/01/16-17	860,000	245,000
Total Governmental Activities			<u>\$ 3,260,000</u>	<u>\$ 1,615,000</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016	Due Within One Year
Governmental Activities:					
Bonds and Special Assessments:					
General Obligation Bonds	\$ 1,245,000	\$ -	\$ (295,000)	\$ 950,000	\$ 305,000
Special Assessment Bonds	480,000	-	(60,000)	420,000	60,000
Revenue Bonds	360,000	-	(115,000)	245,000	120,000
	<u>2,085,000</u>	-	<u>(470,000)</u>	<u>1,615,000</u>	<u>485,000</u>
Deferred Amounts:					
Premium	33,083	-	(7,500)	25,583	7,500
Total Bonds and Special Assessments	<u>2,118,083</u>	-	<u>(477,500)</u>	<u>1,640,583</u>	<u>492,500</u>
Other Liabilities:					
Capital Leases	195,263	1,079,421	(216,839)	1,057,845	206,750
Compensated Absences	1,158,088	959,560	(1,075,986)	1,041,662	838,403
Other Postemployment Benefits	8,218,092	1,430,232	(1,039,809)	8,608,515	-
Total Other Liabilities	<u>9,571,443</u>	<u>3,469,213</u>	<u>(2,332,634)</u>	<u>10,708,022</u>	<u>1,045,153</u>
Governmental Activities Long-Term Liabilities	<u>\$ 11,689,526</u>	<u>\$ 3,469,213</u>	<u>\$ (2,810,134)</u>	<u>\$ 12,348,605</u>	<u>\$ 1,537,653</u>
Business-type Activities:					
Notes Payable	\$ 8,284,984	\$ 5,516,077	\$ (421,705)	\$ 13,379,356	\$ 680,396
Compensated Absences	188,484	93,773	(159,057)	123,200	99,160
Other Postemployment Benefits	936,679	114,199	(83,025)	967,853	-
Business-Type Activities Long-Term Liabilities	<u>\$ 9,410,147</u>	<u>\$ 5,724,049</u>	<u>\$ (663,787)</u>	<u>\$ 14,470,409</u>	<u>\$ 779,556</u>

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	Governmental Activities	
	Principal	Interest
2017	\$ 485,000	\$ 62,719
2018	510,000	42,091
2019	395,000	22,725
2020	70,000	12,375
2021	75,000	8,525
2022	80,000	4,400
Total	\$ 1,615,000	\$ 152,835

F. Fund Balance Classifications

Fund balance classifications reported in the governmental funds include the following:

	General Fund	Highway User Revenue Fund	Nonmajor Governmental Funds	Totals
Restricted:				
Highways and Streets	\$ -	\$ 641,333	\$ -	\$ 641,333
Public Safety	75,362	-	-	75,362
Court Enhancement	-	-	89,399	89,399
Debt Service	-	-	119,946	119,946
Capital Projects	-	-	188,276	188,276
Assigned:				
Public Safety	40,714	-	-	40,714
Culture and Recreation	312,301	-	154,549	466,850
Unassigned	1,615,870	-	-	1,615,870
Total Fund Balance	\$ 2,044,247	\$ 641,333	\$ 552,170	\$ 3,237,750

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 member's 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.

C. Retirement Plans

Cost-Sharing and Agent Multiple Employer Pension Plans

The Town contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for police officers and firefighters. The plans are component units of the State of Arizona.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Cost-Sharing and Agent Multiple Employer Pension Plans (Continued)

At June 30, 2016, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net Pension Liabilities	\$ 21,861,412	\$ 1,923,815	\$ 23,785,227
Deferred Outflows of Resources	4,639,447	245,677	4,885,124
Deferred Inflows of Resources	953,756	162,464	1,116,220
Pension Expense	2,312,330	142,456	2,454,786

The Town reported accrued payroll and employee benefits of \$34,463 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the Town reported \$1,721,913 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan Descriptions – Town employees not covered by the other pension plans described on the following pages participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 year age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percentage per year of service	2.1% to 2.3 %	2.1% to 2.3 %

* With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.47% (10.85% for retirement, 0.50% for the health insurance premium benefit, and 0.12% for long-term disability) of the active members' annual covered payroll.

**TOWN OF PAYSON, ARIZONA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.36% (9.30% for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that would typically be filled by an employee who contributes to the ASRS. The Town's contributions to the pension plan for the year ended June 30, 2016 were \$519,296. The Town's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

<u>Year Ended June 30,</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2016	\$ 23,931	\$ 5,743
2015	27,735	5,641
2014	21,816	8,726

During the fiscal year ended June 30, 2016, the Town paid for ASRS pension and OPEB contributions as follows: 57% from the General Fund, 39% from major funds, and 4% from other funds.

Pension Liability – At June 30, 2016, the Town reported a liability of \$8,037,320 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The Town's reported liability at June 30, 2016, increased by \$818,100 from the Town's prior year liability of \$7,219,220 because of changes in the ASRS' net pension liability and the Town's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Town's proportion of the net pension liability was based on the Town's FY 2015 contributions. The Town's proportion measured as of June 30, 2015, was 0.05160%, which was a decrease of 0.00281% from its proportion measured as of June 30, 2014.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$595,151. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 219,321	\$ 421,164
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	257,578
Changes in Proportion and Differences between Town Contributions and Proportionate Share of Contributions	341,751	-
Town Contributions Subsequent to the Measurement Date	519,296	-
Total	<u>\$ 1,080,368</u>	<u>\$ 678,742</u>

The \$519,296 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (8,585)
2018	(138,046)
2019	(156,977)
2020	185,938

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2014
Actuarial Roll Forward Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8%
Projected Salary Increases	3 - 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2013.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Arithmetic Basis</u>
Equity	58 %	6.79%
Fixed Income	25	3.70%
Commodities	2	3.93%
Real Estate	10	4.25%
Multi-Asset Class	5	3.41%
Total	<u>100 %</u>	

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.79%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate.

	Current Discount		
	1% Decrease (7%)	Rate (8%)	1% Increase (9%)
Town's Proportionate Share of the Net Pension Liability	\$ 10,531,636	\$ 8,037,320	\$ 6,327,896

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan Descriptions – Town police employees and Town firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial reports that include its financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Benefits Provided – The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as presented below:

PSPRS	<u>Initial Membership Date</u>	
	<u>Before January 1, 2012</u>	<u>On or After January 1, 2012</u>
<u>Retirement and Disability</u>		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percentage Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<u>Survivor Benefit</u>		
Retired Members	80-100% of retired member's pension benefit	
Active Members	80-100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50% of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Police	PSPRS Firefighters
Inactive Employees or Beneficiaries Currently Receiving Benefits	20	9
Inactive Employees Entitled to but Not Yet Receiving Benefits	14	3
Active Employees	23	29
Total	57	41

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016 are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police	PSPRS Firefighters
Active Members - Pension	7.65%	7.65%
Town:		
Pension	45.68%	20.94%
Health Insurance Premium Benefit	0.88%	0.77%

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The Town's contributions to the agent pension plan, annual OPEB cost and the health insurance premium benefit for the year ended June 30, 2016 were:

	PSPRS Police	PSPRS Firefighters
Pension:		
Contributions Made	\$ 879,197	\$ 460,510
Health Insurance Premium Benefit:		
Annual OPEB Cost	16,937	16,934
Contributions Made	16,937	16,934

During the fiscal year 2016, the Town paid for PSPRS pension and OPEB contributions 100% from the General Fund.

Pension Liability– At June 30, 2016, the Town reported the following net pension liabilities:

	Net Pension Liability
PSPRS Police	\$ 11,409,589
PSPRS Firefighters	4,338,318

The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis of future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2%. The change in the Town's net pension liability as a result of the statutory adjustments is not known.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability for PSPRS are as follows:

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Individual Entry Age Normal
Discount Rate	7.85%
Projected Salary Increases	4.0%-8.0%
Inflation	3.0%-4.0% - approximate
Permanent Benefit Increase	No explicit assumed Permanent Benefit Increase
Mortality Rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS		Long-Term Expected Real Rate of Return
Asset Class	Target Allocation	
U.S. Equity	16 %	6.23%
Non-U.S. Equity	14	8.25%
Private Equity	11	9.50%
Fixed Income	7	2.92%
Credit Opportunities	13	7.08%
Absolute Return	5	4.11%
GTAA	10	4.38%
Real Assets	8	4.77%
Real Estate	10	4.48%
Risk Parity	4	5.13%
Short Term Investments	2	0.75%
Total	<u>100 %</u>	

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS Police	PSPRS Firefighters
Discount Rates	7.85%	7.85%

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Agent Plans Net Pension Liability– The following tables present changes in the Town's net pension liability for the PSPRS – Police and PSPRS – Fire pension plans as follows:

PSPRS - Police	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	\$ 16,112,454	\$ 5,176,686	10,935,768
Changes for the Year:			
Service Cost	301,372	-	301,372
Interest on the Total Pension Liability	1,242,661	-	1,242,661
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(95,248)	-	(95,248)
Changes of Assumptions or Other Inputs	-	-	-
Contributions - Employer	-	633,668	(633,668)
Contributions - Employee	-	195,231	(195,231)
Net Investment Income	-	189,110	(189,110)
Benefit Payments, Including Refunds of Employee Contributions	(866,131)	(866,131)	-
Administrative Expenses	-	(4,995)	4,995
Other Changes	-	(38,050)	38,050
Net Changes	582,654	108,833	473,821
Balances as of June 30, 2016	\$ 16,695,108	\$ 5,285,519	\$ 11,409,589

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

PSPRS - Firefighters	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	\$ 9,126,705	\$ 5,382,469	3,744,236
Changes for the Year:			
Service Cost	341,750	-	341,750
Interest on the Total Pension Liability	712,513	-	712,513
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	446,557	-	446,557
Changes of Assumptions or Other Inputs	-	-	-
Contributions - Employer	-	353,376	(353,376)
Contributions - Employee	-	214,441	(214,441)
Net Investment Income	-	201,717	(201,717)
Benefit Payments, Including Refunds of Employee Contributions	(441,967)	(441,967)	-
Administrative Expenses	-	(5,309)	5,309
Other Changes	-	142,513	(142,513)
Net Changes	1,058,853	464,771	594,082
Balances as of June 30, 2016	<u>\$ 10,185,558</u>	<u>\$ 5,847,240</u>	<u>\$ 4,338,318</u>

Sensitivity of the Town's Net Pension Liability to Changes in the Discount Rate –

The following table presents the Town's net pension liabilities calculated using the discount rates noted above, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	\$ 13,350,284	\$ 11,409,589	\$ 9,791,256
PSPRS Firefighters			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	5,598,597	4,338,318	3,282,738

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Plan Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2016, the Town recognized the following pension expense:

	<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Pension Expense</td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black;">\$ 1,478,783</td> </tr> <tr> <td style="text-align: center;">380,852</td> </tr> </table>	Pension Expense	\$ 1,478,783	380,852
Pension Expense				
\$ 1,478,783				
380,852				
PSPRS Police				
PSPRS Firefighters				

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 45,097	\$ 71,691
Changes of Assumptions or Other Inputs	1,086,987	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	171,287	153,508
Town Contributions Subsequent to the Measurement Date	879,197	-
Total	\$ 2,182,568	\$ 225,199
PSPRS - Firefighters	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 398,037	\$ 51,442
Changes of Assumptions or Other Inputs	578,735	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	184,906	160,837
Town Contributions Subsequent to the Measurement Date	460,510	-
Total	\$ 1,622,188	\$ 212,279

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
2017	\$ 490,155	\$ 111,083
2018	490,155	111,083
2019	56,061	111,082
2020	41,801	164,697
2021	-	118,469
Thereafter	-	332,985

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits

Projections of benefits are based on (1) the plans as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are presented on the following page.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.00%

Agent Plan OPEB Trend Information – The following table presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2015	\$ 16,937	100.00%	\$ -
2014	30,085	100.00	-
2013	28,205	100.00	-
PSPRS Firefighters			
2016	\$ 16,934	100.00%	\$ -
2015	26,216	100.00	-
2014	23,210	100.00	-

Agent Plan OPEB Funded Status – The funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2016 is as follows:

	PSPRS Police	PSPRS Firefighters
Actuarial Value of Assets (a)	\$ 276,756	\$ 197,840
Actuarial Accrued Liability (b)	394,992	339,830
Unfunded Actuarial Accrued Liability (Funding Excess) (b) - (a)	118,236	141,990
Funded Ratio (a) / (b)	70.07%	58.22%
Annual Covered Payroll (c)	1,449,122	1,829,211
Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Covered Payroll (b) - (a) / (c)	8.16%	7.76%

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2015 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed, 80%/120% market
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.00%

Postemployment Benefits Other Than Pension Benefits (OPEB)

The Town's liability for postemployment healthcare benefits other than pensions as of June 30, 2016 is based on the actuarial performed as of July 1, 2015.

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.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

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

Currently, the plan has 81 active participants and 47 current retirees, beneficiaries and dependents. The Town makes average monthly contributions of \$266 for employee only health care benefits plans and \$657 for employee and family health care benefit plans. The Town makes average monthly contributions of \$557 for retiree only postretirement health care benefits plan and \$1,204 for retiree and family postretirement health care benefits plans.

Funding Policy – During the year ended June 30, 2016, the Town contributed \$560,808 for all eligible retirees.

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	\$ 1,132,466
Interest on Net OPEB Obligation	411,965
Adjustment to Annual Required Contribution	<u>(562,026)</u>
Annual OPEB Cost (Expense)	982,405
Contributions Made	<u>(560,808)</u>
Increase in Net OPEB Obligation	421,597
Net OPEB Obligation-Beginning of Year	<u>9,154,771</u>
Net OPEB Obligation-End of Year	<u><u>\$ 9,576,368</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 2014, 2015, and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	1,773,398	28.3%	7,924,891
June 30, 2015	1,732,357	29.0%	9,154,771
June 30, 2016	982,405	57.1%	9,576,368

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

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

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.

The actuarial accrued liability for other postemployment benefits was \$15.0 million and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$15.0 million.

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

In the July 1, 2015 actuarial valuation, the entry age level dollar 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 7.0%, reduced by decrements to an ultimate rate of 5% over eight years. A general inflation rate was not factored into the actuarial assumptions as the other postemployment benefits actuarially determined liability are affected by healthcare trends rather than the general inflation rate. The UAAL is being amortized on a level dollar basis over a 30-year open period. The remaining amortization period at June 30, 2016 was 29 years.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
COST SHARING PENSION PLANS**

Arizona State Retirement System

	Reporting Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Town's Proportion of the Net Pension Liability	0.051600%	0.048790%
Town's Proportionate Share of the Net Pension Liability	\$ 8,037,320	\$ 7,219,220
Town's Covered-Employee Payroll	\$ 4,377,856	\$ 4,073,930
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered -Employee Payroll	183.59%	177.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.35%	69.49%

See accompanying Notes to Pension Schedules.

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE TOWN'S
NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2016**

PSPRS Police

	Reporting Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Total Pension Liability		
Service Cost	\$ 301,372	\$ 308,406
Interest on the Total Pension Liability	1,242,661	1,002,703
Changes of Benefit Terms	-	433,204
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(95,248)	86,689
Changes of Assumptions or Other Inputs	-	2,089,513
Benefit Payments, Including Refunds of Employee Contributions	(866,131)	(854,285)
Net Change in Total Pension Liability	582,654	3,066,230
Total Pension Liability - Beginning	16,112,454	13,046,224
Total Pension Liability - Ending (a)	16,695,108	16,112,454
Plan Fiduciary Net Position		
Contributions - Employer	633,668	664,804
Contributions - Employee	195,231	178,839
Net Investment Income	189,110	625,751
Benefit Payments, Including Refunds of Employee Contributions	(866,131)	(854,285)
Administrative Expenses	(4,995)	(5,040)
Other Changes	(38,050)	46,119
Net Change in Plan Fiduciary Net Position	108,833	656,188
Plan Fiduciary Net Position - Beginning	5,176,686	4,520,498
Plan Fiduciary Net Position - Ending (b)	5,285,519	5,176,686
Town's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 11,409,589	\$ 10,935,768
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	31.66%	32.13%
Covered-employee Payroll	\$ 1,449,122	\$ 1,566,845
Town's Net Pension Liability (Asset) as a Percentage of Covered- Employee Payroll	787.34%	697.95%

See accompanying Notes to Pension Schedules.

TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE TOWN'S
NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
AGENT PENSION PLANS (CONTINUED)
JUNE 30, 2016

PSPRS Fire

	Reporting Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Total Pension Liability		
Service Cost	\$ 341,750	\$ 319,683
Interest on the Total Pension Liability	712,513	619,559
Changes of Benefit Terms	-	131,611
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	446,557	(65,090)
Changes of Assumptions or Other Inputs	-	732,281
Benefit Payments, Including Refunds of Employee Contributions	(441,967)	(687,926)
Net Change in Total Pension Liability	1,058,853	1,050,118
Total Pension Liability - Beginning	9,126,705	8,076,587
Total Pension Liability - Ending (a)	10,185,558	9,126,705
Plan Fiduciary Net Position		
Contributions - Employer	353,376	382,165
Contributions - Employee	214,441	183,753
Net Investment Income	201,717	655,627
Benefit Payments, Including Refunds of Employee Contributions	(441,967)	(687,926)
Administrative Expenses	(5,309)	(5,281)
Other Changes	142,513	-
Net Change in Plan Fiduciary Net Position	464,771	528,338
Plan Fiduciary Net Position - Beginning	5,382,469	4,854,131
Plan Fiduciary Net Position - Ending (b)	5,847,240	5,382,469
Town's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 4,338,318	\$ 3,744,236
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.41%	58.97%
Covered-employee Payroll	\$ 1,829,211	\$ 1,866,892
Town's Net Pension Liability (Asset) as a Percentage of Covered- Employee Payroll	237.17%	200.56%

See accompanying Notes to Pension Schedules.

TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF TOWN PENSION CONTRIBUTIONS
JUNE 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year		
	2016	2015	2014
Statutorily Required Contribution	\$ 468,757	\$ 511,927	\$ 460,032
Town's Contribution in Relation to the Statutorily Required Contribution	468,757	511,927	460,032
Town's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Town's Covered-Employee Payroll	\$ 4,534,644	\$ 4,377,856	\$ 4,073,930
Town's Contributions as a Percentage of Covered-Employee Payroll	10.34%	11.69%	11.29%

PSPRS Police

	Reporting Fiscal Year		
	2016	2015	2014
Actuarially Determined Contribution	\$ 879,197	\$ 633,668	\$ 664,804
Town's Contribution in Relation to the Actuarially Determined Contribution	879,197	633,668	664,804
Town's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Town's Covered-Employee Payroll	\$ 1,480,795	\$ 1,449,122	\$ 1,566,845
Town's Contributions as a Percentage of Covered-Employee Payroll	59.37%	43.73%	42.43%

PSPRS Fire

	Reporting Fiscal Year		
	2016	2015	2014
Actuarially Determined Contribution	\$ 460,510	\$ 353,376	\$ 382,165
Town's Contribution in Relation to the Actuarially Determined Contribution	460,510	353,376	382,165
Town's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Town's Covered-Employee Payroll	\$ 1,861,952	\$ 1,829,211	\$ 1,866,892
Town's Contributions as a Percentage of Covered-Employee Payroll	24.73%	19.32%	20.47%

See accompanying Notes to Pension Schedules.

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO PENSION SCHEDULES
JUNE 30, 2016**

NOTE 1 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2016, the Town implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts in the pension plan schedules and related ratios for current and prior periods have been amended to reflect this change.

NOTE 2 ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial Cost Method	Entry age normal
Amortization Level	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2013 Actuarial Valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market corridor
Actuarial Assumptions:	
Investment Rate of Return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected Salary Increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%.
Wage Growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006-June 30, 2011
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

NOTE 3 INFORMATION PRIOR TO THE MEASUREMENT DATE

Information prior to the measurement date (June 30, 2014) was not available.

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016**

Health Insurance Premium Benefits

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
PSPRS Police						
2015	\$ 276,756	\$ 394,992	\$ 118,236	70.1%	\$ 1,449,122	8.16%
2014	258,408	383,971	125,563	67.3%	1,566,845	8.01%
2013	-	413,422	413,422	0.0%	1,588,546	26.03%
PSPRS Fire						
2015	\$ 197,840	\$ 339,830	\$ 141,990	58.2%	\$ 1,829,211	7.76%
2014	183,333	315,459	132,126	58.1%	1,866,892	7.08%
2013	-	318,034	318,034	0.0%	1,714,959	18.54%

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016**

NOTE 1 FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF TOWN OPEB PLAN'S FUNDING PROGRESS
JUNE 30, 2016**

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
2015	\$ -	\$ 15,047,084	0.0%	\$ 15,047,084	N/A	N/A
2012	-	23,427,368	0.0%	23,427,368	N/A	N/A
2010	-	23,953,850	0.0%	23,953,850	N/A	N/A

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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.

DEBT SERVICE FUNDS

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.

CAPITAL PROJECTS FUNDS

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

**TOWN OF PAYSON, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Special Revenue		Debt Service
	Library	JCEF/FTG	Debt Service
ASSETS			
Cash and Investments	\$ 9,592	\$ 89,399	\$ 452,138
Restricted Cash and Investments	-	-	
Intergovernmental Receivable	-	-	-
Special Assessments Receivable	-	-	545,035
Total Assets	\$ 9,592	\$ 89,399	\$ 997,173
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities :			
Accounts Payable	\$ 1,493	\$ -	\$ -
Accrued Wages and Benefits	8,099	-	-
Matured Principal Payable	-	-	295,000
Interest Payable	-	-	37,192
Total Liabilities	9,592	-	332,192
Deferred Inflows of Resources:			
Unavailable Revenues	-	-	545,035
FUND BALANCES			
Restricted	-	89,399	119,946
Assigned	-	-	-
Total Fund Balances	-	89,399	119,946
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,592	\$ 89,399	\$ 997,173

<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>	
<u>Capital Projects</u>			
\$	170,819	\$	721,948
	188,271		188,271
	1,074		1,074
	-		545,035
<u>\$</u>	<u>360,164</u>	<u>\$</u>	<u>1,456,328</u>

\$	17,339	\$	18,832
	-		8,099
	-		295,000
	-		37,192
	17,339		359,123
	-		545,035

	188,276		397,621
	154,549		154,549
	342,825		552,170
<u>\$</u>	<u>360,164</u>	<u>\$</u>	<u>1,456,328</u>

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	<u>Special Revenue</u>		<u>Debt Service</u>
	<u>Library</u>	<u>JCEF/FTG</u>	<u>Debt Service</u>
REVENUES			
Taxes:			
Sales Taxes	\$ -	\$ -	\$ 393,429
Property Taxes	230,400	-	-
Intergovernmental	-	-	-
Fines and Forfeitures	16,810	-	-
Contributions and Donations	-	1,222	-
Special Assessments	-	-	58,762
Investment Earnings	-	-	1
Other	5,922	-	-
Total Revenues	<u>253,132</u>	<u>1,222</u>	<u>452,192</u>
EXPENDITURES			
Current:			
Culture and Recreation	345,649	-	-
Debt Service:			
Principal Retirement	-	-	572,859
Interest on Long-Term Debt	-	-	90,023
Capital Outlay	-	-	-
Total Expenditures	<u>345,649</u>	<u>-</u>	<u>662,882</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(92,517)	1,222	(210,690)
OTHER FINANCING SOURCES			
Transfers In	<u>92,517</u>	<u>-</u>	<u>160,980</u>
Net Change in Fund Balances	-	1,222	(49,710)
FUND BALANCES			
Beginning of Year	-	88,177	169,656
End of Year	<u>\$ -</u>	<u>\$ 89,399</u>	<u>\$ 119,946</u>

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Capital Projects	
\$ -	\$ 393,429
-	230,400
89,016	89,016
-	16,810
-	1,222
-	58,762
5	6
-	5,922
89,021	795,567
-	345,649
-	572,859
-	90,023
271,611	271,611
271,611	1,280,142
(182,590)	(484,575)
-	253,497
(182,590)	(231,078)
525,415	783,248
\$ 342,825	\$ 552,170

**TOWN OF PAYSON, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 229,200	\$ 230,400	\$ 1,200
Fines and Forfeitures	20,000	16,810	(3,190)
Other	-	5,922	5,922
Total Revenues	<u>249,200</u>	<u>253,132</u>	<u>3,932</u>
EXPENDITURES			
Current:			
Culture and Recreation	<u>364,600</u>	<u>345,649</u>	<u>18,951</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(115,400)	(92,517)	22,883
OTHER FINANCING SOURCES			
Transfers In	<u>115,400</u>	<u>92,517</u>	<u>(22,883)</u>
Net Change in Fund Balance	-	-	-
FUND BALANCE			
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**TOWN OF PAYSON, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 360,000	\$ 393,429	\$ 33,429
Special Assessments	58,800	58,762	(38)
Investment Earnings	-	1	1
Total Revenues	<u>418,800</u>	<u>452,192</u>	<u>33,392</u>
EXPENDITURES			
Debt Service:			
Principal Retirement	572,900	572,859	41
Interest on Long-Term Debt	92,200	90,023	2,177
Total Expenditures	<u>665,100</u>	<u>662,882</u>	<u>2,218</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(246,300)	(210,690)	35,610
OTHER FINANCING SOURCES			
Transfers In	<u>264,800</u>	<u>160,980</u>	<u>(103,820)</u>
Net Change in Fund Balance	18,500	(49,710)	(68,210)
FUND BALANCE			
Beginning of Year	<u>169,656</u>	<u>169,656</u>	<u>-</u>
End of Year	<u>\$ 188,156</u>	<u>\$ 119,946</u>	<u>\$ (68,210)</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, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Intergovernmental	\$ 526,800	\$ 89,016	\$ (437,784)
Investment Earnings	-	5	5
Total Revenues	<u>526,800</u>	<u>89,021</u>	<u>(437,779)</u>
EXPENDITURES			
Capital Outlay	<u>777,800</u>	<u>271,611</u>	<u>506,189</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(251,000)	(182,590)	68,410
OTHER FINANCING SOURCES			
Transfers In	<u>2,300</u>	<u>-</u>	<u>(2,300)</u>
Net Change in Fund Balance	(248,700)	(182,590)	66,110
FUND BALANCE			
Beginning of Year	<u>525,415</u>	<u>525,415</u>	<u>-</u>
End of Year	<u>\$ 276,715</u>	<u>\$ 342,825</u>	<u>\$ 66,110</u>

AGENCY FUND

General Services Administration Agency Fund - accounts for the monies the Town receives in an agency capacity to purchase vehicles for other agencies

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**TOWN OF PAYSON, ARIZONA
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FISCAL YEAR ENDED JUNE 30, 2016**

Agency Fund	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Assets:				
Cash and Investments	\$ -	\$ 2,018,718	\$ (2,018,718)	\$ -
Liabilities:				
Due to Other Entities	\$ -	\$ 2,018,718	\$ (2,018,718)	\$ -

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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			
	2007	2008	2009	2010
Governmental activities				
Net Investment in Capital Assets	\$ 101,360,121	\$ 106,049,982	\$ 105,561,440	\$ 103,809,445
Restricted	5,448,557	4,310,080	3,971,451	3,137,935
Unrestricted	4,590,792	2,456,973	521,636	1,459,147
Total governmental activities net position	<u>\$ 111,399,470</u>	<u>\$ 112,817,035</u>	<u>\$ 110,054,527</u>	<u>\$ 108,406,527</u>
Business-type activities				
Net Investment in Capital Assets	\$ 12,283,170	\$ 14,363,974	\$ 14,720,036	\$ 15,195,051
Restricted	4,681,554	4,909,657	4,921,901	1,065,623
Unrestricted	4,707,319	5,282,327	3,890,818	5,898,114
Total business-type activities net position	<u>\$ 21,672,043</u>	<u>\$ 24,555,958</u>	<u>\$ 23,532,755</u>	<u>\$ 22,158,788</u>
Primary government				
Net Investment in Capital Assets	\$ 113,643,291	\$ 120,413,956	\$ 120,281,476	\$ 119,004,496
Restricted	10,130,111	9,219,737	8,893,352	4,203,558
Unrestricted	9,298,111	7,739,300	4,412,454	7,357,261
Total primary government net position	<u>\$ 133,071,513</u>	<u>\$ 137,372,993</u>	<u>\$ 133,587,282</u>	<u>\$ 130,565,315</u>

Source: The Town of Payson.

Fiscal Year

2011	2012	2013	2014	2015	2016
\$ 104,607,886	\$ 104,528,536	\$ 104,037,027	\$ 104,424,687	\$ 105,190,507	\$ 105,017,442
3,106,342	2,471,981	2,088,595	1,338,294	1,519,013	1,659,351
(2,639,291)	(4,492,672)	(6,121,753)	(6,262,822)	(24,698,230)	(25,664,068)
<u>\$ 105,074,937</u>	<u>\$ 102,507,845</u>	<u>\$ 100,003,869</u>	<u>\$ 99,500,159</u>	<u>\$ 82,011,290</u>	<u>\$ 81,012,725</u>
\$ 19,475,037	\$ 19,448,774	\$ 18,225,098	\$ 18,784,149	\$ 18,707,310	\$ 20,771,062
-	451,859	451,859	548,453	762,942	977,431
5,224,938	5,480,569	6,768,944	7,327,867	6,184,932	6,136,104
<u>\$ 24,699,975</u>	<u>\$ 25,381,202</u>	<u>\$ 25,445,901</u>	<u>\$ 26,660,469</u>	<u>\$ 25,655,184</u>	<u>\$ 27,884,597</u>
\$ 124,082,923	\$ 123,977,310	\$ 122,262,125	\$ 123,208,836	\$ 123,897,817	\$ 125,788,504
3,106,342	2,923,840	2,540,454	1,886,747	2,281,955	2,636,782
2,585,647	987,897	647,191	1,065,045	(18,513,298)	(19,527,964)
<u>\$ 129,774,912</u>	<u>\$ 127,889,047</u>	<u>\$ 125,449,770</u>	<u>\$ 126,160,628</u>	<u>\$ 107,666,474</u>	<u>\$ 108,897,322</u>

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

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental activities:				
General government	\$ 3,595,408	\$ 3,707,867	\$ 4,323,958	\$ 3,133,909
Public safety	7,818,997	7,939,971	8,376,425	8,164,357
Highways and streets	4,147,353	3,786,087	2,856,499	3,070,365
Culture and recreation	2,152,923	2,730,083	1,714,675	1,575,542
Public works	407,578	350,531	445,095	284,563
Community development	923,599	1,219,270	1,051,931	1,119,712
Health and welfare	252,136	259,083	289,710	273,394
Interest on long-term debt	317,800	303,148	275,659	267,661
Total governmental activities	<u>19,615,794</u>	<u>20,296,040</u>	<u>19,333,952</u>	<u>17,889,503</u>
Business-type activities:				
Water	3,715,985	3,673,943	4,797,060	4,164,224
Total primary government expenses	<u>23,331,779</u>	<u>23,969,983</u>	<u>24,131,012</u>	<u>22,053,727</u>
Program Revenues				
Governmental activities:				
Fees, Fines, and Charges for Services:				
General government	947,152	907,951	657,076	656,861
Public safety	581,150	658,707	723,194	626,728
Highways and streets	90,507	50,876	28,185	4,482
Culture and recreation	117,706	148,416	131,966	216,752
Public works	98,367	61,272	56,617	87,476
Community development	614,968	422,856	268,662	117,147
Health and welfare	11,277	10,149	15,139	18,509
Interest on long-term debt	880,303	-	-	-
Operating grants and contributions	2,862,482	2,137,228	2,079,200	1,840,478
Capital grants and contributions	404,433	1,786,891	248,512	448,191
Total governmental activities program revenues	<u>6,608,345</u>	<u>6,184,346</u>	<u>4,208,551</u>	<u>4,016,624</u>
Business-type activities:				
Charges for services:				
Water	4,099,518	4,037,662	3,666,635	3,678,173
Operating grants and contributions	39,500	-	-	-
Capital grants and contributions	362,446	270,513	-	117,124
Total business-type activities program revenues	<u>4,501,464</u>	<u>4,308,175</u>	<u>3,666,635</u>	<u>3,795,297</u>
Total primary government program revenues	<u>11,109,809</u>	<u>10,492,521</u>	<u>7,875,186</u>	<u>7,811,921</u>
Net (expense)/revenue				
Governmental activities	(13,007,449)	(14,111,694)	(15,125,401)	(13,872,879)
Business-type activities	785,479	634,232	(1,130,425)	(368,927)
Total primary government net expense	<u>\$ (12,221,970)</u>	<u>\$ (13,477,462)</u>	<u>\$ (16,255,826)</u>	<u>\$ (14,241,806)</u>

Source: The Town of Payson.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 3,984,961	\$ 3,574,186	\$ 4,075,873	\$ 3,453,652	\$ 3,091,983	\$ 3,774,712
8,645,178	8,845,884	8,977,125	8,632,829	9,445,724	8,831,717
2,765,928	2,632,098	2,479,031	2,725,747	2,173,743	2,509,734
1,466,906	1,453,416	1,252,833	1,229,920	1,281,108	1,588,679
324,660	212,155	195,693	115,453	1,553,820	669,206
1,228,298	880,320	982,040	853,007	950,372	929,499
259,854	267,331	264,900	223,846	232,944	241,307
249,925	224,074	147,677	123,197	104,058	87,709
<u>18,925,710</u>	<u>18,089,464</u>	<u>18,375,172</u>	<u>17,357,651</u>	<u>18,833,752</u>	<u>18,632,563</u>
4,229,154	4,373,128	4,531,525	4,487,156	4,337,892	4,691,712
<u>23,154,864</u>	<u>22,462,592</u>	<u>22,906,697</u>	<u>21,844,807</u>	<u>23,171,644</u>	<u>23,324,275</u>
669,803	741,260	1,046,540	1,041,851	1,073,001	826,574
404,286	361,472	318,429	310,052	316,033	350,901
-	4,831	-	50,646	6,832	-
138,524	164,088	63,198	60,943	88,968	95,528
103,004	81,098	107,266	168,781	189,654	205,146
124,893	150,149	158,449	227,567	251,695	284,393
19,152	18,276	18,192	15,259	15,008	23,565
-	-	-	-	-	-
2,237,241	2,661,413	2,946,035	1,973,302	2,055,678	2,517,832
<u>862,801</u>	<u>675,204</u>	<u>296,246</u>	<u>1,432,182</u>	<u>1,520,135</u>	<u>771,135</u>
4,559,704	4,857,791	4,954,355	5,280,583	5,517,004	5,075,074
3,961,028	4,268,103	4,569,601	4,905,372	5,069,019	5,744,974
-	75,000	-	554,516	39,386	22,654
<u>3,100,474</u>	<u>826,370</u>	<u>-</u>	<u>216,465</u>	<u>49,454</u>	<u>1,000,000</u>
7,061,502	5,169,473	4,569,601	5,676,353	5,157,859	6,767,628
<u>11,621,206</u>	<u>10,027,264</u>	<u>9,523,956</u>	<u>10,956,936</u>	<u>10,674,863</u>	<u>11,842,702</u>
(14,366,006)	(13,231,673)	(13,420,817)	(12,077,068)	(13,316,748)	(13,557,489)
2,832,348	796,345	38,076	1,189,197	819,967	2,075,916
<u>\$ (11,533,658)</u>	<u>\$ (12,435,328)</u>	<u>\$ (13,382,741)</u>	<u>\$ (10,887,871)</u>	<u>\$ (12,496,781)</u>	<u>\$ (11,481,573)</u>

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

	Fiscal Year			
	2007	2008	2009	2010
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
Sales taxes	\$ 7,503,852	\$ 7,396,678	\$ 6,624,711	\$ 5,919,923
Property taxes	834,521	907,545	856,237	1,002,536
Franchise taxes	348,166	349,043	339,802	349,061
Intergovernmental	4,194,575	4,602,546	4,473,463	3,988,244
Payments in lieu of taxes	-	-	-	-
Investment earnings	403,108	287,474	68,680	(39,885)
Transfers	312,470	437,734	-	1,005,000
Total governmental activities	<u>13,596,692</u>	<u>13,981,020</u>	<u>12,362,893</u>	<u>12,224,879</u>
Business-type activities:				
Investment earnings	447,258	253,312	107,222	(40)
Transfers	(312,470)	(437,734)	-	(1,005,000)
Total business-type activities	<u>134,788</u>	<u>(184,422)</u>	<u>107,222</u>	<u>(1,005,040)</u>
Total primary government	<u>13,731,480</u>	<u>13,796,598</u>	<u>12,470,115</u>	<u>11,219,839</u>
Change in Net Position				
Governmental activities	589,243	(130,674)	(2,762,508)	(1,648,000)
Business-type activities	920,267	449,810	(1,023,203)	(1,373,967)
Total primary government	<u>\$ 1,509,510</u>	<u>\$ 319,136</u>	<u>\$ (3,785,711)</u>	<u>\$ (3,021,967)</u>

Fiscal Year

2011	2012	2013	2014	2015	2016
\$ 5,915,905	\$ 6,047,629	\$ 6,047,114	\$ 6,435,777	\$ 6,870,982	\$ 7,269,401
1,010,692	960,360	882,079	901,723	925,329	830,980
344,833	351,227	356,550	357,950	364,064	380,413
3,533,894	3,320,055	3,648,010	3,894,550	4,124,936	4,203,566
-	-	-	-	-	-
76,978	2,610	388	658	1,481	5,325
152,114	(17,300)	(17,300)	(17,300)	(17,300)	(130,761)
<u>11,034,416</u>	<u>10,664,581</u>	<u>10,916,841</u>	<u>11,573,358</u>	<u>12,269,492</u>	<u>12,558,924</u>
(14,082)	1,475	9,324	8,071	3,145	22,736
<u>(152,114)</u>	<u>17,300</u>	<u>17,300</u>	<u>17,300</u>	<u>17,300</u>	<u>130,761</u>
<u>(166,196)</u>	<u>18,775</u>	<u>26,624</u>	<u>25,371</u>	<u>20,445</u>	<u>153,497</u>
<u>10,868,220</u>	<u>10,683,356</u>	<u>10,943,465</u>	<u>11,598,729</u>	<u>12,289,937</u>	<u>12,712,421</u>
(3,331,590)	(2,567,092)	(2,503,976)	(503,710)	(1,047,256)	(998,565)
2,666,152	815,120	64,700	1,214,568	840,412	2,229,413
<u>\$ (665,438)</u>	<u>\$ (1,751,972)</u>	<u>\$ (2,439,276)</u>	<u>\$ 710,858</u>	<u>\$ (206,844)</u>	<u>\$ 1,230,848</u>

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

	Fiscal Year				
	2007	2008	2009	2010	2011
General Fund					
Reserved	\$ 14,662	\$ -	\$ 14,729	\$ 14,645	
Unreserved	2,934,445	1,052,084	785,962	826,978	
Nonspendable					\$ 7,629
Restricted					258,357
Assigned					341,960
Unassigned					924,513
Total General Fund	<u>\$ 2,949,107</u>	<u>\$ 1,052,084</u>	<u>\$ 800,691</u>	<u>\$ 841,623</u>	<u>\$ 1,532,459</u>
All other governmental funds					
Reserved	\$ 250	\$ 250	\$ 250	\$ 3,869	
Unreserved, reported in:					
Special revenue funds	2,191,308	1,183,909	1,096,303	913,850	
Debt service funds	1,164,787	1,553,209	1,416,112	1,198,421	
Capital projects funds	2,206,560	1,557,772	1,324,306	2,459,190	
Restricted					\$ 2,029,780
Assigned					619,937
Total all other governmental funds	<u>\$ 5,562,905</u>	<u>\$ 4,295,140</u>	<u>\$ 3,836,971</u>	<u>\$ 4,575,330</u>	<u>\$ 2,649,717</u>

Source: The Town of Payson.

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

Fiscal Year

2012	2013	2014	2015	2016
\$ 7,629	\$ 7,692	\$ 7,692	\$ -	\$ -
390,725	317,820	-	3,080	75,362
176,048	158,688	318,435	322,234	353,015
326,348	480,761	1,306,224	1,663,943	1,615,870
<u>\$ 900,750</u>	<u>\$ 964,961</u>	<u>\$ 1,632,351</u>	<u>\$ 1,989,257</u>	<u>\$ 2,044,247</u>

\$ 1,387,149	\$ 1,111,336	\$ 713,523	\$ 929,297	\$ 1,038,954
474,275	296,588	327,105	190,193	154,549
<u>\$ 1,861,424</u>	<u>\$ 1,407,924</u>	<u>\$ 1,040,628</u>	<u>\$ 1,119,490</u>	<u>\$ 1,193,503</u>

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Revenues					
Taxes	\$ 8,686,539	\$ 8,653,266	\$ 7,820,750	\$ 7,271,520	\$ 7,236,777
Intergovernmental	7,332,472	7,362,721	6,595,255	6,193,464	6,153,959
Fines and forfeitures	265,598	255,155	235,284	221,523	177,314
Licenses and permits	464,571	331,783	252,931	209,031	215,695
Charges for services	1,103,001	1,113,467	1,033,870	937,636	684,754
Other	1,264,172	1,113,304	660,187	514,413	1,076,976
Total revenues	<u>19,116,353</u>	<u>18,829,696</u>	<u>16,598,277</u>	<u>15,347,587</u>	<u>15,545,475</u>
Expenditures					
General government and community development	4,133,694	5,018,872	4,246,206	4,127,767	3,568,102
Public safety	7,612,207	7,731,920	7,242,658	7,125,424	7,178,572
Public works and highways and streets	3,705,640	4,627,564	2,585,497	2,599,518	2,173,759
recreation	2,093,694	2,464,067	1,368,395	1,231,155	1,051,603
Capital outlay	1,063,615	1,997,629	593,607	915,780	1,996,313
Debt service					
Principal retirement	1,249,354	897,754	988,117	847,866	959,229
Interest on long-term debt	420,101	277,630	250,141	241,063	223,327
Other debt service	-	-	-	55,233	-
Total expenditures	<u>20,278,305</u>	<u>23,015,436</u>	<u>17,274,621</u>	<u>17,143,806</u>	<u>17,150,905</u>
Excess (deficiency) of revenues over (under) expenditures	(1,161,952)	(4,185,740)	(676,344)	(1,796,219)	(1,605,430)
Other financing sources (uses)					
Transfers in	3,797,776	2,955,804	577,983	2,035,274	542,820
Transfers out	(3,485,306)	(2,518,070)	(577,983)	(1,030,274)	(390,706)
Issuance of refunding debt	-	-	-	-	-
Issuance of long-term debt	-	-	-	1,525,000	-
Bond premium	-	-	-	45,510	-
Payment to refunded debt escrow agent	-	-	-	-	-
Proceeds from capital lease	-	550,000	-	-	218,539
Total other financing sources (uses)	<u>312,470</u>	<u>987,734</u>	<u>-</u>	<u>2,575,510</u>	<u>370,653</u>
Net change in fund balance	<u>\$ (849,482)</u>	<u>\$ (3,198,006)</u>	<u>\$ (676,344)</u>	<u>\$ 779,291</u>	<u>\$ (1,234,777)</u>
Debt service as a percentage of noncapital expenditures	8.69%	6.30%	8.02%	7.15%	7.15%

Source: The Town of Payson.

Fiscal Year

2012	2013	2014	2015	2016
\$ 7,330,207	\$ 7,249,900	\$ 7,663,172	\$ 8,110,825	\$ 8,509,235
6,403,423	6,851,042	6,260,877	7,053,289	6,904,183
159,629	165,210	179,603	194,077	171,665
240,600	247,821	314,391	339,348	379,990
859,788	704,572	812,560	860,630	926,170
492,365	692,038	730,939	612,897	459,140
<u>15,486,012</u>	<u>15,910,583</u>	<u>15,961,542</u>	<u>17,171,066</u>	<u>17,350,383</u>
4,261,562	4,118,149	4,158,235	4,197,642	4,366,414
7,763,007	7,973,221	7,084,652	7,362,613	7,667,705
2,074,324	1,865,303	2,109,648	3,181,325	3,115,287
1,114,932	1,018,437	970,857	1,054,613	1,346,421
1,052,702	261,410	383,137	220,365	1,005,626
1,036,559	889,002	805,053	642,683	686,839
197,473	157,050	132,566	111,558	95,209
-	-	-	-	-
<u>17,500,559</u>	<u>16,282,572</u>	<u>15,644,148</u>	<u>16,770,799</u>	<u>18,283,501</u>
(2,014,547)	(371,989)	317,394	400,267	(933,118)
450,893	562,228	351,518	286,512	253,497
(468,193)	(579,528)	(368,818)	(303,812)	(270,797)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
611,845	-	-	52,801	1,079,421
<u>594,545</u>	<u>(17,300)</u>	<u>(17,300)</u>	<u>35,501</u>	<u>1,062,121</u>
<u>\$ (1,420,002)</u>	<u>\$ (389,289)</u>	<u>\$ 300,094</u>	<u>\$ 435,768</u>	<u>\$ 129,003</u>
7.58%	6.30%	6.64%	5.09%	4.67%

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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>
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
2014	6,170,051	639,045	357,950	265,726	230,400	7,663,172
2015	6,580,994	656,899	364,064	289,988	218,880	8,110,825
2016	6,950,587	629,021	380,413	318,814	230,400	8,509,235

Source: The Town of Payson.

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Sales Category:					
Retail trade	\$ 3,809,689	\$ 3,644,827	\$ 3,411,550	\$ 3,188,660	\$ 3,190,013
Construction	1,171,982	953,990	897,002	379,158	372,588
Restaurants and bars	638,635	614,752	586,231	554,640	529,279
Communications and utilities	626,516	812,819	750,808	812,622	787,188
Transportation and warehousing	25,914	10,272	8,363	8,783	9,090
Services	127,827	111,830	110,342	126,490	134,700
Manufacturing	198,832	188,595	141,061	121,831	132,780
Real estate, rental and leasing	305,467	403,451	356,298	322,460	294,262
Finance and insurance	8,299	8,612	7,837	5,307	5,547
Accommodations	342,659	313,025	269,210	222,243	300,769
Wholesale trade	63,060	89,777	82,084	69,460	75,675
Arts and entertainment	67,811	81,039	55,972	53,083	54,470
Other	117,161	69,305	42,293	55,186	29,544
Total	\$ 7,503,852	\$ 7,302,294	\$ 6,719,051	\$ 5,919,923	\$ 5,915,905
Town sales tax rate	8.72%	8.72%	8.72%	8.72%	9.72%

Source: Arizona Department of Revenue.

Fiscal Year

2012	2013	2014	2015	2016
\$ 3,299,193	\$ 3,323,438	\$ 3,620,256	\$ 3,894,612	\$ 4,148,337
411,290	335,958	372,355	410,803	375,179
551,843	567,341	592,086	677,165	714,826
894,790	805,044	791,127	770,122	750,932
9,682	8,740	-	-	-
108,859	120,009	144,166	162,380	187,661
70,963	122,048	120,359	121,401	130,623
266,915	288,228	303,055	288,687	365,046
6,288	6,221	7,314	8,162	9,537
309,848	333,205	348,656	383,681	419,972
61,747	45,678	48,541	41,326	46,621
50,796	52,012	50,295	56,382	56,827
5,415	39,192	37,567	56,261	63,840
<u>\$ 6,047,629</u>	<u>\$ 6,047,114</u>	<u>\$ 6,435,777</u>	<u>\$ 6,870,982</u>	<u>\$ 7,269,401</u>
9.72%	8.72%	8.72%	8.72%	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
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
2014	2.12	1.00	5.60	8.72
2015	2.12	1.00	5.60	8.72
2016	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
2007	\$ 185,691,636	0.3502	\$ 1,500,887,154	12.372 %
2008	211,163,665	0.3447	1,745,155,468	12.100
2009	250,890,669	0.2813	2,071,174,745	12.113
2010	262,113,724	0.3201	2,875,030,889	9.117
2011	245,707,080	0.3150	1,778,795,861	11.355
2012	203,431,006	0.3394	1,789,969,238	11.365
2013	178,737,829	0.3502	1,575,224,664	11.347
2014	165,958,361	0.3828	1,473,839,350	11.260
2015	163,633,443	0.3963	1,458,706,561	11.218
2016	167,943,002	0.3877	1,501,899,998	11.182

Source: The Gila County Assessor's Office.

TOWN OF PAYSON, ARIZONA
NET SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
JUNE 30, 2016
(UNAUDITED)

Description	Total Assessed Value	Exempt Amount	Net Secondary Assessed Valuation	As a % of the Town's Total Net Secondary Assessed Valuation
Mining, Utilities, Telecommunications, Commercial and Industry	\$ 43,348,958	\$ (1,532,830)	\$ 41,816,128	24.90%
Vacant Land and Agriculture Real Property	21,535,408	(7,490,100)	14,045,308	8.36%
Agricultural and Personal Property	448,429	(425,486)	22,943	0.01%
Owner Occupied Residential Property	66,291,593	(763,326)	65,528,267	39.02%
Leased or Rented Residential Property	46,692,727	(165,432)	46,527,295	27.70%
Improvements on Government Property	3,446	(385)	3,061	0.00%
	<u>\$ 178,320,561</u>	<u>\$ (10,377,559)</u>	<u>\$ 167,943,002</u>	<u>100.00%</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					Rate Total
	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	
2007	0.2640	0.0862	0.3502	0.7000	0.2000	0.1000	N/A	4.3488	5.6990
2008	0.2476	0.0971	0.3447	0.7000	0.2000	0.1000	N/A	4.1100	5.4547
2009	0.2215	0.0598	0.2813	0.7000	0.2000	0.1000	N/A	3.9200	5.2013
2010	0.2215	0.0986	0.3201	0.7000	0.2000	0.1000	0.3306	3.7500	5.4007
2011	0.2560	0.0590	0.3150	0.6000	0.2000	0.1000	0.3564	4.1900	5.7614
2012	0.3065	0.0329	0.3394	0.6000	0.2000	0.1000	0.4259	4.1900	5.8553
2013	0.3502	-	0.3502	0.6000	0.2000	0.1000	0.4717	4.1900	5.9119
2014	0.3828	-	0.3828	0.6000	0.2000	0.1000	0.5123	4.1900	5.9851
2015	0.3963	-	0.3963	0.6000	0.2000	0.1000	0.5089	4.1900	5.9952
2016	0.3877	-	0.3877	0.8759	0.2425	0.1000	0.5054	4.1900	6.3015

Source: The Gila County Treasurer's Office.

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**TOWN OF PAYSON, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2016 AND NINE YEARS PRIOR
(UNAUDITED)**

Taxpayer	2016			2007		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service	\$ 5,006,230	1	2.81%	\$ 5,264,670	3	2.62%
Retail Trust III--Wal-Mart	1,300,253	2	0.73%	2,222,000	8	1.10%
Black Buffalo Golf LLC	891,897	3	0.50%	-	-	0.00%
Home Depot USA Inc.	890,265	4	0.50%	3,312,239	6	1.65%
Payson Village Center LLC	889,315	5	0.50%	-	-	0.00%
Sawmill Crossing LLC	790,278	6	0.44%	-	-	0.00%
Buffalo Golf LLC	680,877	7	0.38%	-	-	0.00%
Qwest Corporation/ CenturyLink	636,538	8	0.36%	2,032,393	9	1.01%
Rim Country Mall LLC	621,152	9	0.35%	-	-	0.00%
Double A Investments	582,928	10	0.33%	-	-	0.00%
Cabletelevision of Payson	-	-	-	6,960,230	1	3.46%
Energy West Arizona	-	-	-	5,419,870	2	2.69%
Community Health Systems Prop	-	-	-	4,728,080	4	2.35%
Rim Golf Investors LLC	-	-	-	3,737,960	5	1.86%
Intermountain West Civil Constr	-	-	-	3,121,410	7	1.55%
Payson Hospital Inc.	-	-	-	1,839,654	10	0.91%
	<u>\$ 12,289,733</u>		6.89%	<u>\$ 38,638,506</u>		19.20%

Source: The Gila County Treasurer's Office.

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

Fiscal Year	(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	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
2007	\$ 641,740	\$ 639,190	99.60	\$ 2,447	\$ 641,637	99.98	\$ 103	0.02
2008	703,207	690,260	98.16	12,947	703,207	100.00	-	-
2009	647,200	621,858	96.08	25,342	647,200	100.00	-	-
2010	790,354	760,451	96.22	29,495	789,946	99.95	408	0.05
2011	751,315	728,383	96.95	22,932	751,315	100.00	-	-
2012	680,975	674,978	99.12	5,997	680,975	100.00	-	-
2013	623,716	598,897	96.02	24,650	623,547	99.97	169	0.03
2014	633,680	628,885	99.24	4,795	633,680	100.00	-	-
2015	642,903	642,903	100.00	-	642,903	100.00	-	-
2016	643,281	632,844	98.38	-	632,844	98.38	10,437	1.62

Source: The Gila County Treasurer's Office.

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

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**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
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	2,044,952	-	575,000	585,000	-	520,198
2014	1,565,583	-	470,000	535,000	-	340,146
2015	1,278,083	-	360,000	480,000	-	195,263
2016	975,583	-	245,000	420,000	-	1,057,845

Source: The Town of Payson.

Business-type
Activities

Water Revenue Bonds	Notes Payable	Total Primary Government	Percentage of Personal Income	Per Capita
\$ 525,000	\$ -	\$ 6,913,341	1.03	415
405,000	343,239	6,838,826	0.96	402
140,000	300,464	6,352,934	0.90	319
115,000	1,062,675	6,907,279	0.98	404
-	768,548	5,757,462	1.02	380
-	2,827,053	7,391,253	1.14	487
-	6,282,229	10,007,379	1.14	658
-	8,143,268	11,053,997	1.50	725
-	8,284,984	10,598,330	1.53	682
-	13,379,356	16,077,784	2.44	1,048

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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Taxable Assessed Value of Property</u>	<u>Percentage of Estimated Actual Value of Property</u>	<u>Population</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
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	119
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
2014	1,565,583	1,473,839,350	0.11	15,245	103
2015	1,278,083	1,458,706,561	0.09	15,551	82
2016	975,583	1,601,676,229	0.06	15,345	64

Source: The Town of Payson, the Gila County Treasurer's Office and www.azstats.gov for population.

TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2016
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
State of Arizona	Not Available	0.35%	\$ -
Gila County	Not Available	37.70%	-
Gila Community College	None	37.70%	-
Northern Gila County Sanitary District	-	100.00%	-
Payson Unified School District No. 10	29,045,000	71.31%	20,711,990
Total Overlapping Debt:			<u>20,711,990</u>
Town of Payson	2,698,428	100.00%	<u>2,698,428</u>
Total direct and overlapping debt			<u><u>\$ 23,410,418</u></u>

Source: Arizona Department of Revenue, Gila County Treasurer's Office and the Town of Payson.

(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				
	2007	2008	2009	2010	2011
Debt limit	\$ 12,669,820	\$ 12,669,820	\$ 14,408,387	\$ 14,210,510	\$ 12,119,281
Total applicable to limit	1,740,000	1,545,000	1,305,000	3,205,000	2,430,000
Legal debt margin	<u>\$ 10,929,820</u>	<u>\$ 11,124,820</u>	<u>\$ 13,103,387</u>	<u>\$ 11,005,510</u>	<u>\$ 9,689,281</u>
Total net debt applicable to the limit as a percentage of the debt limit	13.73%	12.19%	9.06%	22.55%	20.05%

20% Debt Limit

	Fiscal Year				
	2007	2008	2009	2010	2011
Debt limit	\$ 42,232,733	\$ 42,232,733	\$ 48,027,956	\$ 47,368,366	\$ 40,397,603
Total applicable to limit	1,085,000	920,000	750,000	575,000	390,000
Legal debt margin	<u>\$ 41,147,733</u>	<u>\$ 41,312,733</u>	<u>\$ 47,277,956</u>	<u>\$ 46,793,366</u>	<u>\$ 40,007,603</u>
Total net debt applicable to the limit as a percentage of the debt limit	2.57%	2.18%	1.56%	1.21%	0.97%

Source: Arizona Department of Revenue and the Town of Payson

Fiscal Year

2012	2013	2014	2015	2016
\$ 10,686,150	\$ 10,686,150	\$ 9,957,502	\$ 9,818,007	\$ 10,076,580
2,215,000	2,215,000	1,525,000	1,245,000	950,000
<u>\$ 8,471,150</u>	<u>\$ 8,471,150</u>	<u>\$ 8,432,502</u>	<u>\$ 8,573,007</u>	<u>\$ 9,126,580</u>
20.73%	20.73%	15.32%	12.68%	9.43%

Fiscal Year

2012	2013	2014	2015	2016
\$ 35,620,500	\$ 35,747,566	\$ 33,191,672	\$ 32,726,689	\$ 33,588,600
200,000	-	-	-	-
<u>\$ 35,420,500</u>	<u>\$ 35,747,566</u>	<u>\$ 33,191,672</u>	<u>\$ 32,726,689</u>	<u>\$ 33,588,600</u>
0.56%	0.00%	0.00%	0.00%	0.00%

**TOWN OF PAYSON, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2016
(UNAUDITED)**

Net secondary assessed valuation	\$ 167,943,002
<hr/>	
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>	
Debt limit - 20% of secondary net assessed valuation	\$ 33,588,600
Net debt applicable to limit	<u>-</u>
20% legal debt margin	33,588,600
<hr/>	
<u>All other general obligation bonds</u>	
Debt limit - 6% of secondary net assessed valuation	10,076,580
Net debt applicable to limit	<u>950,000</u>
6% legal debt margin	<u>9,126,580</u>
Total legal debt margin	<u>\$ 42,715,181</u>

Source: Arizona Department of Revenue.

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

Water Revenue Bonds and Notes Payable							Special Assessment Bonds				
Fiscal Year	Utility Service Charges (1)	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage
		Operating Expenses (2)									
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	(22,736)	3.23	146,616	265,000	49,143	0.47
2013	4,488,194	-		1,284,961	312,513	135,576	2.87	57,930	50,000	33,550	0.69
2014	4,727,550	3,427,494		1,300,056	396,372	209,210	2.15	56,023	50,000	30,801	0.69
2015	4,924,131	3,269,026		1,655,105	462,590	228,184	2.40	57,488	55,000	27,913	0.69
2016	5,462,166	3,597,231		1,864,935	421,705	272,287	2.69	58,762	60,000	24,750	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
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
2014	15,245	663,691,075	43,535	52.9	2,485	7.5
2015	15,551	694,523,211	44,661	52.7	2,450	4.5
2016	15,345	659,635,515	42,987	55.5	2,420	3.9

Source: The Town of Payson.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2016 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2016			2007		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Wal-Mart	300	1	12.05%	320	4	11.93%
Payson Unified School District	299	2	12.01%	344	2	12.83%
Mazatzal Casino	291	3	11.69%	360	1	13.42%
Chaparral Pines/Rim Club	222	4	8.92%	177	6	6.60%
Banner Payson/PRMC	220	5	8.84%	340	3	12.68%
Town of Payson	182	6	7.31%	160	7	5.97%
Gila County	170	7	6.83%	250	5	9.32%
Payson Care Center/Life Care Center	154	8	6.19%	150	8	5.59%
Rim County Health/Manzanita Manor	149	9	5.99%	125	9	4.66%
Safeway Supermarket	127	10	5.10%	110	11	4.10%
Home Depot	125	11	5.02%	115	10	4.29%
US Forest Service	85	12	3.42%	102	12	3.80%
Bashas' Supermarket	74	13	2.97%	84	13	3.13%
Chili's Restaurant	38	14	1.53%	-		0.00%
Chapman Auto	33	15	1.33%	45	14	1.68%
Big Lots	20	16	0.80%	-		0.00%
	<u>2,489</u>			<u>2,682</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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government:										
Town Manager	2.0	2.0	4.0	2.0	4.0	4.0	4.0	5.0	4.0	4.0
Town Clerks	7.0	6.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0
Central Services	-	-	-	-	-	-	1.5	1.5	1.0	1.0
Finance	6.0	7.0	7.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0
Community										
Development	13.0	13.0	13.0	13.0	14.0	14.0	12.0	12.0	12.0	12.0
Legal	5.0	4.5	4.5	4.0	4.0	4.0	4.5	4.5	4.5	4.5
Human Resources	3.5	1.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0	3.0
Police Department	49.0	49.0	49.0	49.0	48.0	48.0	50.0	51.0	52.0	57.0
Fire Department	25.0	25.0	27.0	27.0	27.0	33.0	32.0	32.0	32.0	32.0
Airport	1.0	-	-	-	1.0	1.0	1.5	1.5	2.0	2.0
Public Works	17.0	17.0	22.5	22.5	22.0	22.0	22.0	22.0	24.0	24.0
Library	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.5	7.5
Parks and Recreation	11.5	11.5	7.0	7.0	6.5	6.5	6.5	6.5	6.0	6.0
Water	17.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	19.0
Total	165.0	163.0	167.0	164.5	167.5	173.5	175.0	177.0	178.0	182.0

Source: The Town of Payson.

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

Function/Program	Fiscal Year				
	2007	2008	2009	2010	2011
Building Permits					
Permits Issued	201	103	115	37	34
Value of Buildings in \$	\$45,006,009	\$41,597,955	\$20,388,596	\$9,358,003	\$19,087,366
Police					
Average Response Time	3:47	9:20	7:23	5:00	5:33
Number of Sworn Officers	30	31	31	31	30
Total Calls	24,398	20,726	24,233	26,233	28,259
Calls per Sworn Officer	813	669	782	846	942
Officer per 1000 of Population	1.875	1.938	1.824	1.824	1.961
Total of Index Crimes	527	440	635	617	675
Index Crimes per Capital	0.031	0.026	0.037	0.036	0.044
Number of Drug Arrests	275	156	78	126	95
Drug Arrests per Capita	0.016	0.009	0.005	0.007	0.006
Fire					
Average Response Time	5:06	4:09	4:02	4:06	4:47
Total Calls	2,236	2,280	3	2,387	2,588
Calls per Capita	0.013	0.136	0.161	0.138	0.169
Fire Personnel per 1000 of Pop.	1.434	1.374	1.562	1.562	1.765
Fire Safety Inspections	396	418	576	535	567
Event Center					
Number of Events	22	21	25	30	35
Number of Days Used	104	101	120	127	127
Other Public Works					
Street Slurry sealed (miles)	14	14	-	-	6
Snow Removal (hours)	250	277	64	64	-
Parks and recreation					
Use of Facilities - Number of Activities	39	90	115	118	122
Program Registrations	1,951	3,241	3,756	3,464	3,668
Ramada Reservations	232	276	250	264	302
Swim Lessons	207	395	325	n/a	n/a
Pool Passes	2,420	2,450	2,500	n/a	n/a
Library					
Number of Patrons	14,432	15,712	16,674	13,474	13,525
Number of Internet Users	15,095	15,342	15,532	14,838	18,388
Number of New Cards Issued	1,415	1,400	1,200	1,143	1,267
Circulation per Capita	9.07	9.07	9.71	9.53	11.34
Patrons as % of Population	86.2	93.8	99.9	96.5	88.4
Water					
Number of Water Taps	7,728	7,777	7,827	7,854	7,800
Average daily consumption (thousand of gallons)	1,502.30	1,534.30	1,468.80	1,490.60	1,493.40
Peak daily consumption (thousand of gallons)	2,055.10	2,384.20	2,467.50	2,044.30	2,050.40
Elections					
Number of Registered Voters	8,828	8,913	8,913	9,304	9,304
Number Voting in Last Election	5,479	5,123	5,123	5,123	5,123
% of Participation of Voters	62.06%	57.48%	57.48%	55.06%	55.06%

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				
2012	2013	2014	2015	2016
49	38	61	73	77
\$12,652,967	\$11,747,997	\$19,350,791	\$21,254,017	\$23,089,085
8:05	5:21	5:23	5:32	5:00
30	30	30	30	27
20,956	20,030	20,799	22,844	25,000
699	668	693	761	926
1.961	1.972	1.968	1.968	1.760
655	674	735	680	699
0.043	0.044	0.048	0.045	0.046
137	39	39	238	255
0.009	0.003	0.003	0.016	0.017
4:42	4:36	4:36	4:24	6:11
2,625	2,680	2,884	2,863	3,530
0.172	0.176	0.189	0.188	0.230
2.157	2.169	2.099	2.099	2.085
398	453	154	153	159
42	49	51	36	42
134	185	190	145	148
-	-	-	-	8.90
-	-	-	-	-
122	93	101	102	121
3,235	3,366	4,723	4,758	5,080
265	247	310	291	352
n/a	n/a	n/a	325	205
n/a	n/a	n/a	32	16
14,784	15,708	15,485	15,288	15,870
10,269	12,128	12,128	-	-
1,259	1,131	1,139	1,019	935
10.68	8.85	9.46	8.88	8.82
96.62	1.03	1.01	1.00	1.03
7,838	7,886	7,966	8,065	8,158
1,448.20	1,473.00	1,438.00	1,406.00	1,544.00
2,057.00	2,522.00	2,362.00	2,258.00	2,310.00
9,921	9,921	9,141	8,964	9,433
3,146	3,146	3,146	4,361	4,361
31.71%	31.71%	34.42%	48.65%	46.23%

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

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Area - Square Miles	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	20.46	20.46
Police										
Number of Employees	30	32	32	31	31	31	31	30	30	27
Patrol Vehicles	21	23	23	23	22	20	21	20	20	20
Fire										
Number of Firefighters	24	24	24	24	27	33	32	31	31	31
Number of Fire stations	2	2	2	2	3	3	3	3	3	3
Number of Municipal Employees	102	102	102	102	102.5	102.5	105.0	116.0	117.0	124.0
(excluding Public safety)										
Public Works										
Streets (miles)	105.9	105.9	105.9	105.9	105.9	105.9	105.9	110.3	111.1	111.1
Number of Water taps	7,728	7,777	7,827	7,854	7,800	7,838	7,886	7,966	8,065	8,158
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.