

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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TOWN OF PAYSON, ARIZONA

PAYSON, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Issued by:
Finance Department

TOWN OF PAYSON, ARIZONA

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INTRODUCTORY SECTION

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January 29, 2018

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, 2017, 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 control 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.

HeinfeldMeech, a Certified Public Accounting firm, has issued an unqualified ("clean") opinion on the Town of Payson's financial statements for the fiscal year ended June 30, 2017. 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 auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. 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 (the Town) 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 15,476. Surrounded by the Tonto National Forest and the world's largest stand of virgin Ponderosa Pines, Payson is nestled just below Arizona's Mogollon Rim at an elevation of 4,982 feet and enjoys a moderate four-season climate.

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

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 resolutions of the Town Council, and for overseeing the day-to-day operations of the Town. The Council is elected on a nonpartisan "at large" basis. Council members are elected to four-year staggered terms with three council members elected every two years. The qualified electors of the town directly elect the Mayor for a two-year term.

The Town provides a full range of services, including police, fire, and emergency medical services; planning, zoning, and building code enforcement; the construction and maintenance of streets and other infrastructure; recreational activities and cultural events; an airport, and a library. In addition, the Town operates a municipal water utility that presently serves 8,246 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 at least seven days before the tax levy is adopted, which must be completed by 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 from the Town Manager. Transfers between funds, however, need approval from the Town Council.

LOCAL ECONOMY

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

Following the trend of 2015-16, Payson continued to experience a slight increase in the economic environment during fiscal year 2016-2017. With only minor fluctuations, population remains relatively steady, with approximately a 1% total increase since the 2010 Census of 15,301. Payson and the surrounding area maintain an employed labor force of approximately 6,500. As of June 30, 2017, the Town and Gila County share an unemployment rate of 6.1%, slightly above the State's unemployment rate of 5.3%

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 been 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 its 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 on an 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 non-spendable 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 the Finance Department in the month of March 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. At least seven days after adoption of the Final Budget, 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 2016-17.

- Construction of the C. C. Cragin pipeline and treatment plant project continues
- Upgrades to the water system infrastructure
- Seal coated approximately 15 miles of streets to improve longevity
- Upgrades at the airport to improve drainage between the runway and taxiway
- Combined dispatch services for the Town of Payson, Gila County, Tonto Apache Tribe, and all Fire Districts in Northern Gila County

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, 2016. This was the 19th consecutive year that the Town achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government has 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 is 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 Town also received GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2016-2017. In order to qualify for this award, the government's budget document must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device. This also was the 19th consecutive year that the Town achieved this prestigious award.

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

Respectfully submitted,



LaRon Garrett, PE
Town Manager



Deborah Barber
Chief Fiscal Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

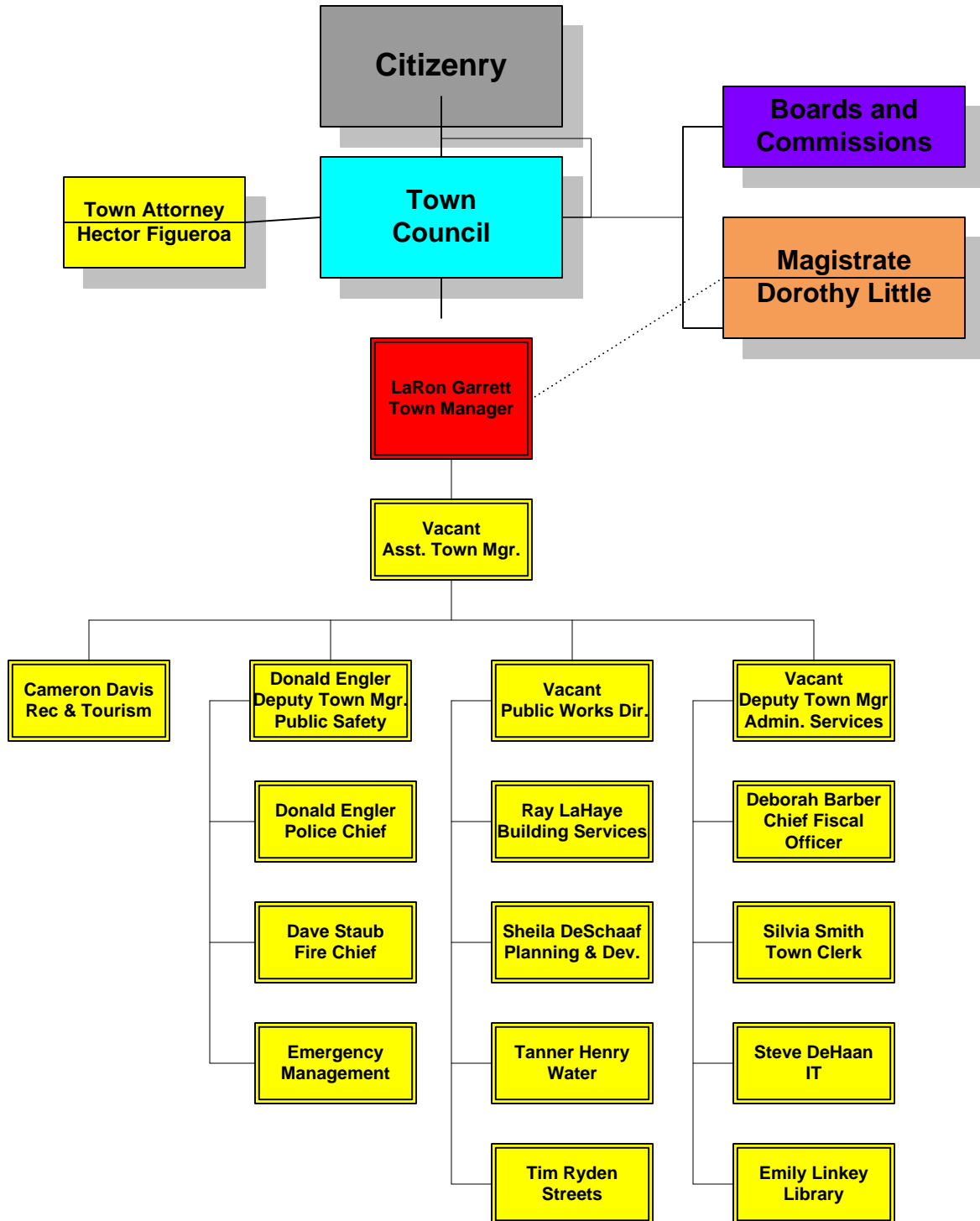
**Town of Payson
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Town of Payson Management Organizational Chart



TOWN OF PAYSON, ARIZONA
LIST OF PRINCIPAL OFFICIALS

TOWN COUNCIL

Craig Swartwood, Mayor
Fred Carpenter, Vice-Mayor
Su Connell, Councilmember
Rick Croy, Councilmember
Chris Higgins, Councilmember
Jannell Sterner, Councilmember
Barbara Underwood, Councilmember

ADMINISTRATIVE STAFF

LaRon Garrett, Town Manager
Don Engler, Deputy Town Manager

DEPARTMENT DIRECTORS

Silvia Smith, Town Clerk
Hector Figueroa, Town Attorney
Dorothy Little, Magistrate Court
Deborah Barber, Chief Fiscal Officer
Don Engler, Police Chief
David Staub, Fire Chief
Emily Linkey, Library
Cameron Davis, Parks, Recreation and Tourism Director

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of 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, 2017, 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Payson, Arizona, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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 the Management's Discussion and Analysis, budgetary comparison information, net pension liability and other postemployment benefit plan information, and other postemployment benefits plan schedule of funding progress, as listed in the table of contents, 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.

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 Introductory Section, Individual Fund Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual 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 Fund Financial Statements and Schedules information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, on our consideration of 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Payson, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Flagstaff, Arizona
January 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

As management of the Town of Payson, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letters of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The Town's total net position of governmental activities decreased \$2.3 million to \$78.7 million and the business-type activities increased \$3.5 million to \$31.5 million, representing a three percent decrease and 12 percent increase, respectively, of the total net position of \$110.2 million.
- General revenues from governmental activities accounted for \$14.7 million in revenue, or 79 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.9 million or 21 percent of total governmental activities revenues. The Town had \$7.5 million of program specific revenues and \$56,443 in general revenues related to business-type activities.
- The Town had \$20.9 million in expenses related to governmental activities, an increase of 12 percent from the prior fiscal year primarily due to an increase in pension expense related to the Town's participation in both the Arizona State Retirement System and the Public Safety Personnel Retirement System. The Town had \$4.1 million in expenses related to business-type activities, decrease of 12 percent from the prior fiscal year, primarily due to SRP changing their accounting and billing method for the Town's share of maintenance expense for the existing pipeline used in the CC Cragin project, resulting in a credit for the Town, and reducing current year expense by more than \$500,000.
- Among major governmental funds, the General Fund had \$15.0 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$14.0 million. The General Fund's fund balance increased \$590,203 to \$2.7 million at the end of the current fiscal year.
- The Enterprise Funds' net position at the end of the year amounted to \$31.5 million. The increase in net position of \$3.5 million was primarily due to increases in construction progress related to the CC Cragin Pipeline project.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net position presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as 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., earned but unused compensated absences).

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 the operations of the water system.

Fund financial statements. 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 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.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS

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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town'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 decision. 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.

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 and HURF Funds, both of which are considered to be major funds.

Proprietary funds. The Town maintains one type of proprietary fund: enterprise 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 its operations of the water system.

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

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. Due to their custodial nature, the fiduciary funds do not have a measurement focus.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process and pension plans. The Town adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information. Schedules for the pension plans have been provided as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, governmental activities assets and deferred outflows exceeded liabilities and deferred inflows by \$78.7 million at the current fiscal year end. The business-type activities assets and deferred outflows exceeded liabilities and deferred inflows by \$31.5 million at the end of the current fiscal year.

The largest portion of the Town's governmental activities net position reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related outstanding 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. In addition, a portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the Town's ongoing obligations to its citizens and creditors.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables present a summary of the Town's net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities		Business-Type Activities		Total	
	As of June 30, 2017	As of June 30, 2016	As of June 30, 2017	As of June 30, 2016	As of June 30, 2017	As of June 30, 2016
Current and other assets	\$ 4,833,473	\$ 5,055,302	\$ 13,348,991	\$ 11,810,902	\$ 18,171,652	\$ 16,866,204
Capital assets, net	106,877,986	107,715,870	42,150,403	34,150,418	149,028,389	141,866,288
Total assets	<u>111,711,459</u>	<u>112,771,172</u>	<u>55,499,394</u>	<u>45,961,320</u>	<u>167,210,853</u>	<u>158,732,492</u>
Deferred outflows	5,825,054	4,639,447	414,699	245,677	6,239,753	4,885,124
Current and other liabilities	1,176,317	1,234,121	3,028,784	1,765,712	4,205,101	2,999,833
Long-term liabilities	36,454,022	34,210,017	21,105,889	16,394,224	57,559,911	50,604,241
Total liabilities	<u>37,612,101</u>	<u>35,444,138</u>	<u>24,134,673</u>	<u>18,159,936</u>	<u>61,746,774</u>	<u>53,604,074</u>
Deferred inflows	1,230,065	953,756	257,808	162,464	1,487,873	1,116,220
Net position						
Net investment in capital assets	104,878,853	105,017,442	24,261,745	20,771,062	129,140,598	125,788,504
Restricted	1,464,390	1,659,351	1,356,276	977,431	2,820,666	2,636,782
Unrestricted	(27,648,896)	(25,664,068)	5,903,591	6,136,104	(21,745,305)	(19,527,964)
Total net position	<u>\$ 78,694,347</u>	<u>\$ 81,012,725</u>	<u>\$ 31,521,612</u>	<u>\$ 27,884,597</u>	<u>\$110,215,959</u>	<u>\$108,897,322</u>

At the end of the current fiscal year the Town reported deficit unrestricted net position for governmental activities. The deficit is due to the recognition of other postemployment benefits and pension obligations. Positive net position was reported in all other categories. The same situation held true for the prior fiscal year.

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- The principal retirement of \$206,795 of capital leases and \$680,396 of notes payable.
- The issuance of \$5.2 million in WIFA notes payable.
- The addition of \$9.1 million of business-type capital assets through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- The net increase of \$3.1 million in pension liabilities due to current year changes in estimates and payments.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in net position. The Town's total revenues for the current fiscal year were \$26.2 million. The total cost of all programs and services was \$25.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Revenues						
Program revenues:						
Charges for services	\$ 1,857,581	\$ 1,786,107	\$ 6,160,157	\$ 5,744,974	\$ 8,017,738	\$ 7,531,081
Operating grants and contributions	1,528,706	2,517,832	342,629	22,654	1,871,335	2,540,486
Capital grants and Contributions	514,358	771,135	1,000,000	1,000,000	1,514,358	1,771,135
General revenues						
Sales taxes	7,623,686	7,269,401			7,623,686	7,269,401
Property taxes	858,759	830,980			858,759	830,980
Auto lieu taxes	967,213	917,957			967,213	917,957
Franchise taxes	383,495	380,413			383,495	380,413
Unrestricted state shared revenue	4,908,761	3,285,609			4,908,761	3,285,609
Special assessments	14,872				14,872	
Investment earnings	9,987	5,325	56,443	22,736	66,430	28,061
Total revenues	<u>18,667,418</u>	<u>17,764,759</u>	<u>7,559,229</u>	<u>6,790,364</u>	<u>26,226,647</u>	<u>24,555,123</u>
Expenses						
General government	3,347,609	3,774,712			3,347,609	3,774,712
Public safety	11,681,331	8,831,717			11,681,331	8,831,717
Highways and streets	2,276,694	2,509,734			2,276,694	2,509,734
Culture and recreation	1,670,876	1,588,679			1,670,876	1,588,679
Public works	678,175	669,206			678,175	669,206
Community development	860,471	929,499			860,471	929,499
Health and welfare	256,726	241,307			256,726	241,307
Interest on long-term debt	146,614	87,709			146,614	87,709
Water			4,143,509	4,691,712	4,143,509	4,691,712
Total expenses	<u>20,918,496</u>	<u>18,632,563</u>	<u>4,143,509</u>	<u>4,691,712</u>	<u>25,062,005</u>	<u>23,324,275</u>
Transfers	<u>(67,300)</u>	<u>(130,761)</u>	<u>67,300</u>	<u>130,761</u>		
Changes in net position	<u>(2,318,378)</u>	<u>(998,565)</u>	<u>3,483,020</u>	<u>2,229,413</u>	<u>1,164,642</u>	<u>1,230,848</u>
Net position, beginning	<u>81,012,725</u>	<u>82,011,290</u>	<u>27,884,597</u>	<u>25,655,184</u>	<u>108,897,322</u>	<u>107,666,474</u>
Net effect of prior period Adjustments			<u>153,995</u>		<u>153,995</u>	
Net position, beginning, as Restated			<u>28,038,592</u>		<u>109,051,317</u>	
Net position, ending	<u>\$ 78,694,347</u>	<u>\$ 81,012,725</u>	<u>\$ 31,521,612</u>	<u>\$ 27,884,597</u>	<u>\$110,215,959</u>	<u>\$ 108,897,322</u>

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following are significant current year transactions that have had an impact on the change of net position.

- The increase of \$2.8 million in public safety expenses largely due to judgments issued against the Town related to excess contributions to pension plans.
- The increase of \$1.6 million in unrestricted state shared revenue.
- Depreciation expense of \$1.8 million from governmental activities and \$1.1 million from business-type activities.
- A \$548,203 decrease in water expenses as a result of SRP changing their accounting and billing method for the Town's share of maintenance expense for the existing pipeline used in the CC Cragin Project, resulting in a credit for the Town, and reducing current year expense by more than \$500,000.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table presents the cost of the Town's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and Town's taxpayers by each of these functions.

	Year Ended June 30, 2017		Year Ended June 30, 2016	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 3,347,609	\$ (2,253,777)	\$ 3,774,712	\$ (2,837,553)
Public safety	11,681,331	(10,319,409)	8,831,717	(8,249,406)
Public works	678,175	(562,295)	669,206	(464,060)
Highways and streets	2,276,694	(1,359,840)	2,509,734	361,443
Culture and recreation	1,670,876	(1,406,613)	1,588,679	(1,490,901)
Community development	860,471	(712,577)	929,499	(571,561)
Health and welfare	256,726	(256,726)	241,307	(217,742)
Interest on long-term debt	146,614	(146,614)	87,709	(87,709)
Total expenses	<u>20,918,496</u>	<u>(17,017,851)</u>	<u>18,632,563</u>	<u>(13,557,489)</u>
Business-Type Activities				
Water	4,143,509	3,359,277	4,691,712	2,075,916
Total expenses	<u>\$ 4,143,509</u>	<u>\$ 3,359,277</u>	<u>\$ 4,691,712</u>	<u>\$ 2,075,916</u>

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

- The cost of all governmental activities this year was \$20.9 million. The cost of all business-type activities this year was \$4.1 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$3.9 million.
- Net cost of governmental activities of \$17.0 million was financed by general revenues, which are made up of primarily sales taxes of \$7.6 million and state shared revenues of \$4.9 million.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$3.6 million, an increase of \$357,655 due primarily to increased tax and intergovernmental revenue and cost savings in the General Fund.

The General Fund comprises 73 percent of the total fund balance. Approximately \$2.2 million or 82 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the Town. The fund balance increased \$590,203 to \$2.7 million as of fiscal year end. General Fund revenues increased \$763,316 primarily due to increases of approximately \$400,000 in tax revenue and \$285,000 in intergovernmental revenue due to a contract with Gila County which combined dispatching services for the County and the Town within the Town's budget and dispatch center. Cost savings in total insurance expense for employees and retirees, lower insurance claim deductibles, a reduction in Magistrate Court contract expense, the delay of an airport project, and vacant positions were the primary reason for the decrease in General Fund expenditures of \$591,813.

The HURF Fund comprises 13 percent of total fund balance. The fund balance decreased \$166,622 from the prior year due to an increase in capital expenditures.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Proprietary funds. Net position of the Enterprise Funds at the end of the fiscal year amounted to \$31.5 million. The increase in net position in the Enterprise Funds of \$3.5 million from the prior fiscal year was primarily due to increases in construction in progress related to the CC Cragin Pipeline project.

BUDGETARY HIGHLIGHTS

A schedule showing the budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variance of \$673,642 in general government expenditures was a result of professional services budgeted but not expended when the corresponding grant revenue was not awarded, and adjustments in various insurance related costs.
- The favorable variance of \$650,670 in public safety expenditures was a result of multiple vacant positions in police, fire, and dispatch departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the Town had invested \$145.0 million in governmental capital assets and \$63.5 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent a net (decrease)/increase prior to depreciation of \$(255,597) and \$9.1 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to various construction projects related to water infrastructure. Total depreciation expense for the current fiscal year was \$1.8 million for governmental activities and \$1.1 million for business-type activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2017 and June 30, 2016.

<u>Governmental Activities</u>	As of <u>June 30, 2017</u>	As of <u>June 30, 2016</u>
Land	\$ 12,465,991	\$ 12,238,995
Construction in progress	225,765	254,052
Buildings	10,459,122	10,464,942
Infrastructure	103,373,207	103,219,396
Improvements other than buildings	8,276,277	8,516,707
Vehicles, machinery and equipment	10,198,740	10,560,607
Less: accumulated depreciation	<u>(38,121,116)</u>	<u>(37,538,829)</u>
Total	<u>\$ 106,877,986</u>	<u>\$107,715,870</u>

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

<u>Business-type Activities</u>	As of June 30, 2017	As of June 30, 2016
Land	\$ 1,590,144	\$ 1,590,144
Pipeline right to use	3,718,009	3,720,772
Construction in progress	30,237,622	21,857,084
Buildings	750,714	750,714
Improvements other than buildings	25,463,757	24,787,167
Vehicles, machinery and equipment	1,700,524	1,672,192
Less: accumulated depreciation	(21,310,367)	(20,227,655)
Total	<u>\$ 42,150,403</u>	<u>\$ 34,150,418</u>

The estimated cost to complete current construction projects is \$13.5 million.

Additional information on the Town's capital assets can be found in Note 6.

Debt Administration. At year-end, the Town had \$2.0 million in governmental long-term debt outstanding with \$669,258 due within one year. The Town had \$17.9 million in business-type long-term debt outstanding, with \$1.2 million due within one year. Long-term debt decreased by \$649,295 for governmental and increased \$4.5 million for business-type activities.

State statutes currently limit the amount of general obligation debt a Town may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the Town is \$39.5 million. State statutes also currently limit the amount of general obligation debt a Town may issue to six percent of its total assessed valuation for all other purposes. The current six percent debt limitation for the Town is \$11.9 million. The Town's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes.

Additional information on the Town's long-term debt can be found in Notes 7 through 10 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered by the Town's officials during the process of developing the fiscal year 2017-18 budget. Among them:

- Fiscal year 2016-17 budget balance carry forward (estimated \$500,000).
- Employee salaries and benefits (estimated \$16.4 million).
- Sales tax increase of .88 percent.

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, Town of Payson, 303 North Beeline Highway, Payson, Arizona 85541.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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TOWN OF PAYSON, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 2,838,944	\$ 11,048,300	\$ 13,887,244
Intergovernmental receivable	952,973		952,973
Restricted cash and investments	209,339	1,356,275	1,565,614
Accounts receivable	328,782	779,609	1,108,391
Special assessments receivable	503,435		503,435
Prepaid expenses		153,995	153,995
Total current assets	4,833,473	13,338,179	18,171,652
Noncurrent assets:			
Other assets		10,812	10,812
Capital assets not being depreciated	12,691,756	35,545,775	48,237,531
Capital assets, net of accumulated depreciation	94,186,230	6,604,628	100,790,858
Total noncurrent assets	106,877,986	42,161,215	149,039,201
Total assets	111,711,459	55,499,394	167,210,853
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Excess consideration provided for acquisition		8,035	8,035
Pension plan items	5,825,054	406,664	6,231,718
Total deferred outflows of resources	5,825,054	414,699	6,239,753
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	200,645	1,764,457	1,965,102
Accrued interest payable		204,758	204,758
Accrued payroll and employee benefits	403,516	43,997	447,513
Judgments payable	453,743		453,743
Deposits held for others	27,691	600,013	627,704
Retainage payable		403,200	403,200
Unearned revenue	72,484	12,359	84,843
Compensated absences payable	911,642	119,832	1,031,474
Obligations under capital leases	159,258		159,258
Loans payable		1,175,144	1,175,144
Bonds payable	510,000		510,000
Total current liabilities	2,738,979	4,323,760	7,062,739
Noncurrent liabilities:			
Non-current portion of long-term obligations	34,873,122	19,810,913	54,684,035
Total noncurrent liabilities	34,873,122	19,810,913	54,684,035
Total liabilities	37,612,101	24,134,673	61,746,774
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	1,230,065	257,808	1,487,873
<u>NET POSITION</u>			
Net investment in capital assets	104,878,853	24,261,745	129,140,598
Restricted for:			
Debt service	640,884	1,236,189	1,877,073
Capital outlay	273,595	120,087	393,682
Highways and streets	474,711		474,711
Court enhancement	75,200		75,200
Unrestricted	(27,648,896)	5,903,591	(21,745,305)
Total net position	\$ 78,694,347	\$ 31,521,612	\$ 110,215,959

The notes to the basic financial statements are an integral part of this statement.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 3,347,609	\$ 1,017,922	\$ 27,741	\$ 48,169	\$ (2,253,777)
Public safety	11,681,331	462,516	581,111	318,295	(10,319,409)
Highways and streets	2,276,694		916,854		(1,359,840)
Culture and recreation	1,670,876	261,263	3,000		(1,406,613)
Public works	678,175	115,880			(562,295)
Community development	860,471			147,894	(712,577)
Health and welfare	256,726				(256,726)
Interest on long-term debt	146,614				(146,614)
Total governmental activities	<u>20,918,496</u>	<u>1,857,581</u>	<u>1,528,706</u>	<u>514,358</u>	<u>(17,017,851)</u>
Business-type activities:					
Water	4,143,509	6,160,157	342,629	1,000,000	
Total business-type activities	<u>4,143,509</u>	<u>6,160,157</u>	<u>342,629</u>	<u>1,000,000</u>	
Total primary government	<u>\$ 25,062,005</u>	<u>\$ 8,017,738</u>	<u>\$ 1,871,335</u>	<u>\$ 1,514,358</u>	<u>(17,017,851)</u>

General revenues:

Taxes:

Sales taxes	7,623,686
Property taxes	858,759
Auto lieu taxes	967,213
Franchise taxes	383,495
Unrestricted state shared revenue	4,908,761
Special assessments	14,872
Investment income	9,987

Transfers

Total general revenues and transfers	<u>14,699,473</u>
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Changes in net position

(2,318,378)

Net position, beginning of year, as restated

81,012,725

Net position, end of year

\$ 78,694,347

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Business-type Activities	Totals
\$	\$ (2,253,777)
	(10,319,409)
	(1,359,840)
	(1,406,613)
	(562,295)
	(712,577)
	(256,726)
	(146,614)
	(17,017,851)
3,359,277	3,359,277
3,359,277	3,359,277
3,359,277	(13,658,574)
	7,623,686
	858,759
	967,213
	383,495
	4,908,761
	14,872
56,443	66,430
67,300	
123,743	14,823,216
3,483,020	1,164,642
28,038,592	109,051,317
\$ 31,521,612	\$ 110,215,959

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FUND FINANCIAL STATEMENTS

**TOWN OF PAYSON, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	HURF Fund	Non-Major Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 2,281,615	\$ 295,308	\$ 262,021
Intergovernmental receivable	699,986	226,643	26,344
Restricted cash and investments			209,339
Accounts receivable	328,692	90	
Special assessments receivable			503,435
Total assets	\$ 3,310,293	\$ 522,041	\$ 1,001,139
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 185,953	\$ 13,776	\$ 916
Accrued payroll and employee benefits	359,418	33,554	10,544
Deposits held for others	27,691		
Unearned revenue	72,484		
Total liabilities	645,546	47,330	11,460
Deferred inflows of resources:			
Unavailable revenues - intergovernmental			503,435
Fund balances:			
Restricted		474,711	486,244
Assigned	468,569		
Unassigned	2,196,178		
Total fund balances	2,664,747	474,711	486,244
 Total liabilities, deferred inflows of resources and fund balances	 \$ 3,310,293	 \$ 522,041	 \$ 1,001,139

The notes to the basic financial statements are an integral part of this statement.

Total
Governmental
Funds

\$	2,838,944
	952,973
	209,339
	328,782
	503,435
\$	<u>4,833,473</u>

\$	200,645
	403,516
	27,691
	72,484
	<u>704,336</u>

503,435

	960,955
	468,569
	2,196,178
	<u>3,625,702</u>

\$	<u>4,833,473</u>
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TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total governmental fund balances	\$	3,625,702
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 144,999,102	
Less accumulated depreciation	<u>(38,121,116)</u>	106,877,986
<p>Some special assessment receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.</p>		
		503,435
<p>Liabilities associated with judgments payable that are not due and payable in the current period and therefore not reported in the governmental funds.</p>		
		(453,743)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions	5,825,054	
Deferred inflows of resources related to pensions	<u>(1,230,065)</u>	4,594,989
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Other postemployment benefits payable	(8,577,421)	
Compensated absences payable	(1,131,068)	
Obligations under capital leases	(851,050)	
Net pension liability	(24,746,400)	
Premium	(18,083)	
Bonds payable	<u>(1,130,000)</u>	<u>(36,454,022)</u>
Net position of governmental activities	\$	<u><u>78,694,347</u></u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>HURF Fund</u>	<u>Non-Major Governmental Funds</u>
Revenues:			
Taxes	\$ 8,231,034	\$	\$ 643,005
Licenses and permits	386,332		
Intergovernmental	4,893,968	2,486,613	475,108
Special assessments			56,472
Charges for services	1,074,452		
Fines and forfeits	106,405		15,279
Contributions	7,782		1,209
Miscellaneous	275,113	54,358	
Investment income	9,917		70
Total revenues	<u>14,985,003</u>	<u>2,540,971</u>	<u>1,191,143</u>
Expenditures:			
Current -			
General government	3,085,558		15,408
Public safety	8,313,730		
Highways and streets		1,639,884	
Culture and recreation	757,723		361,302
Public works	658,566		
Community development	821,403		
Health and welfare	246,175		
Capital outlay	39,250	1,067,709	439,545
Debt service -			
Principal retirement	87,736		604,059
Interest and fiscal charges	27,961		126,153
Total expenditures	<u>14,038,102</u>	<u>2,707,593</u>	<u>1,546,467</u>
Excess (deficiency) of revenues over expenditures	<u>946,901</u>	<u>(166,622)</u>	<u>(355,324)</u>
Other financing sources (uses):			
Transfers in			289,398
Transfers out	(356,698)		
Total other financing sources (uses):	<u>(356,698)</u>		<u>289,398</u>
Changes in fund balances	<u>590,203</u>	<u>(166,622)</u>	<u>(65,926)</u>
Fund balances, beginning of year, as restated	2,074,544	641,333	552,170
Fund balances, end of year	<u>\$ 2,664,747</u>	<u>\$ 474,711</u>	<u>\$ 486,244</u>

The notes to the basic financial statements are an integral part of this statement.

Total
Governmental
Funds

\$ 8,874,039
386,332
7,855,689
56,472
1,074,452
121,684
8,991
329,471
9,987

18,717,117

3,100,966
8,313,730
1,639,884
1,119,025
658,566
821,403
246,175
1,546,504

691,795
154,114

18,292,162

424,955

289,398
(356,698)

(67,300)

357,655

3,268,047

\$ 3,625,702

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TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Changes in fund balances - total governmental funds **\$ 357,655**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 1,045,812	
Less current year depreciation	<u>(1,843,762)</u>	(797,950)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (49,699)

Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Capital lease principal retirement	206,795	
Bond principal retirement	<u>485,000</u>	691,795

Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.

Current year pension contributions	1,854,124	
Pension expense	<u>(3,829,814)</u>	(1,975,690)

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 governmental funds.

Other postemployment benefits	31,094	
Judgments	(453,743)	
Loss on disposal of assets	(39,934)	
Amortization of deferred bond items	7,500	
Compensated absences	<u>(89,406)</u>	<u>(544,489)</u>

Changes in net position in governmental activities **\$ (2,318,378)**

The notes to the basic financial statements are an integral part of this statement.

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts	Actual	Variance with Final Budget
	Original & Final		Positive (Negative)
Revenues:			
Taxes	\$ 8,198,256	\$ 8,231,034	\$ 32,778
Licenses and permits	896,500	386,332	(510,168)
Intergovernmental	4,801,444	4,893,968	92,524
Charges for services	1,134,700	1,074,452	(60,248)
Fines and forfeits	110,000	106,405	(3,595)
Contributions	12,000	7,782	(4,218)
Miscellaneous	256,100	275,113	19,013
Investment income	9,917	9,917	9,917
Total revenues	<u>15,409,000</u>	<u>14,985,003</u>	<u>(423,997)</u>
Expenditures:			
Current -			
General government			
Town Council	106,700	90,309	16,391
Town Clerk	240,130	201,634	38,496
Administration	1,226,700	1,071,297	155,403
Financial Services	369,900	335,898	34,002
Human Resources	226,500	213,283	13,217
Computer Information Systems	407,900	386,290	21,610
Elections	13,470	13,470	
Attorney	425,700	402,689	23,011
Courts	198,100	175,711	22,389
Town Manager	210,700	194,977	15,723
Public safety			
Police Department	5,659,400	5,048,558	610,842
Fire Department	3,386,300	3,265,172	121,128
Culture and recreation			
Recreation	329,550	307,907	21,643
Aquatics	115,000	77,942	37,058
Tourism	223,100	217,356	5,744
Trails	8,950	2,461	6,489
Event Center	167,500	152,057	15,443
Public works			
Airport	160,900	128,080	32,820
Park Operations	532,303	530,486	1,817
Community development			
Planning and Zoning	426,000	384,469	41,531
Building Inspections	375,900	309,756	66,144
Economic Development	415,900	127,178	288,722
Health and welfare			
Health and Welfare	116,400	116,400	
Animal Control	135,700	129,775	5,925
Capital outlay	135,000	39,250	95,750
Debt service -			
Principal retirement	87,736	87,736	
Interest and fiscal charges	27,961	27,961	
Total expenditures	<u>15,729,400</u>	<u>14,038,102</u>	<u>1,691,298</u>
Excess (deficiency) of revenues over expenditures	<u>(320,400)</u>	<u>946,901</u>	<u>1,267,301</u>
Other financing sources (uses):			
Transfers out	(374,400)	(356,698)	17,702
Total other financing sources (uses):	<u>(374,400)</u>	<u>(356,698)</u>	<u>17,702</u>
Changes in fund balances	<u>(694,800)</u>	<u>590,203</u>	<u>1,285,003</u>
Fund balances, beginning of year, as restated	2,074,544	2,074,544	
Fund balances, end of year	<u>\$ 1,379,744</u>	<u>\$ 2,664,747</u>	<u>\$ 1,285,003</u>

**TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 2,392,800	\$ 2,486,613	\$ 93,813
Charges for services	10,000		(10,000)
Miscellaneous	32,800	54,358	21,558
Total revenues	<u>2,435,600</u>	<u>2,540,971</u>	<u>105,371</u>
Expenditures:			
Current -			
Highways and streets	1,933,600	1,639,884	293,716
Capital outlay	1,065,000	1,067,709	(2,709)
Total expenditures	<u>2,998,600</u>	<u>2,707,593</u>	<u>291,007</u>
Changes in fund balances	<u>(563,000)</u>	<u>(166,622)</u>	<u>396,378</u>
Fund balances, beginning of year	641,333	641,333	
Fund balances, end of year	<u>\$ 78,333</u>	<u>\$ 474,711</u>	<u>\$ 396,378</u>

The notes to the basic financial statements are an integral part of this statement.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	<u>Enterprise Funds</u>
	<u>Water</u>
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 11,048,300
Restricted cash and investments	1,356,275
Accounts receivable	779,609
Prepaid expenses	153,995
Total current assets	<u>13,338,179</u>
Noncurrent assets:	
Other assets	10,812
Capital assets not being depreciated	35,545,775
Capital assets, net of accumulated depreciation	6,604,628
Total noncurrent assets	<u>42,161,215</u>
Total assets	<u>55,499,394</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Excess consideration provided for acquisition	8,035
Pension plan items	406,664
Total deferred outflows of resources	<u>414,699</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	1,764,457
Accrued interest payable	204,758
Accrued payroll and employee benefits	43,997
Deposits held for others	600,013
Retainage payable	403,200
Unearned revenue	12,359
Compensated absences payable	119,832
Loans payable	1,175,144
Total current liabilities	<u>4,323,760</u>
Noncurrent liabilities:	
Non-current portion of long-term obligations	19,810,913
Total noncurrent liabilities	<u>19,810,913</u>
Total liabilities	<u>24,134,673</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension plan items	<u>257,808</u>
<u>NET POSITION</u>	
Net investment in capital assets	24,261,745
Restricted for:	
Debt service	1,236,189
Capital outlay	120,087
Unrestricted	5,903,591
Total net position	<u>\$ 31,521,612</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Enterprise Funds</u>
	<u>Water</u>
Operating revenues:	
Charges for services	\$ 6,023,904
Total operating revenues	<u>6,023,904</u>
Operating expenses:	
Costs of sales and services	3,054,857
Depreciation and amortization	1,088,652
Total operating expenses	<u>4,143,509</u>
Operating income (loss)	<u>1,880,395</u>
Nonoperating revenues (expenses):	
Impact fees	340,182
Intergovernmental	2,447
Miscellaneous	136,253
Investment income	56,443
Total nonoperating revenues (expenses)	<u>535,325</u>
Income (loss) before capital contributions and transfers	<u>2,415,720</u>
Transfers in	67,300
Capital contributions	<u>1,000,000</u>
Changes in net position	<u>3,483,020</u>
Total net position, beginning of year, as restated	28,038,592
Total net position, end of year	<u>\$ 31,521,612</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	Enterprise Fund
<u>Increase in Cash and Cash Equivalents</u>	<u>Water</u>
Cash flows from operating activities:	
Cash received from customers	\$ 6,178,823
Cash payments to employees for services	(980,986)
Cash payments to suppliers for goods/services	(685,616)
Net cash provided by operating activities	4,512,221
Cash flows from non-capital financing activities:	
Intergovernmental	2,447
Development impact fees	340,182
Miscellaneous	136,253
Transfers in	67,300
Net cash provided by non-capital financing activities	546,182
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(8,753,484)
Capital grants	1,000,000
Principal paid on debt	(680,396)
Interest paid on debt	(330,605)
Issuance of long-term debt	5,189,698
Net cash used by capital financing activities	(3,574,787)
Cash flows provided by investing activities:	
Investment income	56,443
Net cash provided by investing activities	56,443
Net increase in cash and cash equivalents	1,540,059
Cash and cash equivalents, beginning of year	10,864,516
Cash and cash equivalents, end of year	\$ 12,404,575
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>	
Cash and investments	\$ 11,048,300
Restricted cash and investments	1,356,275
Total cash and cash equivalents	\$ 12,404,575
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	
Operating income	\$ 1,880,395
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,136,161
Changes in assets and liabilities:	
Decrease in prepaid items	13,390
Decrease in accounts receivable	128,600
Increase in accounts payable	1,002,918
Decrease in other assets	5,940
Decrease in accrued payroll and employee benefits	(5,232)
Increase in retainage payable	187,010
Increase in unearned revenue	12,359
Increase in deposits held for others	13,960
Increase in compensated absences payable	9,348
Decrease in other post employment benefits	(1,552)
Increase in pension items	128,924
Total adjustments	2,631,826
Net cash provided by operating activities	\$ 4,512,221

Noncash Capital Financing Activities

During the fiscal year ended June 30, 2017, the Town capitalized \$382,662 in interest expense incurred during the fiscal year.

The notes to the basic financial statements are an integral part of this statement.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town's major operations include police and fire protection, parks and recreation, transit services, certain social services and general administrative services. In addition, the Town owns and operates an enterprise fund which includes water services.

The Town is a municipal entity governed by a separately elected governing body. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Town for financial statement presentation purposes and the Town is not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing body 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) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and 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 FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, unrestricted state shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements – The government-wide 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 revenue 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 grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. As permitted by generally accepted accounting principles the Town applies the “early recognition” option for debt service payments. Sales tax resources are provided in the Debt Service Fund during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liabilities have been recognized in the current period.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property taxes, sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenues arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The Town reports the following major governmental funds.

General Fund – The General Fund is the Town’s primary operating fund. This fund accounts for all financial resources of the Town, except those required to be accounted for in other funds.

HURF Fund – The Highway User Revenue Fund (HURF) accounts for the Town’s share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of town roads, streets and bridges and the payment of the principal and interest on highway and street bonds.

The Town reports the following major proprietary funds.

Water Fund – This fund accounts for the Town’s drinking water treatment and distribution system.

Additionally, the Town reports the following fund types:

General Services Administration Agency Fund - This fund accounts for the monies the Town receives in an agency capacity to purchase vehicles for other agencies. At June 30, 2017, 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.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Proprietary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

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 funds are charges to customers for water services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments (including restricted investments) with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, cash in bank, cash held by fiscal agent and cash and investments held by the State Treasurer.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds.

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 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.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental fund financial statements and of nonoperating revenues in the proprietary fund financial statements.

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

G. Property Tax Calendar

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.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in the government-wide and proprietary fund financial statements and as expenditures when purchased in the fund financial statements.

I. Restricted Assets

Certain proceeds of the Town’s bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable loan covenants. In addition, customer deposits for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Goodwill

Goodwill is any excess of the cost of an acquired entity over the amounts assigned to assets acquired and is recorded as excess consideration provided for acquisition on the Statement of Net Position. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

K. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

Capital assets of the Town are depreciated using the straight-line method 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

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Compensated Absences

The Town's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to liquidate the governmental funds liabilities for compensated absences.

N. Pensions

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

O. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

P. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Q. Net Position Flow Assumption

In the government-wide and proprietary fund financial statements the Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

R. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – 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, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

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

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Town Council, the Town's highest level of decision making authority, by resolution or ordinance. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a management official delegated that authority by formal Town Council action.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 five percent 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.

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.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

Reserve funds in the Water Fund should equal five percent 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.

The table below provides detail of the major components of the Town’s fund balance classifications at year end.

	<u>General Fund</u>	<u>HURF Fund</u>	<u>Non-Major Governmental Funds</u>
Fund Balances:			
Restricted:			
Highways and streets	\$	\$ 474,711	\$
Court enhancement			75,200
Debt service			137,449
Capital projects			273,595
Assigned:			
Public safety	80,583		
Culture and recreation	387,986		
Unassigned	2,196,178		
Total fund balances	<u>\$ 2,664,747</u>	<u>\$ 474,711</u>	<u>\$ 486,244</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - 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.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Town's deposits was \$1,942,511 and the bank balance was \$2,605,185. At year end, \$2,316,654 of the Town's deposits were covered by collateral held by the pledging financial institution in the Town's name.

Fair Value Measurements. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

Valuation Techniques. Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Real estate assets classified in Level 3 are valued by external appraisals and are generally obtained at least annually. The appraisals are performed using generally accepted valuation approaches by an independent appraiser.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – CASH AND INVESTMENTS

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools as an investment company are not registered with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. The cash with trustee is on deposit and invested in money market accounts and mutual funds. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Carrying amount of investments	\$	13,508,662
Carrying amount of cash deposits		1,942,511
Less: restricted cash and investments		(1,565,614)
Petty cash		1,685
Total pooled cash and investments	\$	<u>13,887,244</u>

At year end, the Town’s investments consisted of the following:

Investment Type	Maturities	Fair Value	Category
U.S. Treasuries	Not Applicable	\$ 209,339	Level 1
State Treasurer’s investment pool 7	80.3 days	<u>13,299,323</u>	Not Applicable
Total		<u>\$ 13,508,662</u>	

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.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – CASH AND INVESTMENTS

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.

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the Town's individual major funds consisted of the following:

	General Fund	HURF	Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Due from other governmental entities:			
Due from federal government	\$ 1,000	\$	\$ 26,344
Due from state government	636,865	226,643	
Due from county government	62,121		
Net due from governmental entities	<u>\$ 699,986</u>	<u>\$ 226,643</u>	<u>\$ 26,344</u>

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity at year end is as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 12,238,995	\$ 226,996	\$	\$ 12,465,991
Construction in progress	254,052	479,229	507,516	225,765
Total capital assets, not being depreciated	<u>12,493,047</u>	<u>706,225</u>	<u>507,516</u>	<u>12,691,756</u>
Capital assets, being depreciated:				
Buildings	10,464,942		5,820	10,459,122
Infrastructure	103,219,396	153,811		103,373,207
Improvements and other buildings	8,516,707	436,516	676,946	8,276,277
Vehicles, machinery and equipment	10,560,607	256,776	618,643	10,198,740
Total capital assets being depreciated	<u>132,761,652</u>	<u>847,103</u>	<u>1,301,409</u>	<u>132,307,346</u>
Less accumulated depreciation for:				
Buildings	(4,470,602)	(292,714)	(5,820)	(4,757,496)
Infrastructure	(18,796,002)	(701,916)		(19,497,918)
Improvements and other buildings	(6,160,300)	(277,600)	(637,012)	(5,800,888)
Vehicles, machinery and equipment	(8,111,925)	(571,532)	(618,643)	(8,064,814)
Total accumulated depreciation	<u>(37,538,829)</u>	<u>(1,843,762)</u>	<u>(1,261,475)</u>	<u>(38,121,116)</u>
Total capital assets, being depreciated, net	<u>95,222,823</u>	<u>(996,659)</u>	<u>39,934</u>	<u>94,186,230</u>
Governmental activities capital assets, net	<u>\$ 107,715,870</u>	<u>\$ (290,434)</u>	<u>\$ 547,450</u>	<u>\$106,877,986</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 28,088
Public safety	609,977
Highways and streets	628,603
Culture and recreation	514,761
Community development	62,333
Total depreciation expense	<u>\$ 1,843,762</u>

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,590,144	\$	\$	\$ 1,590,144
Pipeline right to use	3,720,772		2,763	3,718,009
Construction in progress	21,857,084	8,967,438	586,900	30,237,622
Total capital assets, not being depreciated	<u>27,168,000</u>	<u>8,967,438</u>	<u>589,663</u>	<u>35,545,775</u>
Capital assets, being depreciated:				
Buildings	750,714			750,714
Improvements other than buildings	24,787,167	682,260	5,670	25,463,757
Vehicles, machinery and equipment	1,672,192	76,111	47,779	1,700,524
Total capital assets being depreciated	<u>27,210,073</u>	<u>758,371</u>	<u>53,449</u>	<u>27,914,995</u>
Less accumulated depreciation for:				
Buildings	(490,809)	(22,717)		(513,526)
Improvements other than buildings	(18,340,334)	(1,046,589)	(5,670)	(19,381,253)
Vehicles, machinery and equipment	(1,396,512)	(66,855)	(47,779)	(1,415,588)
Total accumulated depreciation	<u>(20,227,655)</u>	<u>(1,136,161)</u>	<u>(53,449)</u>	<u>(21,310,367)</u>
Total capital assets, being depreciated, net	<u>6,982,418</u>	<u>(377,790)</u>		<u>6,604,628</u>
Business-type activities capital assets, net	<u>\$ 34,150,418</u>	<u>\$ 8,589,648</u>	<u>\$ 589,663</u>	<u>\$ 42,150,403</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities	
Water	<u>\$ 1,136,161</u>

Construction Commitments – At year end, the Town had contractual commitments related to various capital projects. At year end the Town had spent \$30.5 million on the projects and had estimated remaining contractual commitments of \$13.5 million.

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

The Town has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay for the governmental activities lease obligations, respectively. Amortization of assets recorded under capital leases is included with depreciation expense.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

The assets acquired through capital leases that meet the Town’s capitalization threshold are as follows:

	Governmental Activities
Asset:	
Improvements other than buildings	\$ 734,015
Machinery, vehicles and equipment	896,105
Less: Accumulated depreciation	314,340
Total	\$ 1,315,780

The future minimum lease obligations and the net present value of these minimum lease payments as of year end were as follows:

	Governmental Activities
Year Ending June 30:	
2018	\$ 190,324
2019	174,631
2020	174,631
2021	137,917
2022	101,203
2023-26	200,410
Total minimum lease payments	979,116
Less: amount representing interest	128,066
Present value of minimum lease payments	851,050
Due within one year	\$ 159,258

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – 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 Fund de-obligated \$2,407,191 of the original 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 percent to 2.891 percent through fiscal year 2045.

	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2017</u>	<u>Due Within One Year</u>
Business-type activities;:				
Water Infrastructure Authority	2.2-2.891%	7/1/17-45	\$ 17,888,658	\$ 1,175,444

Annual debt service requirements to maturity on the loans payable at year end are summarized as follows:

Year ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 698,102	\$ 432,215
2019	716,277	413,800
2020	734,932	394,899
2021	754,079	375,499
2022	773,732	355,587
2023-27	4,182,127	1,460,321
2028-32	4,235,036	892,326
2033-37	2,252,138	484,757
2038-42	2,063,770	264,033
2043-45	1,478,465	44,996
Total	<u>\$17,888,658</u>	<u>\$ 5,118,433</u>

Pledged Revenues

The Town has pledged certain future revenues to repay the loans as follows.

The Town has pledged net revenues from the operation of the Water System to repay \$30.4 million in business-type loans through the Water Infrastructure Finance Authority of Arizona. Proceeds of the loan provide financing to pay the costs of making improvements, extensions, renewals, replacements, and repairs to the water system. The loans are payable solely from net revenues from the operation of the Water System and are payable through 2045; however, as of June 30, 2017, the Town has only drawn down \$17.9 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 \$23,007,091. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$1,063,058 and \$6,023,904, respectively.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – BONDS PAYABLE

Bonds payable at year end consisted of the following general obligation, special assessment, and revenue bonds. The bonds are both callable and noncallable with interest payable semiannually. State shared and excise tax revenues are used to pay the governmental portion of the bonds.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2017	Due Within One Year
Governmental activities:					
General Obligation Bonds, 2009	\$ 1,525,000	3.0-4.0%	7/1/17-19	\$ 645,000	\$ 320,000
Special assessment bonds:					
Westerly Drive Improvement District, Series 2005	875,000	5.50%	1/1/18-22	360,000	65,000
Revenue bonds:					
Excise Tax Revenue Obligations, Public works, Series 2003A	860,000	3.75- 4.625%	10/1/17	125,000	125,000
Total				<u>\$ 1,130,000</u>	<u>\$ 510,000</u>

Annual debt service requirements to maturity on the loans payable at year end are summarized as follows:

Year ending June 30,	Governmental Activities	
	Principal	Interest
2018	\$ 510,000	\$ 42,091
2019	395,000	22,726
2020	70,000	12,376
2021	75,000	8,526
2022	80,000	4,400
Total	<u>\$ 1,130,000</u>	<u>\$ 90,119</u>

Pledged Revenues

The Town has pledged certain future revenues to repay the bonds as follows.

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 10% 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 \$341,475 and \$412,603, respectively.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – BONDS PAYABLE

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 on such a 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 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$421,328. Principal and interest paid for the current year and total excise taxes were \$82,200 and \$56,474, 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 two percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$127,891. Principal and interest paid for the current year were \$128,421, paid by transfer from the General Fund.

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 950,000	\$	\$ 305,000	\$ 645,000	\$ 320,000
Special assessment bonds	420,000		60,000	360,000	65,000
Revenue bonds	245,000		120,000	125,000	125,000
Premium	25,583		7,500	18,083	
Total bonds payable	<u>1,640,583</u>		<u>492,500</u>	<u>1,148,083</u>	<u>510,000</u>
Obligations under capital leases	1,057,845		206,795	851,050	159,258
Other postemployment benefits	8,608,515		31,094	8,577,421	
Net pension liability	21,861,412	2,884,988		24,746,400	
Compensated absences payable	<u>1,041,662</u>	<u>963,881</u>	<u>874,475</u>	<u>1,131,068</u>	<u>911,642</u>
Governmental activity long-term liabilities	<u>\$34,210,017</u>	<u>\$ 3,848,869</u>	<u>\$ 1,604,864</u>	<u>\$ 36,454,022</u>	<u>\$ 1,580,900</u>

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Other postemployment benefits	\$ 967,853	\$	\$ 1,552	\$ 966,301	\$
Net pension liability	1,923,815	194,567		2,118,382	
Notes payable	13,379,356	5,189,698	680,396	17,888,658	1,175,144
Compensated absences payable	123,200	115,855	106,507	132,548	119,832
Governmental activity long-term Liabilities	<u>\$ 16,394,224</u>	<u>\$ 5,500,120</u>	<u>\$ 788,455</u>	<u>\$ 21,105,889</u>	<u>\$ 1,294,976</u>

NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES

At year end, interfund balances were as follows:

Interfund transfers:

<u>Transfers out</u>	<u>Transfers In</u>		
	<u>Water Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
General Fund	\$ 67,300	\$ 289,398	\$ 356,698
Total	<u>\$ 67,300</u>	<u>\$ 289,398</u>	<u>\$ 356,698</u>

The transfer from the General Fund to the Non-Major Governmental Funds was to fund annual debt service requirements on outstanding excise tax revenue bonds, pay special assessments on Town owned property within the special assessment district, and to record the annual subsidy to the Library Fund. The transfer from the General Fund to the Water Fund was to pay interest on prior borrowing between the funds.

NOTE 12 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 – CONTINGENT LIABILITIES

Lawsuits – The Town is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, Town management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

NOTE 13 – 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 was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the Town joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The Town pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

The Town joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The Town is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

The Town reported \$4.1 million of pension expenditures related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description. The Town employees not covered by the other pension plans described after this section 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) plan, 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 the ASRS website at www.azasrs.gov.

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 years 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 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%
	*With actuarially reduced benefits	

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT 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 members’ 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 current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2017 were \$437,501.

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 for retirement and 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to ASRS.

The Town’s contributions for the current and two preceding years for the Arizona State Retirement System OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:				
2017	\$	22,727	\$	5,682
2016		23,931		5,743
2015		27,735		5,641

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Liability. At June 30, 2017, the Town reported a liability of \$8.4 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Town’s proportion was .05 percent, which was the same as its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources. The Town has deferred outflows and inflows of resources related to the net pension liability of retirement benefits. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$605,728 and 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	\$ 51,251	\$ 580,175
Changes of assumptions or other inputs		446,209
Net difference between projected and actual earnings on pension plan investments	913,930	
Changes in proportion and differences between contributions and proportionate share of contributions	253,456	
Contributions subsequent to the measurement date	437,501	
Total	<u>\$ 1,656,138</u>	<u>\$ 1,026,384</u>

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

Year Ending June 30:		
2018	\$	(212,728)
2019		(230,367)
2020		379,084
2021		256,263

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent 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.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The target allocation and best estimates of arithmetic real rates of return for each major asset class of ASRS are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	<u>100%</u>	

Discount Rate. The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.75 percent. 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 statute. 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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the 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:

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Town’s proportionate share of the net pension liability	\$ 10,753,576	\$ 8,433,674	\$ 6,573,621

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

**TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

B. Public Safety Personnel Retirement System

Plan Descriptions. The Town public safety employees 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. 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 a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided. The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
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 months of last 20 years	Highest 60 months of last 20 years
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	
Survivor benefit:		
Retired members	80% of retired member's pension benefit	
Active members	80% to 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 FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, 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 percent of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms. At June 30, 2017, the following employees were covered by the agent pension plan's benefit terms:

	PSPRS – Police	PSPRS – Fire
Retirees and beneficiaries	21	10
Inactive, non-retired members	14	1
Active members	19	29
Total	54	40

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, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS – Police	PSPRS – Fire
Active members – pension	11.65%	11.65%
Town:		
Pension	62.69%	26.04%
Health insurance	0.95%	0.83%

In addition, the Town was required by statute to contribute at the actuarially determined rates of 51.13 percent and 15.87 percent for police and fire plans, respectively, of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Liability. At June 30, 2017, the Town reported \$12,413,082 in net pension liability for police and \$6,018,026 net pension liability for fire. The net pension liabilities were measured as of June 30, 2016, 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 liability as of June 30, 2016, reflects changes of benefit terms and actual 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 for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of two percent. The change in the Town's net pension liability as a result of the statutory adjustments is not known.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent.

The net pension liabilities measured as of June 30, 2017 will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The change in the Town's net pension liabilities as a result of these changes is not known.

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.0 - 8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table, adjusted by 105% for both males and females

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 percent 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Discount Rates. The discount rate of 7.50 was used to measure the total pension liability.

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 rates and the member rate. Based on those assumptions, the PSPRS 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

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
PSPRS – Police			
Balances at June 30, 2016	\$ 16,695,108	\$ 5,285,519	\$ 11,409,589
Changes for the year:			
Service cost	254,743		254,743
Interest on the total pension liability	1,284,285		1,284,285
Changes of benefit terms	101,288		101,288
Differences between expected and actual experience in the measurement of the pension liability	(495,099)		(495,099)
Changes of assumptions or other inputs	638,612		638,612
Contributions – employer		802,434	(802,434)
Contributions – employee		174,830	(174,830)
Net investment income		30,540	(30,540)
Benefit payments, including refunds of employee contributions	(924,315)	(924,315)	
Administrative expense		(4,795)	4,795
Other changes		(222,673)	222,673
Net changes	859,514	(143,978)	1,003,492
Balances at June 30, 2017	\$ 17,554,622	\$ 5,141,540	\$ 12,413,082

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Changes in the Agent Plans Net Pension Liability

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
PSPRS – Fire			
Balances at June 30, 2016	\$ 10,185,558	\$ 5,847,240	\$ 4,338,318
Changes for the year:			
Service cost	337,547		337,547
Interest on the total pension liability	790,075		790,075
Changes of benefit terms	699,413		699,413
Differences between expected and actual experience in the measurement of the pension liability	40,079		40,079
Changes of assumptions or other inputs	435,046		435,046
Contributions – employer		460,449	(460,449)
Contributions – employee		232,627	(232,627)
Net investment income		34,274	(34,274)
Benefit payments, including refunds of employee contributions	(579,355)	(579,355)	
Administrative expense		(5,332)	5,332
Other changes		(99,566)	99,566
Net changes	<u>1,722,805</u>	<u>43,097</u>	<u>1,679,708</u>
Balances at June 30, 2017	<u>\$ 11,908,363</u>	<u>\$ 5,890,337</u>	<u>\$ 6,018,026</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town’s net pension liability calculated using the discount rates noted above, as well as what the 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:

	Current Discount		
	1% Decrease	Rate	1% Increase
PSPRS – Police:			
Rate	6.50%	7.50%	8.50%
Net pension liability	\$ 14,572,136	\$ 12,413,082	\$ 10,630,162
PSPRS – Fire:			
Rate	6.50%	7.50%	8.50%
Net pension liability	\$ 7,604,954	\$ 6,018,026	\$ 4,704,158

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at www.psprs.com.

Pension Expense. For the year ended June 30, 2017, the Town recognized \$3.5 million as pension expense:

	Pension Expense
PSPRS – Police	\$ 1,963,941
PSPRS – Fire	1,489,634

Pension Deferred Outflows/Inflows of Resources. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
PSPRS – Police		
Differences between expected and actual experience	\$ 24,301	\$ 416,871
Changes of assumptions or other inputs	1,061,346	
Net difference between projected and actual earnings on pension plan investments	328,144	
Contributions subsequent to the measurement date	1,063,079	
Total	\$ 2,476,870	\$ 416,871
	Deferred Outflows of Resources	Deferred Inflows of Resources
PSPRS – Fire		
Differences between expected and actual experience	\$ 385,081	\$ 44,618
Changes of assumptions or other inputs	888,000	
Net difference between projected and actual earnings on pension plan investments	371,520	
Contributions subsequent to the measurement date	454,109	
Total	\$ 2,098,710	\$ 44,618

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The amounts reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Year Ending June 30:		
2018	\$ 602,287	\$ 249,622
2019	168,193	249,621
2020	150,934	303,236
2021	75,506	257,009
2022		171,992
Thereafter		368,503

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation</u>
PSPRS – Police:			
June 30, 2017	\$ 16,110	100%	- 0 -
June 30, 2016	16,937	100%	- 0 -
June 30, 2015	30,085	100%	- 0 -
PSPRS – Fire:			
June 30, 2017	\$ 14,474	100%	- 0 -
June 30, 2016	16,934	100%	- 0 -
June 30, 2015	26,216	100%	- 0 -

Agent Plan OPEB Actuarial 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 plan 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 plan's assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Projections of benefits are based on (1) the plan as understood by the Town and plan’s members and include the types of benefits inforce at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plan’s 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 actuarial methods and assumptions used to establish the fiscal year 2017 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded 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 market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4%-8% 4%

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2016, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases includes inflation at	4%-8% 4%

**TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Agent Plan OPEB Funded Status. The following table presents the funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2016.

	<u>PSPRS – Police</u>	<u>PSPRS – Fire</u>
Actuarial value of assets	\$ 276,694	\$ 200,855
Actuarial accrued liability	456,376	374,687
Unfunded actuarial accrued liability (funding excess)	(179,682)	(173,832)
Funded ratio	60.63%	53.61%
Annual covered payroll	1,554,175	1,927,627
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	11.56%	9.02%

C. Public Safety Personnel Retirement System

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

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

Currently, the plan has 81 active participants and 74 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 plans and \$1,204 for retiree and family postretirement health care benefits plans.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Funding Policy. During the year ended June 30, 2017, the Town contributed \$1,715,052 for all eligible retirees.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town, 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation.

Annual required contribution	\$ 1,132,466
Interest on net OPEB obligation	44,208
Adjustment to annual required contribution	<u>505,732</u>
Annual OPEB cost (expense)	1,682,406
Contributions made	1,715,052
Increase in net OPEB obligation	<u>(32,646)</u>
Net OPEB obligation – beginning of year	<u>9,576,368</u>
Net OPEB obligation – end of year	<u><u>\$ 9,543,722</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ended June 30, 2017 {and the two preceding years} is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 1,682,406	\$ 1,715,052	102%	\$ 9,543,722
June 30, 2016	982,405	560,953	57	9,576,368
June 30, 2015	1,732,357	502,384	29	9,154,771

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

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The projection of future benefit payments involves estimates of the value of reported amounts and assumptions about the probability of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. 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. Amounts determined and the funded status of the plan and the annual required contributions of the Town are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The more significant actuarial assumptions and methods used in the calculation of the employer contributions for the current fiscal year were as follows:

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal, level dollar amount, closed
Amortization method for actuarial accrued liabilities	30 years, level dollar amount
Remaining amortization period	28 years as of June 30, 2017
Interest rate	4.50%
Inflation rate	N/A
Projected salary increases	N/A
Health care cost trend rate:	
Medical and Prescription Drug	7% graded down to an ultimate rate of 5% over 8 years
Retiree contribution increase	Consistent with medical/drug trends
ASRS subsidy increases	None
Cost of living adjustments	N/A

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

TOWN OF PAYSON, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The July 1, 2016, net position/fund balances of the General Fund, the Water Fund, and the Internal Service Funds do not agree to the prior year financial statements due to the reclassification of fund types and previously unreported prepaid expenses. The activity in the Internal Service Fund does not constitute being reported as such, and therefore has been included in the General Fund. Additionally, a prepaid item was previously not reported in the Water Fund which also resulted in a restatement of net position for business-type activities on the government-wide financial statements.

	Governmental Funds		Proprietary Funds
	General Fund	Internal Service Fund	Water Fund
Net position/fund balance, June 30, 2016, as previously reported	\$ 2,044,247	\$ 30,297	\$ 27,884,597
To record previously unreported prepaid expenses			153,995
Reclassification of funds	30,297	(30,297)	
Net position/fund balance, July 1, 2016, as restated	\$ 2,074,544	\$	\$ 28,038,592

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PAYSON, ARIZONA
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Town's proportion of the net pension liability (asset)	0.05%	0.05%	0.05%
Town's proportionate share of the net pension liability (asset)	\$ 8,433,674	\$ 8,037,320	\$ 7,219,220
Town's covered payroll	\$ 4,786,138	\$ 4,377,856	\$ 4,073,930
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	176.21%	183.59%	177.21%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**TOWN OF PAYSON, ARIZONA
SCHEDULE OF CONTRIBUTIONS
ALL PENSION PLANS
LAST FOUR FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Arizona State Retirement System:				
Actuarially determined contribution	\$ 437,501	\$ 519,296	\$ 511,927	\$ 460,032
Contributions in relation to the actuarially determined contribution	<u>437,501</u>	<u>519,296</u>	<u>511,927</u>	<u>460,032</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 4,058,451	\$ 4,786,138	\$ 4,377,856	\$ 4,073,930
Contributions as a percentage of covered payroll	10.78%	10.85%	11.69%	11.29%
 Public Safety Personnel Retirement System - Police:				
Actuarially determined contribution	\$ 1,063,079	\$ 879,197	\$ 633,668	\$ 664,804
Contributions in relation to the actuarially determined contribution	<u>1,063,079</u>	<u>879,197</u>	<u>633,668</u>	<u>664,804</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,695,771	\$ 1,554,175	\$ 1,449,122	\$ 1,566,845
Contributions as a percentage of covered payroll	62.69%	56.57%	43.73%	42.43%
 Public Safety Personnel Retirement System - Fire:				
Actuarially determined contribution	\$ 454,109	\$ 460,510	\$ 353,376	\$ 382,165
Contributions in relation to the actuarially determined contribution	<u>454,109</u>	<u>460,510</u>	<u>353,376</u>	<u>382,165</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 1,743,890	\$ 1,927,627	\$ 1,829,211	\$ 1,866,892
Contributions as a percentage of covered-employee payroll	26.04%	23.89%	19.32%	20.47%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**TOWN OF PAYSON, ARIZONA
SCHEDULE OF FUNDING PROGRESS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
OTHER POSTEMPLOYMENT BENEFITS
LAST THREE ACTUARIAL VALUATIONS**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
Public Safety Personnel Retirement System - Police:						
2016	276,694	456,376	(179,682)	60.63	1,554,175	11.56
2015	276,756	394,992	(118,236)	70.07	1,449,122	8.16
2014	258,408	383,971	(125,563)	67.30	1,566,845	8.01
Public Safety Personnel Retirement System - Fire:						
2016	200,855	374,687	(173,832)	53.61	1,927,627	9.02
2015	197,840	339,830	(141,990)	58.22	1,829,211	7.76
2014	183,333	315,459	(132,126)	58.12	1,866,892	7.08

See accompanying notes to this schedule.

TOWN OF PAYSON, ARIZONA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - POLICE
LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability			
Service cost	\$ 254,743	\$ 301,372	\$ 308,406
Interest	1,284,285	1,242,661	1,002,703
Changes of benefit terms	101,288		433,204
Differences between expected and actual experience	(495,099)	(95,248)	86,689
Changes of assumptions	638,612		2,089,513
Benefit payments, including refunds of employee contributions	(924,315)	(866,131)	(854,285)
Net change in total pension liability	859,514	582,654	3,066,230
Total pension liability—beginning	16,695,108	16,112,454	13,046,224
Total pension liability—ending	<u>\$ 17,554,622</u>	<u>\$ 16,695,108</u>	<u>\$ 16,112,454</u>
Plan fiduciary net position			
Contributions—employer	\$ 802,434	\$ 633,668	\$ 664,804
Contributions—employee	174,830	195,231	178,839
Net investment income	30,541	189,110	625,751
Benefit payments, including refunds of employee contributions	(924,315)	(866,131)	(854,285)
Administrative expense	(4,795)	(4,995)	(5,040)
Other	(222,673)	(38,050)	46,119
Net change in plan fiduciary net position	(143,978)	108,833	656,188
Plan fiduciary net position—beginning	5,285,519	5,176,686	4,520,498
Plan fiduciary net position—ending	<u>\$ 5,141,541</u>	<u>\$ 5,285,519</u>	<u>\$ 5,176,686</u>
Net pension liability—ending	<u>\$ 12,413,081</u>	<u>\$ 11,409,589</u>	<u>\$ 10,935,768</u>
Plan fiduciary net position as a percentage of the total pension liability	29.29%	31.66%	32.13%
Covered payroll	\$ 1,554,175	\$ 1,449,122	\$ 1,566,845
Net pension liability as a percentage of covered payroll	798.69%	787.34%	697.95%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

TOWN OF PAYSON, ARIZONA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - FIRE
LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability			
Service cost	\$ 337,547	\$ 341,750	\$ 319,683
Interest	790,075	712,513	619,559
Changes of benefit terms	699,413		131,611
Differences between expected and actual experience	40,079	446,557	(65,090)
Changes of assumptions	435,046		732,281
Benefit payments, including refunds of employee contributions	(579,355)	(441,967)	(687,926)
Net change in total pension liability	1,722,805	1,058,853	1,050,118
Total pension liability—beginning	<u>10,185,558</u>	<u>9,126,705</u>	<u>8,076,587</u>
Total pension liability—ending	<u>\$ 11,908,363</u>	<u>\$ 10,185,558</u>	<u>\$ 9,126,705</u>
Plan fiduciary net position			
Contributions—employer	\$ 460,449	\$ 353,376	\$ 382,165
Contributions—employee	232,627	214,441	183,753
Net investment income	34,274	201,717	655,627
Benefit payments, including refunds of employee contributions	(579,355)	(441,967)	(687,926)
Administrative expense	(5,332)	(5,309)	(5,281)
Other	(99,566)	142,513	
Net change in plan fiduciary net position	43,097	464,771	528,338
Plan fiduciary net position—beginning	<u>5,847,240</u>	<u>5,382,469</u>	<u>4,854,131</u>
Plan fiduciary net position—ending	<u>\$ 5,890,337</u>	<u>\$ 5,847,240</u>	<u>\$ 5,382,469</u>
Net pension liability—ending	<u>\$ 6,018,026</u>	<u>\$ 4,338,318</u>	<u>\$ 3,744,236</u>
Plan fiduciary net position as a percentage of the total pension liability	49.46%	57.41%	58.97%
Covered payroll	\$ 1,927,627	\$ 1,829,211	\$ 1,866,892
Net pension liability as a percentage of covered payroll	312.20%	237.17%	200.56%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

TOWN OF PAYSON, ARIZONA
SCHEDULE OF TOWN OPEB PLAN'S FUNDING PROGRESS
LAST THREE ACTUARIAL VALUATIONS

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
2015		\$ 15,047,084	(15,047,084)	0%	12,604,888	119.37 %
2012		23,427,368	(23,427,368)	0%	12,246,625	191.30
2010		23,953,850	(23,953,850)	0%	12,647,664	189.39

See accompanying notes to this schedule.

TOWN OF PAYSON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 – PENSION PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2014, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

NOTE 2 – PENSION PLAN SCHEDULES

The actuarial assumptions used in the June 30, 2015, valuation for PSPRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2011. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2015, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5 percent to 4.0 percent.

INDIVIDUAL FUND SCHEDULES

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NON-MAJOR 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 Fund (JCEF)/Municipal 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

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 - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue		Debt Service
ASSETS	Library	JCEF/FTG	Debt Service
Cash and investments	\$ 11,460	\$ 75,200	\$ 137,449
Intergovernmental receivable			
Restricted cash and investments			
Special assessments receivable			503,435
Total assets	\$ 11,460	\$ 75,200	\$ 640,884
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 916	\$	\$
Accrued payroll and employee benefits	10,544		
Total liabilities	11,460		
Deferred inflows of resources:			
Unavailable revenues - intergovernmental			503,435
Fund balances:			
Restricted		75,200	137,449
Total fund balances		75,200	137,449
Total liabilities, deferred inflows of resources and fund balances	\$ 11,460	\$ 75,200	\$ 640,884

Capital Projects

<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
\$ 37,912	\$ 262,021
26,344	26,344
209,339	209,339
	503,435
<u>\$ 273,595</u>	<u>\$ 1,001,139</u>
\$	\$ 916
	10,544
	<u>11,460</u>
	<u>503,435</u>
<u>273,595</u>	<u>486,244</u>
<u>273,595</u>	<u>486,244</u>
<u>\$ 273,595</u>	<u>\$ 1,001,139</u>

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	Special Revenue		Debt Service
	Library	JCEF/FTG	Debt Service
Revenues:			
Taxes	\$ 230,400	\$	\$ 412,605
Intergovernmental			
Special assessments			56,472
Fines and forfeits	15,279		
Contributions		1,209	
Investment income			
Total revenues	245,679	1,209	469,077
Expenditures:			
Current -			
General government		15,408	
Culture and recreation	361,302		
Capital outlay			
Debt service -			
Principal retirement			485,000
Interest and fiscal charges			118,910
Total expenditures	361,302	15,408	603,910
Excess (deficiency) of revenues over expenditures	(115,623)	(14,199)	(134,833)
Other financing sources (uses):			
Transfers in	115,623		152,336
Total other financing sources (uses):	115,623		152,336
Changes in fund balances		(14,199)	17,503
Fund balances, beginning of year		89,399	119,946
Fund balances, end of year	\$	\$ 75,200	\$ 137,449

<u>Capital Projects</u>	Total Non- Major Governmental Funds
<u>Capital Projects</u>	<u>Funds</u>
\$	\$
475,108	643,005
	475,108
	56,472
	15,279
	1,209
70	70
<u>475,178</u>	<u>1,191,143</u>
	15,408
	361,302
439,545	439,545
	604,059
119,059	126,153
7,243	<u>1,546,467</u>
<u>565,847</u>	
<u>(90,669)</u>	<u>(355,324)</u>
	289,398
21,439	<u>289,398</u>
<u>21,439</u>	
<u>(69,230)</u>	<u>(65,926)</u>
342,825	552,170
<u>\$ 273,595</u>	<u>\$ 486,244</u>

TOWN OF PAYSON, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Library		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Taxes	\$ 229,200	\$ 230,400	\$ 1,200
Fines and forfeits	17,000	15,279	(1,721)
Contributions			
Total revenues	<u>246,200</u>	<u>245,679</u>	<u>(521)</u>
Expenditures:			
Current -			
General government			
Culture and recreation	378,700	361,302	17,398
Total expenditures	<u>378,700</u>	<u>361,302</u>	<u>17,398</u>
Excess (deficiency) of revenues over expenditures	<u>(132,500)</u>	<u>(115,623)</u>	<u>16,877</u>
Other financing sources (uses):			
Transfers in	132,500	115,623	(16,877)
Total other financing sources (uses):	<u>132,500</u>	<u>115,623</u>	<u>(16,877)</u>
Changes in fund balances			
Fund balances, beginning of year			
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>

JCEF/FTG			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$ 229,200	\$ 230,400	\$ 1,200
			17,000	15,279	(1,721)
	1,209	1,209		1,209	1,209
	<u>1,209</u>	<u>1,209</u>	<u>246,200</u>	<u>246,888</u>	<u>688</u>
	15,408	(15,408)		15,408	(15,408)
	<u>15,408</u>	<u>(15,408)</u>	<u>378,700</u>	<u>361,302</u>	<u>17,398</u>
	(14,199)	(14,199)	(132,500)	(129,822)	2,678
			132,500	115,623	(16,877)
			<u>132,500</u>	<u>115,623</u>	<u>(16,877)</u>
	(14,199)	(14,199)		(14,199)	(14,199)
	89,399	89,399		89,399	89,399
<u>\$</u>	<u>\$ 75,200</u>	<u>\$ 75,200</u>	<u>\$</u>	<u>\$ 75,200</u>	<u>\$ 75,200</u>

TOWN OF PAYSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017

	Debt Service		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$ 370,000	\$ 412,605	\$ 42,605
Special assessments	56,500	56,472	(28)
Total revenues	<u>426,500</u>	<u>469,077</u>	<u>42,577</u>
Expenditures:			
Debt service -			
Principal retirement	527,300	475,000	52,300
Interest and fiscal charges	72,300	118,910	(46,610)
Total expenditures	<u>599,600</u>	<u>593,910</u>	<u>5,690</u>
Excess (deficiency) of revenues over expenditures	<u>(173,100)</u>	<u>(124,833)</u>	<u>48,267</u>
Other financing sources (uses):			
Transfers in	250,700	152,336	(98,364)
Total other financing sources (uses)	<u>250,700</u>	<u>152,336</u>	<u>(98,364)</u>
Changes in fund balances	<u>77,600</u>	<u>27,503</u>	<u>(50,097)</u>
Fund balances, beginning of year	414,946	414,946	
Fund balances, end of year	<u>\$ 492,546</u>	<u>\$ 442,449</u>	<u>\$ (50,097)</u>

TOWN OF PAYSON, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2017

	Capital Projects		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Intergovernmental	\$ 641,200	\$ 475,108	\$ (166,092)
Investment income		70	70
Total revenues	<u>641,200</u>	<u>475,178</u>	<u>(166,022)</u>
Expenditures:			
Capital outlay	2,875,600	439,545	2,436,055
Debt service -			
Principal retirement		119,059	(119,059)
Interest and fiscal charges		7,243	(7,243)
Total expenditures	<u>2,875,600</u>	<u>565,847</u>	<u>2,309,753</u>
Excess (deficiency) of revenues over expenditures	<u>(2,234,400)</u>	<u>(90,669)</u>	<u>2,143,731</u>
Other financing sources (uses):			
Transfers in	25,900	21,439	(4,461)
Issuance of bonds	2,100,000		(2,100,000)
Total other financing sources (uses)	<u>2,125,900</u>	<u>21,439</u>	<u>(2,104,461)</u>
Changes in fund balances	<u>(108,500)</u>	<u>(69,230)</u>	<u>39,270</u>
Fund balances, beginning of year	342,825	342,825	
Fund balances, end of year	<u>\$ 234,325</u>	<u>\$ 273,595</u>	<u>\$ 39,270</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.

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash and investments	\$ _____	\$ <u>2,063,086</u>	\$ <u>2,063,086</u>	\$ _____
Total assets	\$ _____	\$ <u>2,063,086</u>	\$ <u>2,063,086</u>	\$ _____
<u>Liabilities</u>				
Due to other entities	\$ _____	\$ <u>2,063,086</u>	\$ <u>2,063,086</u>	\$ _____
Total liabilities	\$ _____	\$ <u>2,063,086</u>	\$ <u>2,063,086</u>	\$ _____

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STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the Town's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the Town's ability to generate revenue.

Debt Capacity

These schedules present information to help the reader evaluate the Town's current levels of outstanding debt as well as assess the Town's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the Town's financial activities take place and to help make comparisons with other cities.

Operating Information

These schedules contain information about the Town's operations and various resources to help the reader draw conclusions as to how the Town's financial information relates to the services provided by the Town.

Note: For locally assessed property (i.e., excluding mines, utilities, etc.) Proposition 117, approved by voters in 2012, amended the Arizona Constitution to require that all property taxes after fiscal year 2014-15 be based upon property values limited to 5 percent in annual growth. The aggregate assessed value of all taxable properties within a taxing jurisdiction (i.e., after applying assessment ratios based on the use of a property), including property values with a growth limit, is currently referred to as net limited assessed value and formerly as primary assessed value. In accordance with Proposition 117, this value is used for all taxing purposes beginning fiscal year 2015-16. Aggregate assessed value without a growth limit is currently referred to as net full cash assessed value and formerly as secondary assessed value. This remains the value utilized for determining debt capacity limits.

**TOWN OF PAYSON, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)**

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental activities:					
Net investment in capital assets	\$ 104,878,853	\$ 105,017,442	\$ 105,190,507	\$ 104,424,687	\$ 104,037,027
Restricted	1,464,390	1,659,351	1,519,013	1,338,294	2,088,595
Unrestricted	(27,648,896)	(25,664,068)	(24,698,230)	(6,262,822)	(6,121,753)
Total governmental activities net position	<u><u>\$ 78,694,347</u></u>	<u><u>\$ 81,012,725</u></u>	<u><u>\$ 82,011,290</u></u>	<u><u>\$ 99,500,159</u></u>	<u><u>\$ 100,003,869</u></u>
Business-type activities:					
Net investment in capital assets	\$ 24,261,745	\$ 20,771,062	\$ 18,707,310	\$ 18,784,149	\$ 18,225,098
Restricted	1,356,276	977,431	762,942	548,453	451,859
Unrestricted	5,903,591	6,136,104	6,184,932	7,327,867	6,768,944
Total business-type activities net position	<u><u>\$ 31,521,612</u></u>	<u><u>\$ 27,884,597</u></u>	<u><u>\$ 25,655,184</u></u>	<u><u>\$ 26,660,469</u></u>	<u><u>\$ 25,445,901</u></u>
Primary government					
Net investment in capital assets	\$ 129,140,598	\$ 125,788,504	\$ 123,897,817	\$ 123,208,836	\$ 122,262,125
Restricted	2,820,666	2,636,782	2,281,955	1,886,747	2,540,454
Unrestricted	(21,745,305)	(19,527,964)	(18,513,298)	1,065,045	647,191
Total net position	<u><u>\$ 110,215,959</u></u>	<u><u>\$ 108,897,322</u></u>	<u><u>\$ 107,666,474</u></u>	<u><u>\$ 126,160,628</u></u>	<u><u>\$ 125,449,770</u></u>

(Continued)

**TOWN OF PAYSON, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)**

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Governmental activities:					
Net investment in capital assets	\$ 104,528,536	\$ 104,607,886	\$ 103,809,445	\$ 105,561,440	\$ 106,049,982
Restricted	2,471,981	3,106,342	3,137,935	3,971,451	4,310,080
Unrestricted	(4,492,672)	(2,639,291)	1,459,147	521,636	2,456,973
Total net position	<u><u>\$ 102,507,845</u></u>	<u><u>\$ 105,074,937</u></u>	<u><u>\$ 46,006,879</u></u>	<u><u>\$ 110,054,527</u></u>	<u><u>\$ 112,817,035</u></u>
Business-type activities:					
Net investment in capital assets	\$ 19,448,774	\$ 19,475,037	\$ 15,195,051	\$ 14,720,036	\$ 14,363,974
Restricted	451,859		1,065,623	4,921,901	4,909,657
Unrestricted	5,480,569	5,224,938	5,898,114	3,890,818	5,282,327
Total net position	<u><u>\$ 25,381,202</u></u>	<u><u>\$ 24,699,975</u></u>	<u><u>\$ 22,158,788</u></u>	<u><u>\$ 23,532,755</u></u>	<u><u>\$ 24,555,958</u></u>
Primary government					
Net investment in capital assets	\$ 123,977,310	\$ 124,082,923	\$ 119,004,496	\$ 120,281,476	\$ 120,413,956
Restricted	2,923,840	3,106,342	4,203,558	8,893,352	9,219,737
Unrestricted	987,897	2,585,647	7,357,261	4,412,454	7,739,300
Total net position	<u><u>\$ 127,889,047</u></u>	<u><u>\$ 129,774,912</u></u>	<u><u>\$ 130,565,315</u></u>	<u><u>\$ 133,587,282</u></u>	<u><u>\$ 137,372,993</u></u>

Source: The source of this information is the Town's financial records.

(Concluded)

TOWN OF PAYSON, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Expenses					
Governmental activities:					
General government	\$ 3,347,609	\$ 3,774,712	\$ 3,091,983	\$ 3,453,652	\$ 4,075,873
Public safety	11,681,331	8,831,717	9,445,724	8,632,829	8,977,125
Highways and streets	2,276,694	2,509,734	2,173,743	2,725,747	2,479,031
Culture and recreation	1,670,876	1,588,679	1,281,108	1,229,920	1,252,833
Public works	678,175	669,206	1,553,820	115,453	195,693
Community development	860,471	929,499	950,372	853,007	982,040
Health and welfare	256,726	241,307	232,944	223,846	264,900
Interest on long-term debt	146,614	87,709	104,058	123,197	147,677
Total governmental activities	20,918,496	18,632,563	18,833,752	17,357,651	18,375,172
Business-type activities:					
Water	4,143,509	4,691,712	4,337,892	4,487,156	4,531,525
Total business-type activities	4,143,509	4,691,712	4,337,892	4,487,156	4,531,525
Total expenses	25,062,005	23,324,275	23,171,644	21,844,807	22,906,697
Program Revenues					
Governmental activities:					
Charges for services:					
General government	1,017,922	826,574	1,073,001	1,041,851	1,046,540
Public safety	462,516	350,901	316,033	310,052	318,429
Highways and streets			6,832	50,646	
Culture and recreation	261,263	95,528	88,968	60,943	63,198
Public works	115,880	205,146	189,654	168,781	107,266
Community development		284,393	251,695	227,567	158,449
Health and welfare		23,565	15,008	15,259	18,192
Operating grants and contributions	1,528,706	2,517,832	2,055,678	1,973,302	2,946,035
Capital grants and contributions	514,358	771,135	1,520,135	1,432,182	296,246
Total governmental activities	3,900,645	5,075,074	5,517,004	5,280,583	4,954,355
Business-type activities:					
Charges for services:					
Water	6,160,157	5,744,974	5,069,019	4,905,372	4,569,601
Operating grants and contributions	342,629	22,654	39,386	554,516	
Capital grants and contributions	1,000,000	1,000,000	49,454	216,465	
Total business-type activities	7,502,786	6,767,628	5,157,859	5,676,353	4,569,601
Total program revenues	11,403,431	11,842,702	10,674,863	10,956,936	9,523,956
Net (Expense)/Revenue	\$ (13,658,574)	\$ (11,481,573)	\$ (12,496,781)	\$ (10,887,871)	\$ (13,382,741)

(Continued)

TOWN OF PAYSON, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

Fiscal Year Ended June 30

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenses					
Governmental activities:					
General government	\$ 3,574,186	\$ 3,984,961	\$ 3,133,909	\$ 4,323,958	\$ 3,707,867
Public safety	8,845,884	8,645,178	8,164,357	8,376,425	7,939,971
Highways and streets	2,632,098	2,765,928	3,070,365	2,856,499	3,786,087
Culture and recreation	1,453,416	1,466,906	1,575,542	1,714,675	2,730,083
Public works	212,155	324,660	284,563	445,095	350,531
Community development	880,320	1,228,298	1,119,712	1,051,931	1,219,270
Health and welfare	267,331	259,854	273,394	289,710	259,083
Interest on long-term debt	224,074	249,925	267,661	275,659	303,148
Total governmental activities	<u>18,089,464</u>	<u>18,925,710</u>	<u>17,889,503</u>	<u>19,333,952</u>	<u>20,296,040</u>
Business-type activities:					
Water	4,373,128	4,229,154	4,164,224	4,797,060	3,673,943
Total business-type activities	<u>4,373,128</u>	<u>4,229,154</u>	<u>4,164,224</u>	<u>4,797,060</u>	<u>3,673,943</u>
Total expenses	<u>22,462,592</u>	<u>23,154,864</u>	<u>22,053,727</u>	<u>24,131,012</u>	<u>23,969,983</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	741,260	669,803	656,861	657,076	907,951
Public safety	361,472	404,286	626,728	723,194	658,707
Highways and streets	4,831		4,482	28,185	50,876
Culture and recreation	164,088	138,524	216,752	131,966	148,416
Public works	81,098	103,004	87,476	56,617	61,272
Community development	150,149	124,893	117,147	268,662	422,856
Health and welfare	18,276	19,152	18,509	15,139	10,149
Operating grants and contributions	2,661,413	2,237,241	1,840,478	2,079,200	2,137,228
Capital grants and contributions	675,204	862,801	448,191	248,512	1,786,891
Total governmental activities	<u>4,857,791</u>	<u>4,559,704</u>	<u>4,016,624</u>	<u>4,208,551</u>	<u>6,184,346</u>
Business-type activities:					
Charges for services					
Water	4,268,103	3,961,028	3,678,173	3,666,635	4,037,662
Operating grants and contributions	75,000				
Capital grants and contributions	826,370	3,100,474	117,124		270,513
Total business-type activities	<u>5,169,473</u>	<u>7,061,502</u>	<u>3,795,297</u>	<u>3,666,635</u>	<u>4,308,175</u>
Total program revenues	<u>10,027,264</u>	<u>11,621,206</u>	<u>7,811,921</u>	<u>7,875,186</u>	<u>10,492,521</u>
Net (Expense)/Revenue	<u>\$ (12,435,328)</u>	<u>\$ (11,533,658)</u>	<u>\$ (14,241,806)</u>	<u>\$ (16,255,826)</u>	<u>\$ (13,477,462)</u>

Source: The source of this information is the Town's financial records.

(Concluded)

TOWN OF PAYSON, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net Revenue/(Expense)	\$ (13,658,574)	\$ (11,481,573)	\$ (12,496,781)	\$ (10,887,871)	\$ (13,382,741)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	7,623,686	7,269,401	6,870,982	6,435,777	6,047,114
Property taxes	858,759	830,980	925,329	901,723	882,079
Auto lieu taxes	967,213				
Franchise taxes	383,495	380,413	364,064	357,950	356,550
Unrestricted state shared revenue	4,908,761	4,203,566	4,124,936	3,894,550	3,648,010
Special assessments	14,872				
Investment income	9,987	5,325	1,481	658	388
Transfers	<u>(67,300)</u>	<u>(130,761)</u>	<u>(17,300)</u>	<u>(17,300)</u>	<u>(17,300)</u>
Total governmental activities	<u>14,699,473</u>	<u>12,558,924</u>	<u>12,269,492</u>	<u>11,573,358</u>	<u>10,916,841</u>
General Revenues:					
Business-type activities:					
Investment income	56,443	22,736	3,145	8,071	9,324
Transfers	<u>67,300</u>	<u>130,761</u>	<u>17,300</u>	<u>17,300</u>	<u>\$ 17,300</u>
Total business-type activities	<u>123,743</u>	<u>153,497</u>	<u>20,445</u>	<u>25,371</u>	<u>26,624</u>
Changes in Net Position	<u>\$ 1,164,642</u>	<u>\$ 1,230,848</u>	<u>\$ (206,844)</u>	<u>\$ 710,858</u>	<u>\$ (2,439,276)</u>

(Continued)

TOWN OF PAYSON, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Revenue/(Expense)	\$ (12,435,328)	\$ (11,533,658)	\$ (14,241,806)	\$ (16,255,826)	\$ (13,477,462)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	6,047,629	5,915,905	5,919,923	6,624,711	7,396,678
Property taxes	960,360	1,010,692	1,002,536	856,237	907,545
Franchise taxes	351,227	344,833	349,061	339,802	349,043
Unrestricted state shared revenue	3,320,055	3,533,894	3,988,244	4,473,463	4,602,546
Investment income	2,610	76,978	(39,885)	68,680	287,474
Transfers	<u>(17,300)</u>	<u>152,114</u>	<u>1,005,000</u>	<u></u>	<u>437,734</u>
Total governmental activities	<u>10,664,581</u>	<u>11,034,416</u>	<u>12,224,879</u>	<u>12,362,893</u>	<u>13,981,020</u>
General Revenues:					
Business-type activities:					
Investment income	1,475	(14,082)	(40)	107,222	253,312
Transfers	<u>17,300</u>	<u>(152,114)</u>	<u>(1,005,000)</u>	<u></u>	<u>(437,734)</u>
Total business-type activities	<u>18,775</u>	<u>(166,196)</u>	<u>(1,005,040)</u>	<u>107,222</u>	<u>(184,422)</u>
Changes in Net Position	<u>\$ (1,751,972)</u>	<u>\$ (665,438)</u>	<u>\$ (3,021,967)</u>	<u>\$ (3,785,711)</u>	<u>\$ 319,136</u>

Source: The source of this information is the Town's financial records.

(Concluded)

TOWN OF PAYSON, ARIZONA
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund:					
Nonspendable	\$	\$	\$	\$ 7,692	\$ 7,692
Restricted		75,362	3,080		317,820
Assigned	468,569	353,015	322,234	318,435	158,688
Unassigned	2,196,178	1,615,870	1,663,943	1,306,224	480,761
Total General Fund	<u>\$ 2,664,747</u>	<u>\$ 2,044,247</u>	<u>\$ 1,989,257</u>	<u>\$ 1,632,351</u>	<u>\$ 964,961</u>
All Other Governmental Funds:					
Nonspendable	\$	\$	\$	\$	\$
Restricted	960,955	1,038,954	929,297	713,523	1,111,336
Assigned		154,549	190,193	327,105	296,588
Unassigned					
Total all other governmental funds	<u>\$ 960,955</u>	<u>\$ 1,193,503</u>	<u>\$ 1,119,490</u>	<u>\$ 1,040,628</u>	<u>\$ 1,407,924</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Fund:					
Nonspendable	\$ 7,629	7,629	\$	\$	\$
Restricted	\$ 390,725				
Assigned	\$ 176,048				
Unassigned	326,348				
Reserved		17,389	14,645	14,729	
Unreserved		7,105,988	826,978	785,962	1,052,084
Total General Fund	<u>\$ 900,750</u>	<u>\$ 7,123,377</u>	<u>\$ 841,623</u>	<u>\$ 800,691</u>	<u>\$ 1,052,084</u>
All Other Governmental Funds:					
Nonspendable	\$ (7,629)	\$ (7,629)	\$	\$	\$
Restricted	1,387,149	2,029,780			
Assigned	474,275	619,937			
Unassigned	(1,126,292)	(924,513)			
Reserved			3,869	250	250
Unreserved, reported in:					
Special revenue funds			913,850	1,096,303	1,183,909
Capital projects funds			1,198,421	1,416,112	1,553,209
Debt service fund			2,459,190	1,324,306	1,557,772
Total all other governmental funds	<u>\$ 727,503</u>	<u>\$ 1,717,575</u>	<u>\$ 4,575,330</u>	<u>\$ 3,836,971</u>	<u>\$ 4,295,140</u>

Source: The source of this information is the Town's financial records.

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54 were adopted in fiscal year 2011. The standard replaces the previous reserved and unreserved fund balance categories with the following five fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned fund balance

**TOWN OF PAYSON, ARIZONA
GOVERNMENTAL FUNDS REVENUES
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)**

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Taxes	\$ 8,874,039	\$ 8,509,235	\$ 8,110,825	\$ 7,663,172	\$ 7,249,900
Licenses and permits	386,332	379,990	339,348	314,391	247,821
Intergovernmental	7,855,689	6,904,183	7,053,289	6,260,877	6,851,042
Special assessments	56,472				
Charges for services	1,074,452	926,170	860,630	812,560	704,572
Fines and forfeits	121,684	171,665	194,077	179,603	165,210
Contributions	8,991				
Miscellaneous	329,471				
Other		459,140	612,897	730,939	692,038
Investment income	9,987				
Total revenues	<u>\$ 18,717,117</u>	<u>\$ 17,350,383</u>	<u>\$ 17,171,066</u>	<u>\$ 15,961,542</u>	<u>\$ 15,910,583</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Taxes	\$ 7,330,207	\$ 7,236,777	\$ 7,271,520	\$ 7,820,750	\$ 8,653,266
Licenses and permits	240,600	215,695	209,031	252,931	331,783
Intergovernmental	6,403,423	6,153,959	6,193,464	6,595,255	7,362,721
Charges for services	859,788	684,754	937,636	1,033,870	1,113,467
Fines and forfeits	159,629	177,314	221,523	235,284	255,155
Other	492,365	1,076,976	514,413	660,187	1,113,304
Total revenues	<u>\$ 15,486,012</u>	<u>\$ 15,545,475</u>	<u>\$ 15,347,587</u>	<u>\$ 16,598,277</u>	<u>\$ 18,829,696</u>

Source: The source of this information is the Town's financial records.

TOWN OF PAYSON, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Expenditures:					
Current -					
General government and community development	\$ 3,922,369	\$ 4,366,414	\$ 4,197,642	\$ 4,158,235	\$ 4,118,149
Public safety	8,313,730	7,667,705	7,362,613	7,084,652	7,973,221
Highways and streets and public works	2,298,450	3,115,287	3,181,325	2,109,648	1,865,303
Culture and recreation and health and welfare	1,365,200	1,346,421	1,054,613	970,857	1,018,437
Capital outlay	1,546,504	1,005,626	220,365	383,137	261,410
Debt service -					
Principal retirement	691,795	686,839	642,683	805,053	889,002
Interest on long-term debt	154,114	95,209	111,558	132,566	157,050
Bond issuance costs					
Total expenditures	<u>\$ 18,292,162</u>	<u>\$ 18,283,501</u>	<u>\$ 16,770,799</u>	<u>\$ 15,644,148</u>	<u>\$ 16,282,572</u>
Expenditures for capitalized assets	\$ 1,045,812	\$ 2,022,702	N/A	N/A	N/A
Debt service as a percentage of noncapital expenditures	5%	5%	4%	6%	6%

(Continued)

TOWN OF PAYSON, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenditures:					
Current -					
General government and community development	\$ 4,261,562	\$ 3,568,102	\$ 4,127,767	\$ 4,246,206	\$ 5,018,872
Public safety	7,763,007	7,178,572	7,125,424	7,242,658	7,731,920
Highways and streets and public works	2,074,324	2,173,759	2,599,518	2,585,497	4,627,564
Culture and recreation and health and welfare	1,114,932	1,051,603	1,231,155	1,368,395	2,464,067
Capital outlay	1,052,702	1,996,313	915,780	593,607	1,997,629
Debt service -					
Principal retirement	1,036,559	959,229	847,866	988,117	897,754
Interest on long-term debt	197,473	223,327	241,063	250,141	277,630
Bond issuance costs			55,233		
Total expenditures	<u>\$ 17,500,559</u>	<u>\$ 17,150,905</u>	<u>\$ 17,143,806</u>	<u>\$ 17,274,621</u>	<u>\$ 23,015,436</u>
Expenditures for capitalized assets	N/A	N/A	N/A	N/A	N/A
Debt service as a percentage of noncapital expenditures	7%	7%	7%	7%	5%

Source: The source of this information is the Town's financial records.

Note: N/A indicates that the information is not available.

(Concluded)

TOWN OF PAYSON, ARIZONA
OTHER FINANCING SOURCES AND USES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Excess (deficiency) of revenues over expenditures	\$ 424,955	\$ (933,118)	\$ 400,267	\$ 317,394	\$ (371,989)
Other financing sources (uses):					
Capital lease agreements		1,079,421	52,801		
Transfers in	289,398	253,497	286,512	351,518	562,228
Transfers out	<u>(356,698)</u>	<u>(270,797)</u>	<u>(303,812)</u>	<u>(368,818)</u>	<u>(579,528)</u>
Total other financing sources (uses)	<u>(67,300)</u>	<u>1,062,121</u>	<u>35,501</u>	<u>- 17,300</u>	<u>- 17,300</u>
Changes in fund balances	<u>\$ 357,655</u>	<u>\$ 129,003</u>	<u>\$ 435,768</u>	<u>\$ 300,094</u>	<u>\$ (389,289)</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Excess (deficiency) of revenues over expenditures	\$ (2,014,547)	\$ (1,605,430)	\$ (1,796,219)	\$ (676,344)	\$ (4,185,740)
Other financing sources (uses):					
Issuance of long-term debt			1,525,000		
Premium on issuance of long-term debt			45,510		
Capital lease agreements	611,845	218,539			550,000
Transfers in	450,893	542,820	2,035,274	577,983	2,955,804
Transfers out	<u>(468,193)</u>	<u>(390,706)</u>	<u>(1,030,274)</u>	<u>(577,983)</u>	<u>(2,518,070)</u>
Total other financing sources (uses)	<u>594,545</u>	<u>370,653</u>	<u>2,575,510</u>	<u>-</u>	<u>987,734</u>
Changes in fund balances	<u>\$ (1,420,002)</u>	<u>\$ (1,234,777)</u>	<u>\$ 779,291</u>	<u>\$ (676,344)</u>	<u>\$ (3,198,006)</u>

Source: The source of this information is the Town's financial records.

TOWN OF PAYSON, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

<u>Year</u>	<u>Property</u>	<u>Sales & Use</u>	<u>Bed Tax</u>	<u>Franchise</u>	<u>Library District</u>	<u>Total</u>
2017	\$ 636,458	\$ 7,287,050	\$ 336,636	\$ 383,495	\$ 230,400	\$ 8,874,039
2016	629,021	6,950,587	318,814	380,413	230,400	8,509,235
2015	656,899	6,580,994	289,988	364,064	218,880	8,110,825
2014	639,045	6,170,051	265,726	357,950	230,400	7,663,172
2013	616,931	5,787,208	259,906	356,550	229,305	7,249,900
2012	702,121	5,827,059	220,570	351,227	229,230	7,330,207
2011	746,809	5,696,337	219,568	344,834	229,230	7,236,778
2010	773,306	5,784,193	135,730	349,060	229,230	7,271,519
2009	629,861	6,464,884	159,827	339,802	226,376	7,820,750
2008	695,245	7,214,023	182,655	349,043	212,300	8,653,266

Source: The Town of Payson, Arizona's Finance Department.

Note: Tax revenues are subject to accrual; therefore, the taxes reported above on the accrual basis of accounting are the same as the tax revenues reported on the modified accrual basis of accounting.

**TOWN OF PAYSON, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(In thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retail trade	\$ 4,315,161	\$ 4,148,337	\$ 3,894,612	\$ 3,620,256	\$ 3,323,438
Construction	425,025	375,179	410,803	372,355	335,958
Restaurants and bars		714,826	677,165	592,086	567,341
Communications and utilities	849,829	750,932	770,122	791,127	805,044
Transportation and warehousing	13,812				8,740
Services	169,473	187,661	162,380	144,166	120,009
Manufacturing	93,927	130,623	121,401	120,359	122,048
Real estate, rental and leasing	294,786	365,046	288,687	303,055	288,228
Finance and insurance	7,996	9,537	8,162	7,314	6,221
Accommodations	1,191,243	419,972	383,681	348,656	333,205
Wholesale trade	41,123	46,621	41,326	48,541	45,678
Arts and entertainment	58,919	56,827	56,382	50,295	52,012
Other	164,657	63,840	56,261	37,567	39,192
Total	\$ 7,625,951	\$ 7,269,401	\$ 6,870,982	\$ 6,435,777	\$ 6,047,114

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Retail trade	\$ 3,299,193	\$ 3,190,013	\$ 3,188,660	\$ 3,411,550	\$ 3,644,824
Construction	411,290	372,588	379,158	897,002	953,990
Restaurants and bars	551,843	529,279	554,640	586,231	614,752
Communications and utilities	894,790	787,188	812,622	750,808	812,819
Transportation and warehousing	9,682	9,090	8,783	8,363	10,272
Services	108,859	134,700	126,490	110,342	111,830
Manufacturing	70,963	132,780	121,831	141,061	188,595
Real estate, rental and leasing	266,915	294,262	322,460	356,298	403,451
Finance and insurance	6,288	5,547	5,307	7,837	8,612
Accommodations	309,848	300,769	222,243	269,210	313,025
Wholesale trade	61,747	75,675	69,460	82,084	89,777
Arts and entertainment	50,796	54,470	53,083	55,972	81,039
Other	5,415	29,544	55,186	42,293	69,305
Total	\$ 6,047,629	\$ 5,915,905	\$ 5,919,923	\$ 6,719,051	\$ 7,302,291

Source: The source of this information is the Arizona Department of Revenue.

Note: Taxable sales were only available on a calendar year basis.

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

Overlapping Rates			
Fiscal Year Ended June 30	Town of Payson	Gila County	State of Arizona
2017	2.12	1.00	5.60
2016	2.12	1.00	5.60
2015	2.12	1.00	5.60
2014	2.12	1.00	5.60
2013	2.12	1.00	5.60
2012	2.12	1.00	6.60
2011	2.12	1.00	6.60
2010	2.12	1.00	5.60
2009	2.12	1.00	5.60
2008	2.12	1.00	5.60

Source: The source of this information is the Property Tax Rates and Assessed Values, Arizona Tax Research Foundation.

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

Fiscal Year	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
2017	197,624,914	0.3839	1,824,468,250	10.832%
2016	167,943,002	0.3877	1,501,899,998	11.182%
2015	163,633,443	0.3963	1,458,706,561	11.218%
2014	165,958,361	0.3828	1,473,839,350	11.260%
2013	178,737,829	0.3502	1,575,224,664	11.347%
2012	203,431,006	0.3394	1,789,969,238	11.365%
2011	245,707,080	0.3150	1,778,795,861	13.813%
2010	262,113,724	0.3201	2,875,030,889	9.117%
2009	250,890,669	0.2813	2,071,174,745	12.113%
2008	211,163,665	0.3447	1,745,155,468	12.100%

Source: Gila County Assessor's Office.

TOWN OF PAYSON, ARIZONA
NET SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
JUNE 30, 2017

Description	Total Taxable Assessed Value	Exempt Amount	Net Secondary Assessed Valuation	As a % of the Town's Total Net Secondary Assessed Valuation
Mining, Utilities, Telecommunications	406,978		406,978	
Commercial and Industry	45,676,620	(5,852,917)	39,823,703	20.15%
Vacant Land and Agriculture Real Property	20,538,604	(5,020,689)	15,517,915	7.85%
Agricultural and Personal Property	380,949	(377,284)	3,665	0.00%
Owner Occupied Residential Property	83,501,198	(674,655)	82,826,543	41.91%
Leased or Rented Residential Property	59,357,990	(315,453)	59,042,537	29.88%
Improvements on Government Property	3,963	(390)	3,573	0.00%

Source: Gila County Assessor's Office.

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

Fiscal Year	Direct Rates			Overlapping Rates						Rate Total
	Town of Payson Primary	Town of Payson Secondary	Total Direct Rate	N. Gila Co Sanitary District	Library District Secondary	Fire District Assistance Secondary	School Equalization Primary	Gila County Primary		
2017	0.3839	0.0000	0.3839	0.6000	0.2425	0.1000	0.5010	4.1900	6.0174	
2016	0.3877	0.0000	0.3877	0.8759	0.2425	0.1000	0.5054	4.1900	6.3015	
2015	0.3963	0.0000	0.3963	0.6000	0.2000	0.1000	0.5089	4.1900	5.9952	
2014	0.3828	0.0000	0.3828	0.6000	0.2000	0.1000	0.5123	4.1900	5.9851	
2013	0.3502	0.0000	0.3502	0.6000	0.2000	0.1000	0.4717	4.1900	5.9119	
2012	0.3065	0.0329	0.3394	0.6000	0.2000	0.1000	0.4259	4.1900	5.8553	
2011	0.2560	0.0590	0.3150	0.6000	0.2000	0.1000	0.3564	4.1900	5.7614	
2010	0.2215	0.0986	0.3201	0.7000	0.2000	0.1000	0.3306	3.7500	5.4007	
2009	0.2215	0.0598	0.2813	0.7000	0.2000	0.1000	n/a	3.9200	5.2013	
2008	0.2476	0.0971	0.3447	0.7000	0.2000	0.1000	n/a	4.1100	5.4547	

Source: Gila County Treasurer's Office.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT FISCAL YEAR AND FISCAL YEAR TEN YEARS PRIOR**

Taxpayer	2017			2007*		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service	4,955,943	1	2.51%	\$ 5,264,670	3	2.35%
Payson Village Center I LLC	1,454,917	2	0.74%			
Retail Trust III--Wal-Mart	1,216,150	3	0.62%	2,222,000	8	0.99%
Home Depot USA Inc	934,777	4	0.47%	3,312,239	6	1.48%
Black Buffalo Golf LLC	876,774	5	0.44%			
Sawmill Crossing LLC	823,602	6	0.42%			
Buffalo Golf LLC	679,706	7	0.34%			
Rim Country Mall	648,451	8	0.33%			
Qwest Corporation / CenturyLink	596,028	9	0.30%	2,032,393	9	0.91%
Rim Club CL LLC	405,488	10	0.21%			
Cablevision of Payson				6,960,230	1	3.10%
Energy West Arizona				5,419,870	2	2.42%
Community Health Systems Prop				4,728,080	4	2.11%
Rim Golf Investors LLC				3,737,960	5	1.67%
Intermountain West Civil Constr				3,121,410	7	1.39%
Payson Hospital Inc				1,839,654	10	0.82%
Total	\$ 12,591,836		6.37%	\$ 38,638,506		17.24%

Source: Gila County Assessor's Office

*Information not available for 2008.

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
		Amount	Percentage of Levy		Amount	Percentage of Levy		
2017	662,534	630,218	95.12%		\$ 630,218	95.12%	32,316	4.88
2016	643,281	632,844	98.38%		\$ 632,844	98.38%	10,437	1.62
2015	642,903	642,903	100.00%		\$ 642,903	100.00%		
2014	633,680	628,885	99.24%	4,795	\$ 633,680	100.00%		
2013	623,716	598,897	96.02%	18,034	\$ 616,931	98.91%	6,785	1.09
2012	680,975	674,978	99.12%	5,997	\$ 680,975	100.00%		
2011	751,315	728,383	96.95%	22,932	\$ 751,315	100.00%		
2010	790,354	760,451	96.22%	29,495	\$ 789,946	99.95%	408	0.05
2009	647,200	621,858	96.08%	8,003	\$ 629,861	97.32%	17,339	2.68
2008	703,207	690,260	98.16%	4,985	\$ 695,245	98.87%	7,962	1.13

Source: Gila County Assessor's Office, Town of Payson.

**TOWN OF PAYSON, ARIZONA
OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities						Business-type Activities		Total Outstanding Debt		
	General Obligation and Other Bonds	Certificates of Participation	Excise Tax Revenue Bonds	Special Assessment Bonds	Capital Leases	Total	Revenue Bonds	Notes Payable	Total Debt	Percentage of Personal Income	Per Capita
2017	\$ 968,083		\$ 125,000	\$ 360,000	\$ 851,050	\$ 2,304,133		\$ 17,888,658	\$ 20,192,791	5.56 %	1,305
2016	975,583		245,000	420,000	1,057,845	2,698,428		13,379,355	16,077,783	4.41	1,048
2015	1,278,083		360,000	480,000	195,263	2,313,346		8,284,984	10,598,330	2.88	682
2014	1,565,583		470,000	535,000	340,145	2,910,728		8,143,268	11,053,996	2.94	725
2013	2,044,952		575,000	585,000	5,200,198	8,405,150		6,282,229	14,687,379	3.87	965
2012	2,415,000	45,000	675,000	635,000	794,200	4,564,200		2,827,053	7,391,253	1.88	483
2011	2,820,000	135,000	770,000	900,000	363,914	4,988,914		768,548	5,757,462	1.02	380
2010	3,205,000	215,000	860,000	1,155,000	294,604	5,729,604	115,000	1,062,675	6,907,279	0.98	404
2009	2,055,000	295,000	940,000	1,390,000	372,470	5,052,470	140,000	300,464	5,492,934	0.90	319
2008	2,465,000	375,000	1,070,000	1,615,000	565,587	6,090,587	405,000	343,239	6,838,826	0.96	402

Source: The source of this information is the Town's financial records.

TOWN OF PAYSON, ARIZONA
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds	Total Assessed Valuation	Percentage of Actual Taxable Value of Property <i>a</i>	Population	Per Capita <i>b</i>
2017	968,083	1,824,468,250	0.05%	15,476	63
2016	975,583	1,601,676,229	0.06%	15,345	64
2015	1,278,083	1,458,706,561	0.09%	15,551	82
2014	1,565,583	1,473,839,350	0.11%	15,245	103
2013	1,995,000	1,575,224,664	0.13%	15,215	131
2012	2,415,000	1,565,594,980	0.15%	15,301	158
2011	2,820,000	1,778,795,861	0.16%	15,301	184
2010	3,205,000	2,875,030,889	0.11%	17,281	185
2009	2,055,000	2,071,174,745	0.10%	17,281	119
2008	2,465,000	1,745,155,468	0.14%	16,742	147

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

a See schedule 7 for property value data.

b Population data can be found on page 134.

**TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2017**

<u>Overlapping Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Proportion Applicable to the Town (a)</u>	
		<u>Approximate Percent</u>	<u>Net Debt Amount</u>
State of Arizona	Not Available	0.35%	\$ -
Gila County	7,190,721	33.91%	\$ 2,438,561
Gila Community College	None	33.91%	\$ -
Northern Gila County Sanitary District	223,000	100.00%	\$ 223,000
Payson Unified School District #10	27,595,000	69.19%	\$ 19,677,995
Town of Payson	2,304,133	100.00%	\$ 2,304,133
Net Direct and Overlapping General Obligation Bonded Debt			<u>\$ 24,643,688</u>

(a) Proportion applicable to the Town is computed on the ratio of secondary assessed valuation for the overlapping entity to the amount of such valuation, which is within the Town in 2015/16.

Source: The various jurisdictions.

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

Total Legal Debt Margin Calculation for Fiscal Year 2017:

Net full cash assessed valuation	\$ 197,624,914
Debt limit (6%)	11,857,495
Debt applicable to limit	<u>645,000</u>
Legal debt margin	<u>\$ 11,212,495</u>

Total Legal Debt Margin Calculation for Fiscal Year 2017:

Net full cash assessed valuation	\$ 197,624,914
Debt limit (20%)	39,524,983
Debt applicable to limit	<u>39,524,983</u>
Legal debt margin	<u>\$ 39,524,983</u>

	Fiscal Year Ended June 30									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total 20% debt limit	\$ 39,524,983	\$ 33,588,600	\$ 32,726,689	\$ 33,191,672	\$ 35,747,566	\$ 35,620,500	\$ 40,397,603	\$ 47,368,366	\$ 48,027,956	\$ 42,232,733
Total net debt applicable to 20% limit						200,000	390,000	575,000	750,000	920,000
Legal 20% debt margin	<u>\$ 39,524,983</u>	<u>\$ 33,588,600</u>	<u>\$ 32,726,689</u>	<u>\$ 33,191,672</u>	<u>\$ 35,747,566</u>	<u>\$ 35,420,500</u>	<u>\$ 40,007,603</u>	<u>\$ 46,793,366</u>	<u>\$ 47,277,956</u>	<u>\$ 41,312,733</u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0%	0%	0%	0%	0%	1%	1%	1%	2%	2%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total 6% debt limit	\$ 11,857,495	\$ 10,076,580	\$ 9,818,007	\$ 9,957,502	\$ 10,724,270	\$ 10,686,150	\$ 12,119,281	\$ 14,210,510	\$ 2,419,065	\$ 21,149,383
Total net debt applicable to 6% limit	<u>645,000</u>	<u>950,000</u>	<u>1,245,000</u>	<u>1,525,000</u>	<u>2,215,000</u>	<u>2,215,000</u>	<u>2,430,000</u>	<u>3,205,000</u>	<u>1,305,000</u>	<u>1,545,000</u>
Legal 6% debt margin	<u>\$ 11,212,495</u>	<u>\$ 9,126,580</u>	<u>\$ 8,573,007</u>	<u>\$ 8,432,502</u>	<u>\$ 8,509,270</u>	<u>\$ 8,471,150</u>	<u>\$ 9,689,281</u>	<u>\$ 11,005,510</u>	<u>\$ 1,114,065</u>	<u>\$ 19,604,383</u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	5%	9%	13%	15%	21%	21%	20%	23%	54%	7%

Source: The source of this information is the Town's financial records and the Gila County Assessor's Office.

Note: For statutory purposes, the Town's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the Town's bonds outstanding were secured by state shared revenues and sales taxes rather than property taxes.

**TOWN OF PAYSON, ARIZONA
PLEGDED-REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Water Revenue Bonds and Notes Payable						Special Assessment Bonds			
	Utility Service Charges (1)	Less: Operating Expenses (2)	Net Available Revenue	Principal	Interest	Coverage	Special Assessment Collections	Principal	Interest	Coverage
2017	6,219,047	2,672,195	\$ 3,546,852	680,396	204,758	4.01	56,472	60,000	21,450	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
2015	4,924,131	3,269,026	\$ 1,655,105	462,590	228,184	2.40	57,488	55,000	27,913	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
2013	4,488,194	3,203,233	\$ 1,284,961	312,513	135,576	2.87	57,930	50,000	33,550	0.69
2012	4,206,296	3,300,658	\$ 905,638	303,177	47,715	2.58	146,616	265,000	49,143	0.47
2011	3,946,946	3,195,508	\$ 751,438	184,518	11,709	3.83	154,239	255,000	57,813	0.49
2010	3,678,133	3,121,955	\$ 556,178	184,518	6,376	2.91	154,543	235,000	78,591	0.49
2009	3,725,307	3,557,361	\$ 167,946	135,000	10,375	1.16	121,577	225,000	85,508	0.39
2008	4,099,088	2,681,646	\$ 1,417,442	130,000	17,000	9.64	160,985	215,000	98,328	0.51

Source: Town of Payson.

- (1) Utility service charges includes 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**

Calendar Year	Population	Median Household Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2017	15,476	\$ 42,856	\$ 23,461	56.9	2,445	8.2%
2016	15,345	42,987	23,784	55.5	2,420	3.9%
2015	15,551	44,661	23,668	52.7	2,450	4.5%
2014	15,245	43,535	24,690	52.9	2,485	7.5%
2013	15,215	43,741	24,914	53.1	2,415	9.6%
2012	15,301	42,342	25,716	53.1	2,225	9.6%
2011	15,301	36,764	n/a	54.2	2,420	7.7%
2010	17,281	40,993	n/a	49.3	2,352	7.9%
2009	17,281	40,993	n/a	49.3	2,657	7.3%
2008	16,965	39,973	n/a	50.5	2,712	4.6%

Sources: Payson Unified School District, Sperling's Best Places, and
US Census Bureau 2011-2015 American Community Survey 5-Year Estimates.

Note : GASB Statement 44 requires that general purpose governments present, at a minimum, population, total and per capita personal income, and unemployment rate. Governments may add other demographic and economic statistics that are useful and relevant to the user of their financial reports, either in this or in additional schedules. ***Median age, education level and school enrollment are optional statistics; however, they are among those most commonly presented by governments.***

**TOWN OF PAYSON, ARIZONA
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS PRIOR**

	<u>2017</u>	<u>2008</u>
Employer	Employees	Employees
Payson Unified School District	325	344
Mazatzal Casino	287	397
Banner Payson / PRMC	225	340
Gila County	225	225
Chaparral Pines / Rim Club	222	172
Walmart	220	310
Town of Payson	183	162
Payson Care Center / Life Care Center	152	122
US Forest Service	149	115
Rim Country Health	148	130
Safeway Supermarket	138	115
Home Dept	130	107
Bashas' Supermarket	74	79
Culvers	50	
Chapman Auto	37	40
Chili's Restaurant	33	
Big Lots	20	
Five Guys Burgers	13	
Little Caesars Pizza	13	
Total	<u><u>2,644</u></u>	<u><u>2,658</u></u>

Source: Human Resource and Personnel Departments of the above-mentioned businesses.

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

<u>Function/Program</u>	<u>Full Time Equivalent Employees as of June 30</u>									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General government										
Town Manager	4	4	4	5	4	4	4	2	4	2
Town Clerks	3	3	3	3	3	4	4	4	4	6
Central Services	1	1	1	1.5	1.5					
Finance	6	7	7	7	7	6	6	6	7	7
Community Development	12	12	12	12	12	14	14	13	13	13
Legal	4.5	4.5	4.5	4.5	4.5	4	4	4	4.5	4.5
Human Resources	3	3	3	3	3	3	3	2	2	1
Police Department	58	57	52	51	50	48	48	49	49	49
Fire Department	32	32	32	32	32	33	27	27	27	25
Airport	2	2	2	1.5	1.5	1	1	-	-	-
Public Works	19	24	24	22	22	22	22	22.5	22.5	17.0
Library	7.5	7.5	8	8	8	8	8	8	8	8
Parks and Recreation	12	6	6	6.5	6.5	6.5	6.5	7	7	11.5
Water	19	19	20	20	20	20	20	20	19	19
Total	183.0	182.0	178.0	177.0	175.0	173.5	167.5	164.5	167.0	163.0

Source: Authorized Personnel per Town of Payson, Human Resources.

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

Fiscal Year Ending June 30

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Building Permits										
Permits Issued	95	77	73	61	38	49	34	37	115	103
Value of Buildings in \$	25,465,398	23,089,085	21,254,017	19,350,791	11,747,997	12,652,967	19,087,366	9,358,003	20,388,596	41,597,955
Police										
Average Response Time (Priority 1 Calls Only)	4:51	5:00	5:32	5:23	5:21	8:05	5:33	5:00	7:23	9:20
Number of Officers	27	27	30	30	30	30	30	31	31	31
Total Calls	21,224	25,000	22,844	20,799	20,030	20,956	28,259	26,233	24,233	20,726
Calls per Sworn Officer	786	926	761	693	668	699	942	846	782	669
Officers per 1000 of Population	1.745	1.760	1.968	1.968	1.972	1.961	1.961	1.824	1.824	1.938
Total of Index Crimes	555	699	680	735	674	655	675	617	635	440
Index Crimes per Capita	0.036	0.046	0.045	0.048	0.044	0.0428	0.044	0.036	0.037	0.026
Number of Drug Arrests	236	255	238	39	39	137	95	126	78	156
Drug Arrests per Capita	0.015	0.017	0.016	0.003	0.003	0.009	0.006	0.007	0.005	0.009
Fire										
Average Response Time	5:29	6:11	4:24	4:36	4:36	4:42	4:47	4:06	4:20	4:09
Total Calls	3,175	3,530	2,863	2,884	2,680	2,625	2,588	2,387	2,788	2,280
Calls per Capita	0.205	0.230	0.188	0.189	0.176	0.172	0.169	0.138	0.161	0.136
Fire Personnel per 1000 of Pop	2.068	2.085	2.099	2.099	2.103	2.157	1.765	1.562	1.562	1.374
Fire Safety Inspections	147	159	153	154	453	398	567	535	576	418
Event Center										
Number of Events	35	42	36	51	49	42	35	30	25	21
Number of Days Used	137	148	145	190	185	134	127	127	120	101
Other public works										
Street slurry sealed (miles)	15.9	8.90	0	0	0	0	6.0	0	0	14.2
Parks and recreation										
Use of Facilities-# of Activities	56	121	102	101	93	122	122	118	115	90
Program Registrations	4,961	5,080	4,758	4,723	3,366	3,235	3,668	3,464	3,756	3,241
Facility Reservations	426	352	291	310	247	265	302	264	250	276
Swim Lessons	64	205	325	n/a	n/a	n/a	n/a	n/a	325	395
Pool Passes	13	16	32	n/a	n/a	n/a	n/a	n/a	2,500	2,450
Library										
Number of Patrons	11,334	15,870	15,288	15,485	15,708	14,784	13,525	13,474	16,674	15,712
Number of New Cards Issued	925	935	1,019	1,139	1,131	1,259	1,267	1,143	1,200	1,400
Circulation per Capita	8.42	8.82	8.88	9.46	8.85	10.68	11.34	9.53	9.71	9.07
Patrons as % of Population	73.2%	103.4%	100.3%	101.6%	103.2%	96.6%	88.4%	96.5%	99.9%	93.8%
Water										
Number of Water Taps	8,186	8,158	8,065	7,966	7,886	7,838	7,800	7,854	7,827	7,777
Average daily consumption (thousands of gallons)	1,552.0	1,544.0	1,406.0	1,438.0	1,473.0	1,448.2	1,493.4	1,490.6	1,468.8	1,534.3
Peak daily consumption (thousands of gallons)	3,881.0	2,310.0	2,258.0	2,362.0	2,522.0	2,057.0	2,050.4	2,044.3	2,467.5	2,384.2
Elections										
Number of Registered Voters	10,062	9,433	8,964	9,141	9,921	9,921	9,304	9,304	8,913	8,913
Number Voting in Last Electio	4,672	4,361	4,361	3,146	3,146	3,146	5,123	5,123	5,123	5,123
% of Participation of Voters	46.43%	46.23%	48.65%	34.42%	31.71%	31.71%	55.06%	55.06%	57.48%	57.48%
Based on a population of:	15,476	15,345	15,245	15,245	15,215	15,301	15,301	17,281	17,281	16,742

**TOWN OF PAYSON, ARIZONA
CAPITAL ASSETS INFORMATION
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	<u>Fiscal Year</u>										
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Area - Square Miles	20.46	20.46	20.46	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Police											
Number of Employees (sworn)	27	27	30	30	30	30	30	31	31	31	30
Patrol Vehicles	27	20	20	20	21	20	22	23	23	23	21
Fire											
Number of Firefighters	31	31	31	31	31	32	27	24	24	24	24
Number of Fire Stations	3	3	3	3	3	3	3	2	2	2	2
Number of Municipal Employees (excludes sworn Police & Firefighters)	125	124	117	116	114	112	111	110	112	108	111
Public Works											
Streets (<i>miles</i>)	111	111	111	110	106	106	106	106	106	106	106
Number of Water Taps	8,186	8,158	8,065	7,966	7,886	7,838	7,800	7,854	7,827	7,777	7,728
Parks and recreation											
Acreage	169	169	169	169	169	169	169	169	169	169	169
Playgrounds	3	3	3	3	3	3	3	3	3	3	3
Swimming Pools	1	1	1	1	1	1	1	1	1	1	1

Source: Town of Payson.