

Town of Payson, Arizona

2010 FINANCIAL REPORT

POPULAR ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010



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Welcome

Members of the Financial Services Department are pleased to present the Town of Payson's fifth Popular Annual Financial report for the fiscal year ended June 30, 2010. this report is intended to present an accessible overview of the Town's financial position and policies, and its commitment to providing responsive services and programs in a fiscally responsible manner.

We share with you details of how the Town's revenue is generated, where the dollars are spent, and how the local economy impacts Payson's overall financial status. Above all, our goal is to provide you with an opportunity to better understand the many financial aspects that affect your local government.

The financial annual report information provided here is drawn from detailed information found within the 2010 Comprehensive Annual Financial Report (CAFR). The financial statements were prepared in conformance with Generally Accepted Accounting Principles (GAAP) and audited by an independent accounting firm, receiving an unqualified (or clean) opinion. The numbers contained within the CAFR were obtained by employing the basis of accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

In short, the highest standards of accounting principles have been utilized to ensure full financial disclosure and accountability.



Recognition of this commitment is evidenced by the Town attaining the Certificate of Achievement for Excellence in Financial Reporting for twelve consecutive years, the Award for Outstanding Achievement in Popular Annual Financial Reporting for four consecutive years, and the Distinguished Budget Presentation Award for twelve consecutive years. These awards are presented by the Government Finance Officer's Association.

While the numbers in this Popular Report come from an audited source, they are presented in an abridged, unaudited non-GAAP format. Citizens who wish to review audited GAAP-basis financial statements can refer to the Town's 2010 CAFR, which is available from the Financial Services Department, the library, and online at www.paysonaz.gov.

Members of the Financial Services Department and Staff across the organization are proud to serve this fine community. We hope that the 2010 Popular Annual Financial Report serves its purpose and helps assure you that every effort is made to manage the community's resources wisely for the benefit of all.

A handwritten signature in black ink, reading "Debra A. Galbraith". The signature is written in a cursive, flowing style.

Debra A Galbraith, CGFM
Town Manager

2010 Financial Overview

In this section, we present an overview of monies in and monies out for the Town of Payson for the year ended June 30, 2010.

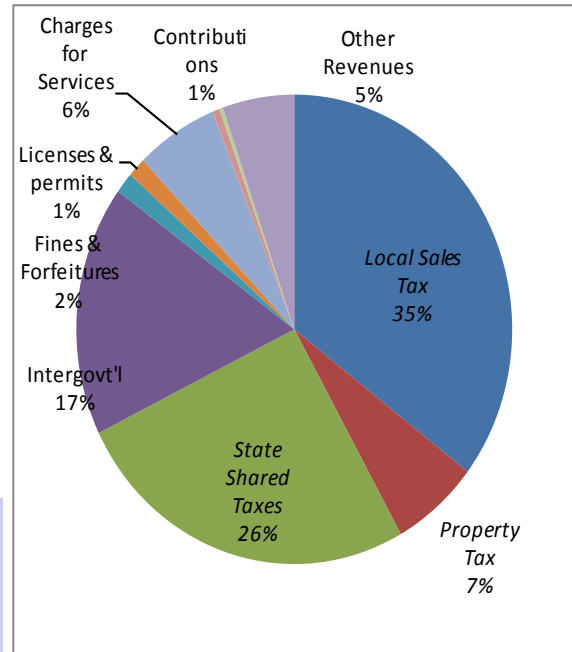
MONIES IN

As a governmental entity, the Town uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax supported activities and the Town receives the funding it needs to provide services to the community from a variety of sources. The table below presents a summary of governmental revenues by primary type for 2010 and 2009, in order to present a picture of typical revenues from year to year. The recession and weak economic conditions nationwide contributed to a decrease in revenues of \$1,250,700 or 8% as compared to 2009.

Governmental Funds Two-Year Revenue Summary by Type

Revenue	2010	2009
Local Sales Tax	\$ 5,456,786	\$ 6,319,983
Property Tax	1,002,536	629,861
State Shared Taxes	3,988,244	4,473,402
Intergovernmental	2,668,357	2,652,957
Fines & Forfeitures	221,523	235,284
Licenses & permits	209,031	252,931
Charges for Services	937,636	1,033,870
Contributions/Donations	83,449	111,176
Investment Earnings	(39,885)	68,680
Other Revenues	819,910	820,133
Total Revenues	\$ 15,347,587	\$ 16,598,277

* The revenues reflected here are representative of the Town's fund level statements, and do not include bond proceeds or the Town's Enterprise Funds.



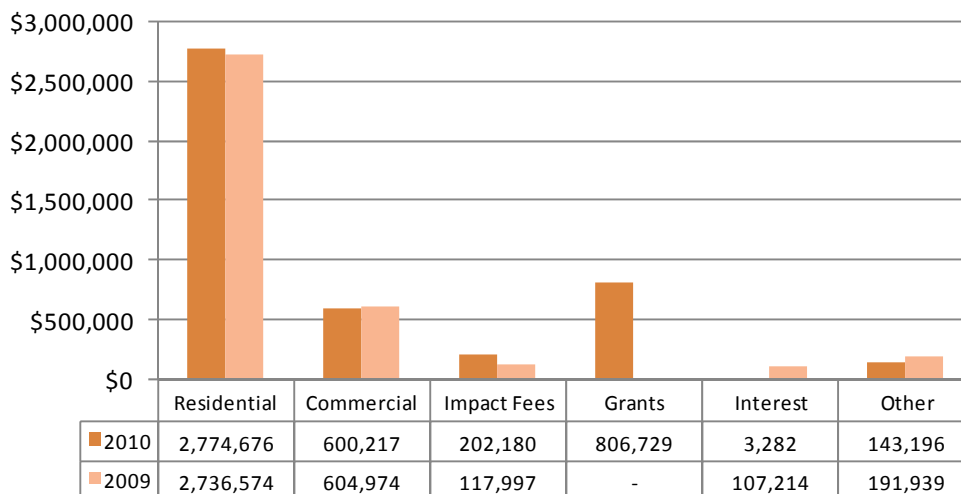
The pie chart above depicts the significance of each source of revenue to the town's overall fiscal health. Local sales tax lead the way and clearly indicate the importance of a proactive economic development program to keep this revenue stream strong. State Shared revenues represent the second largest revenue stream.

These revenues are volatile as the amount received each year depends on State actions and a predetermined amount of shared income tax revenues from two years prior.

REVENUE TYPE DEFINITIONS

- **Sales Taxes**—the Town charges a local sales tax of 2.12% on most goods purchased in Town.
- **Property Taxes**—the Town charges a primary and a secondary property tax. The secondary tax is for debt repayment.
- **State Shared Taxes**—revenue sharing programs: sales tax, income tax and vehicle license fees
- **Intergovernmental**—these are revenues received from other governments or entities.
- **Fines & Forfeitures**—these are revenues received from library and court fines.
- **Licenses & Permits**—includes Development building permit fees, business license fees, fire inspections etc.
- **Charges for Services**—these are revenues received for services provided: law enforcement, fire services, building services, park & recreation etc.
- **Investment Earnings**—revenue received from interest on invested monies
- **Other**—these are revenues that don't fit under another classification

Enterprise Fund Revenue



The Town receives additional revenue sources from “business” activities. Referred to as Enterprise Funds, these operations are set apart from other revenue sources since they are designed to be self-supporting. The Town has two Enterprise Funds—Water and C. C. Cragin. The Water fund is used to record revenues and expenses to maintain and improve the water system infrastructure. The C.C. Cragin fund is used to record revenue and expenses pertaining to the construction of the new pipeline to obtain water from the C.C. Cragin Reservoir.

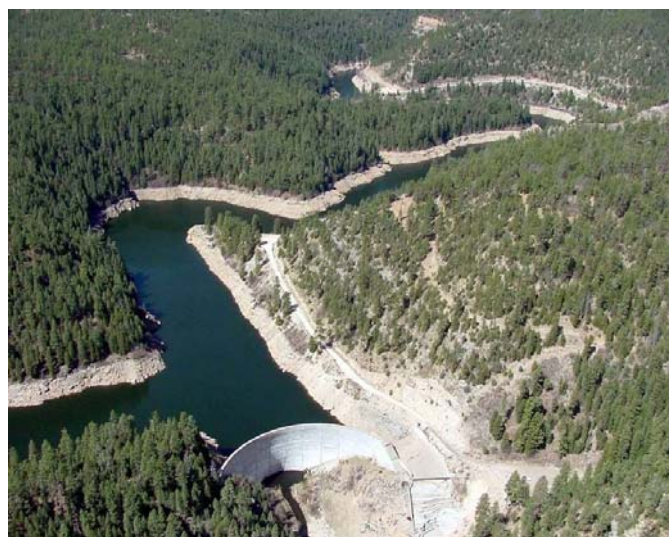
C.C. Cragin Pipeline Project

The Reservoir, built in 1965 by Phelps Dodge for use in their mining operation, was acquired by the Salt River Project (SRP) through an agreement implemented in 1962. The Reservoir has a water storage capacity of 15,000 acre-feet of water.

The Town has approved a partnership with SRP for use of up to 3,000 acre-feet of water from the reservoir. An additional 500 acre-

feet is available for communities along the pipeline. The Town plans to construct a 14.5 mile pipeline from the end of the current pipeline into a water treatment plant, yet to be constructed.

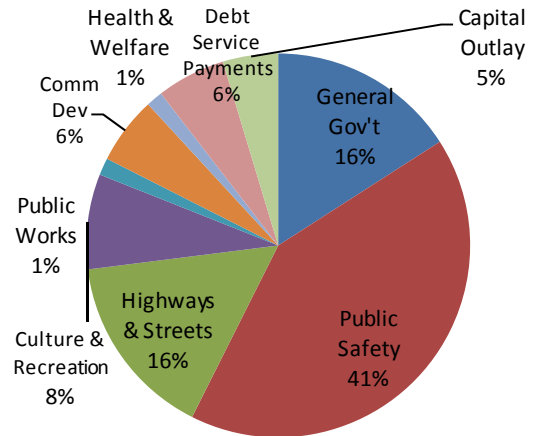
In 2009, the Town received a \$10,685,000 loan from the Water Infrastructure Financing Authority of Arizona (WIFA). \$4,000,000 of that loan was American Reinvestment and Recovery Act (ARRA) money is forgivable. That means the Town will not have to repay \$4,000,000 of the \$10,685,000 loan.



MONIES OUT

The two-year comparison below for Town expenditures shows a decrease in the overall cost of operations, primarily due to reduced spending in most departments.

Increases in Highway & Streets came from expenditures related to Pavement Preservation. In 2009, very little pavement preservation work was done due to lack of funding. Increases in Community Development was due to retirement payouts. Capital outlay increased due to roadwork. Overall, 2010 total Governmental Fund expenditures were \$1,208,374 less than in 2009.



The pie chart above provides a view of expenditure types within the Town's operating budget (excluding debt service and capital outlay).

Capital expenditures totaled \$915,700 and included construction of the Airport Road Roundabout and pavement preservation activities. In 2009 very little pavement preservation work was done, as the budget could not cover it.

Debt service payments decreased in 2010 as the lease/purchase of a fire truck was paid off and other forms of debt are reaching the end of term. Although the Enterprise Funds incurred new debt, that is not reflected in the governmental funds

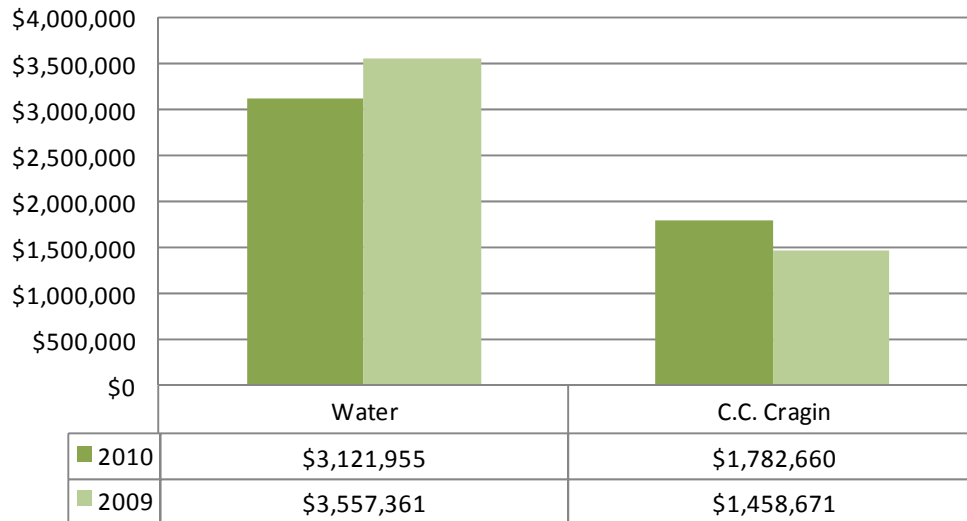
Governmental Funds Two-Year Town Expenditures by Type

Expenditure	2010	2009
General Government	\$ 3,133,909	\$ 4,323,958
Public Safety	8,164,357	8,376,425
Highways & Streets	3,070,365	2,856,499
Culture & Recreation	1,575,542	1,714,675
Public Works	284,563	445,095
Community Development	1,119,712	1,051,931
Health & Welfare	273,394	289,710
Debt Service Payments	1,144,162	1,238,258
Capital Outlay	915,780	593,607
Total Expenditures	\$19,681,784	\$ 20,890,158

EXPENDITURE TYPE DEFINITIONS

- **General Government**-functions serving Town operations as a whole, including: Town Council Office; Town Manager's Office; Town Attorney; Town Clerk's Office; Finance; and Central Services
- **Public Safety**-encompasses the Police and Fire Departments
- **Highways & Streets**-encompasses the Street division
- **Culture & Recreation**-encompasses the services, programs and facilities provided by the Recreation & Tourism Department and the Library
- **Public Works**-encompasses the areas of Engineering and Grounds Maintenance
- **Community Development**-encompasses Planning and Zoning, and the Building divisions
- **Health & Welfare**-encompasses contributions to other entities providing services for the Town
- **Debt Service Payments**-interest and other related costs affiliated with the Town's issuance of debt to support various Capital Improvement activities
- **Capital Outlay**-expenditures on the Town's Capital Improvement Program projects

Enterprise Fund Expenses



Fluctuations in expenses for water result from funding requirements of different maintenance projects. In addition, personnel services, capital outlay and debt service comprise the expense categories.

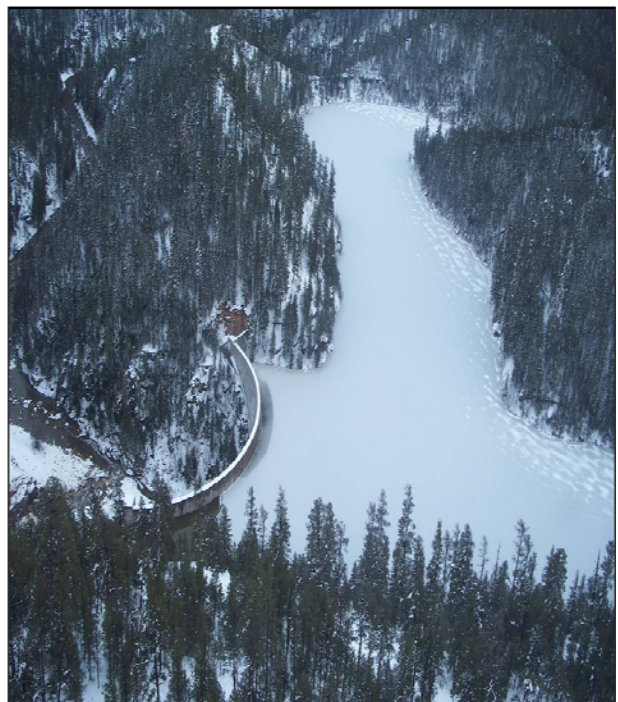
In both years the Town paid Salt River Project (SRP) over \$1,000,000 for our share of the repairs to the existing 12 miles of pipeline from the C. C. Cragin Reservoir to the Washington Park transfer station. Preliminary environmental studies for the new construction of 17 miles of pipeline is almost complete. The new pipeline will bring the water from Washington Park to a new water treatment plant in Town. From there, the treated (cleaned) water will be sent through our current water pipeline grid to our storage tanks and then to residents.

As study and construction expenses are incurred for the pipeline, they are submitted to the Water Infrastructure Financing Authority of Arizona (WIFA) for reimbursement from the \$10,685,000 loan the Town received.

The total cost of the pipeline/water treatment plant construction will be more than the loan all

ready received. Additional methods of funding will be sought when needed.

For more information on the C.C. Cragin project please contact the Water Division at 928-474-5242, or view the Water Division section on the Town website at



Capital Reinvestments

The town is committed to playing its part in reinvesting in Payson, as evidenced by its on-going 10 year capital plan. The complete 10 year Capital Improvement Plan is a separate document that can be obtained from the Financial Services Department. The future two-years of the Plan are shown in the table at the right.

NEW FIRE STATION

Land and design work for the new Fire Station on Rim Club Drive started in 2010.

The station, completed in early 2011, provides fire and emergency medical equipment



and personnel to the east side of Town. The facility was funded through a bond issuance of approximately \$1,525,000. The bonds were approved by the voters in 2003. The 7,000 square foot facility will provide state-of-the-art equipment, including a new fire apparatus. Opening is expected in July 2011.

AIRPORT ROAD ROUNDABOUT

The Town entered into an agreement with Arizona Department of Transportation (ADOT) to construct a



traffic roundabout at the intersection of Airport Road and State Route 87. The cost to the Town was \$390,000. Near the end of the project ADOT was able to obtain federal funding for the project and will reimburse the Town for its complete costs.

2011-2012 Two-Year Capital Improvements Program

<u>Project Summary</u>	<u>Estimated Cost</u>
2011	
Mud Springs Rd	\$ 700,000
Bonita Road	\$ 70,000
Rumsey Drive	\$ 60,000
Manzanita Rd	\$ 20,000
Colcord Road	\$ 75,000
Landscaping	\$ 229,000
Pavement Preservation	\$ 200,000
American Gulch	\$ 50,000
Aerial Photography	\$ 50,000
Building Improvements	\$ 130,000
Various General Gov't	\$ 550,000
Park Improvements	\$ 275,000
Drainage Improvements	\$ 50,000
CC Cragin	\$ 4,500,000
Water Improvements	\$ 417,000
Main Street	\$ 500,000
Airport	\$ 2,620,000
TOTAL	\$ 10,496,000
2012	
Police Building Remodel	\$ 65,500
Rumsey Drive	\$ 250,000
Bonita Road	\$ 500,000
Manzanita Rd	\$ 860,000
Colcord Road	\$ 125,000
Landscaping	\$ 240,000
Pavement Preservation	\$ 350,000
American Gulch	\$ 100,000
Parking Lot	\$ 25,000
Sidewalks	\$ 190,000
Phoenix Street	\$ 110,000
Building Improvements	\$ 50,000
Various General Gov't	\$ 490,000
Park Improvements	\$ 2,675,000
CC Cragin	\$ 2,500,000
Water Improvements	\$ 242,000
Main Street	\$ 500,000
Airport	\$ 2,928,000
TOTAL	\$ 12,200,500

How Capital Investments are Funded

The Town's capital outlay consists of investments in our water system, roads, equipment, public facilities, and parks.

The Town develops an on-going, Ten-Year Capital Improvement Program that provides for a comparable annual value of infrastructure improvement projects. Town Council and Staff review and update the plan each year as part of the budget process. The plan is funded using a combination of debt and existing funds.

The Town's Debt Policy provides a set of criteria to help determine when it's best to fund capital projects using existing revenues or by issuing bonds or seeking loans. The Town has an A+ bond rating from Standard & Poor's. This allows the Town to receive very competitive interest rates when issuing debt.

Outstanding Debt

Year Ended June 30,	Principal	Interest
2011	\$ 810,000	\$ 216,662
2012	855,000	180,489
2013	615,000	141,996
2014	385,000	122,173
2015	685,000	102,249
2016-2020	1,930,000	221,091
2021-2023	155,000	12,925
TOTAL OUTSTANDING	\$ 5,435,000	\$ 997,585

The repayment of debt is funded using special assessments to homeowners within the assessment districts (2), park impact fees, secondary property tax (1 bond issue), special excise tax (1 bond issue), water revenues (note payable) and general revenues.

Two-Year Debt Summary All Funds

Debt Type	2010	2009
General Obligation Bonds	\$ 3,273,633	\$ 2,107,778
Special Assessment Bonds	1,155,000	1,390,000
Revenue Bonds	860,000	1,055,000
Certificates of Participation	215,000	295,000
Notes Payable	1,062,675	300,464
Capital Leases	294,604	372,470
TOTAL DEBT	\$ 6,860,912	\$ 5,520,712

DEBT TYPE DEFINITIONS

- **General Obligation Bonds**-long term debt that are repaid from the Town's available resources
- **Special Assessment Bonds**-long term debt with repayment assessed to homeowners within the assessment district
- **Revenue Bonds**-long term debt with repayment to come from a pledged Town revenue stream
- **Certificates of Participation**-long term debt where an investor buys a share of the improvement and is paid back over the term of the Certificates
- **Notes payable**-long term debt that does not include bonds, but a contract for repayment
- **Capital Leases**-short term debt used for equipment

In 2010, the Town issued the remaining \$1,525,000 of the voter approved 2003 bond issue. These bonds were approved to build and equip a new fire station. The need for the third station was not felt until 2010.

In 2009, the Water Division paid off an outstanding revenue bond and took on the WIFA loan (mentioned earlier). Although the first \$4,000,000 of the loan is forgivable, the Town has begun to pay the interest on the \$6,585,000 of the loan that will be paid in full in future years.

Debt Margin

The State imposes certain debt limitations on the Town of 6%, and 20% of the secondary net assessed valuation of the Town. The Town's available debt margin is \$11,005,510 in the 6% capacity and \$46,763,366 in the 20% capacity. The Town is using 23% in the 6% capacity and 1% in the 20% capacity.

The Town's Net Assets

Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current & Other Assets	\$ 9,013	\$ 7,800	\$ 8,247	\$ 9,811	\$ 17,259	\$ 17,611
Capital Assets	109,607	110,642	16,257	15,295	125,865	125,937
Total Assets	118,620	118,442	24,504	25,106	143,124	143,548
Liabilities						
Current Liabilities	1,016	983	723	701	1,739	1,683
Noncurrent Liabilities	9,198	7,405	1,623	873	10,821	8,278
Total Liabilities	10,214	8,388	2,346	1,574	12,560	9,961
Net Assets						
Invested in Capital Assets, net of Related Debt	103,809	105,561	15,195	14,720	119,004	120,281
Restricted	3,138	3,971	1,066	4,922	4,204	8,893
Unrestricted	1,459	522	5,898	3,891	7,357	4,412
Total Net Assets	\$ 108,406	\$ 110,054	\$ 22,159	\$ 23,533	\$ 130,565	\$ 133,586

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

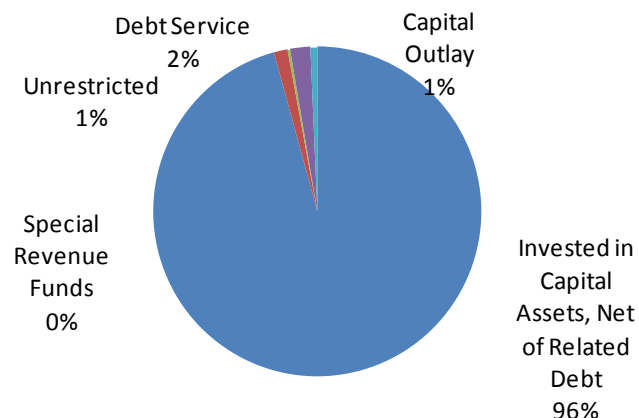
Net assets are categorized by activity type. Governmental activities include services largely funded through revenues such as sales tax and charges for services. Business type activities include services funded through utility billing and other charges for services.

Net assets consist of three components. The largest portion (91%) reflects the Town's investment in capital assets (land, buildings, infrastruc-

ture, water system, vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets.

An additional portion of the Town's net assets (1%) represents resources subject to restrictions on how they may be used. These legal restrictions are imposed by outside

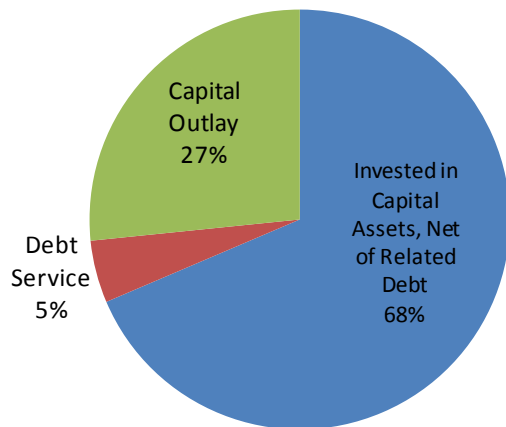
Components of Fund balance at June 30, 2010 (Governmental Funds Only)



entities such as federal or state governments. An example of such a restriction is the gasoline tax. The State of Arizona charges the gasoline tax and shares some of it with communities. These revenues are legally restricted by the State to be used only for expenditure on street projects.

Portions of net assets are restricted to pay debt service and fund capital projects. The remainder of net assets is unrestricted as to purpose.

Components of Fund Balance at June 30, 2010 (Enterprise Funds, in thousands)



Fund Accounting

State and local governments, such as the Town, employ fund accounting whereby assets and liabilities are grouped according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts.

The General Fund is the chief operating fund of the Town and General Fund expenditures account for 71% of governmental expenditures. Special revenue funds group revenues raised for a specific purpose. Capital project funds account for the acquisition or construction of major capital facilities.

These intended uses can be demonstrated by viewing the components of governmental fund balances.

While the fund balance is an important component of fiscal planning and factors into the Town's debt rating, it is anticipated that the balance will decline over the next few years since expenditures are expected to rise at a faster pace than general revenue sources.

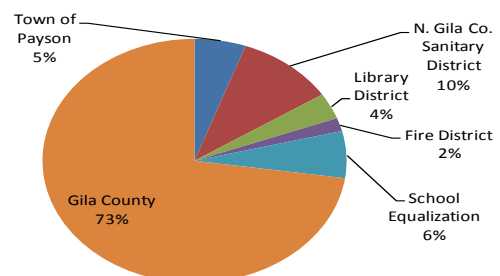
Where Your Property Taxes Go

One of the biggest bills we face each year is tied to the property we own.

Property tax in Payson is administered by Gila County, and it is usually calculated into our monthly mortgage payment. As a result, we don't always think of it in concrete terms nor do we explore in detail how this funding mechanism is used.

Taxing Authority	Tax Rate
Town of Payson	0.3150
N. Gila Co. Sanitary District	0.6000
Library District	0.2000
Fire District	0.1000
School Equalization	0.3564
Gila County	4.1900
Total Property Tax Rate	5.7614

As the table and pie chart indicate, only a small portion of your property taxes go to support the Town of Payson. The majority supports the Payson schools and various Gila County levies. Currently, property taxes account for one of the smallest and most stable sources for the Town at 3% of total revenue.



Profile of Payson, Arizona

Citizen Involvement

Payson celebrated its 125th anniversary in 2007. The town site was established in 1882 with a population of 40, which has grown to 17,281. In its early years, Payson's economy was based on logging, ranching and mining. Tourism and home building industries presently dominate the local economy; however, the past still lives on in Payson. The Payson Rodeo, now billed as the world's oldest continuous rodeo, came into being in 1884. The Hashknife Pony Express also makes its annual historical run through Payson, picking up letters for delivery.

The Town of Payson, Arizona incorporated in 1973 and is located at the intersections of States Routes 87 and 260, 90 miles north of Phoenix, Arizona. The Town's boundaries enclose 19.5 square miles in northern Gila County. Payson is nestled just below Arizona's Mogollon Rim at an elevation of 4,982 feet and enjoys a moderate four-season climate. It's surrounded by the Tonto National Forest and world's largest stand of virgin Ponderosa Pines.

The Town of Payson 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 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 non-partisan "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 of Payson has many opportunities for its citizens to become more educated in Town government and get involved.

Payson Citizens Leadership Academy

We believe an informed citizenry is essential to the proper functioning of representative democracy. Graduates of the Payson Citizens Leadership Academy have gained valuable insight and information about how their local government operates. One of the purposes of the Academy has been to help develop local leaders for Town Council and membership on Town boards, committees, and commissions. The Academy has educated a diverse group of citizens including retirees, business owners, students, and employees of non-profit organizations. They range in age from their late teens to late 80s. Many just moved to Town while others have called Payson home for many years.

Volunteers

Want to volunteer your talents? The Town of Payson has, on average, 416 citizens who volunteer their time and talents serving various boards and departments. Some of the departments served include the library, police, and fire. Volunteer programs are designed to facilitate a community effort to increase the services provided to our community. To learn more about becoming involved in the Town of Payson, contact us at (928) 474-5242 or visit our website at www.paysonaz.gov.

TOWN OF PAYSON, ARIZONA TOWN OFFICIALS

TOWN COUNCIL

Kenny J. Evans
Mayor
Michael Hughes, Vice Mayor
Ed Blair
Su Connell
John Wilson
Rick Croy
Fred Carpenter

TOWN MANAGER

Debra A Galbraith

DEPARTMENT HEADS

Town Clerk	Silvia Smith
Town Attorney	Tim Wright
Financial Services	Hope Cribb
Magistrate	Dorothy Little
Police Chief	Don Engler
Fire Chief	Marty DeMasi
Library	Terry A. Morris
Public Works	LaRon Garrett
Community Development	Ray Erlandsen
Water	Buzz Walker
Recreation and Tourism	Cameron Davis

This popular Annual Financial Report is intended to summarize the financial information appearing in the 2010 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR are available at the Financial Services Department, the Library or viewed on the Town's website. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town's financial statements are presented.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

Town of Payson
Arizona

for the Fiscal Year Ended

June 30, 2009



[Signature]
President
[Signature]
Executive Director

TOWN BUILDINGS & PHONE NUMBERS

Town Hall

303 N. Beeline Hwy
Payson, AZ 85541
(928) 474-5242

Community Development

303 N. Beeline Hwy
Payson, AZ 85541
(928) 474-5242

Police Department

303 N. Beeline Hwy
Payson, AZ 85541
(928) 474-5242

Fire Department

400 E. Main Street
Payson, AZ 85541
(928) 474-5242

Parks & Recreation

1000 W. Country Club Drive
Payson, AZ 85541
(928) 474-5242

Water Division

303 N. Beeline Hwy
Payson, AZ 85541
(928) 474-5242