

Town of Payson, Arizona

2011 FINANCIAL REPORT

POPULAR ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011



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Welcome

Members of the Financial Services Department are pleased to present the Town of Payson's sixth Popular Annual Financial report for the fiscal year ended June 30, 2011. 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 2011 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 thirteen consecutive years, the Award for Outstanding Achievement in Popular Annual Financial Reporting for five consecutive years, and the Distinguished Budget Presentation Award for thirteen 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 2011 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 2011 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 dark ink, reading "Debra A. Galbraith". The signature is fluid and cursive, with the first name "Debra" being more prominent.

Debra A Galbraith, CGFM
Town Manager

2011 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, 2011.

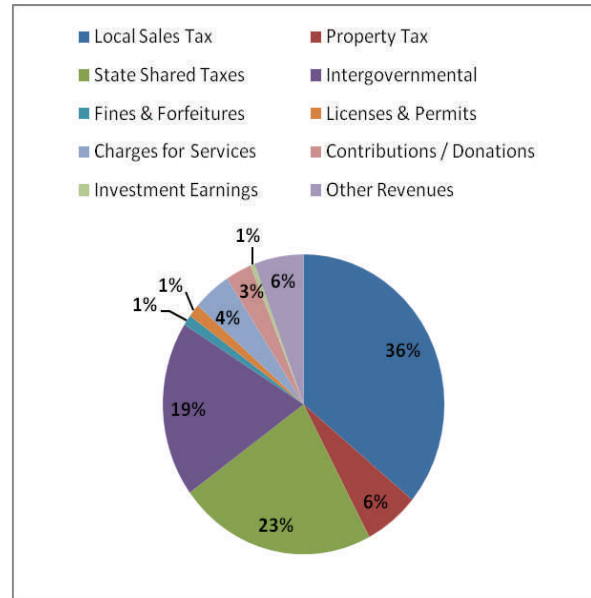
>>>>>>>>> MONIES IN >>>>>>>>>

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 2011 and 2010, in order to present a picture of typical revenues from year to year. In spite of the recession and weak economic conditions nationwide, the total revenue in governmental funds increased by \$0.2 million (1%) over 2010.

Governmental Funds Two-Year Revenue Summary by Type

Revenue	2011	2010
Local Sales Tax	\$ 5,593,466	\$ 5,456,786
Property Tax	976,039	1,002,536
State Shared Taxes	3,533,894	3,988,244
Intergovernmental	2,942,504	2,668,357
Fines & Forfeitures	177,314	221,523
Licenses & permits	215,695	209,031
Charges for Services	684,754	937,636
Contributions/Donations	463,860	83,449
Investment Earnings	76,978	(39,885)
Other Revenues	880,971	819,910
Total Revenues	\$ 15,545,475	\$ 15,347,587

*Note: 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.



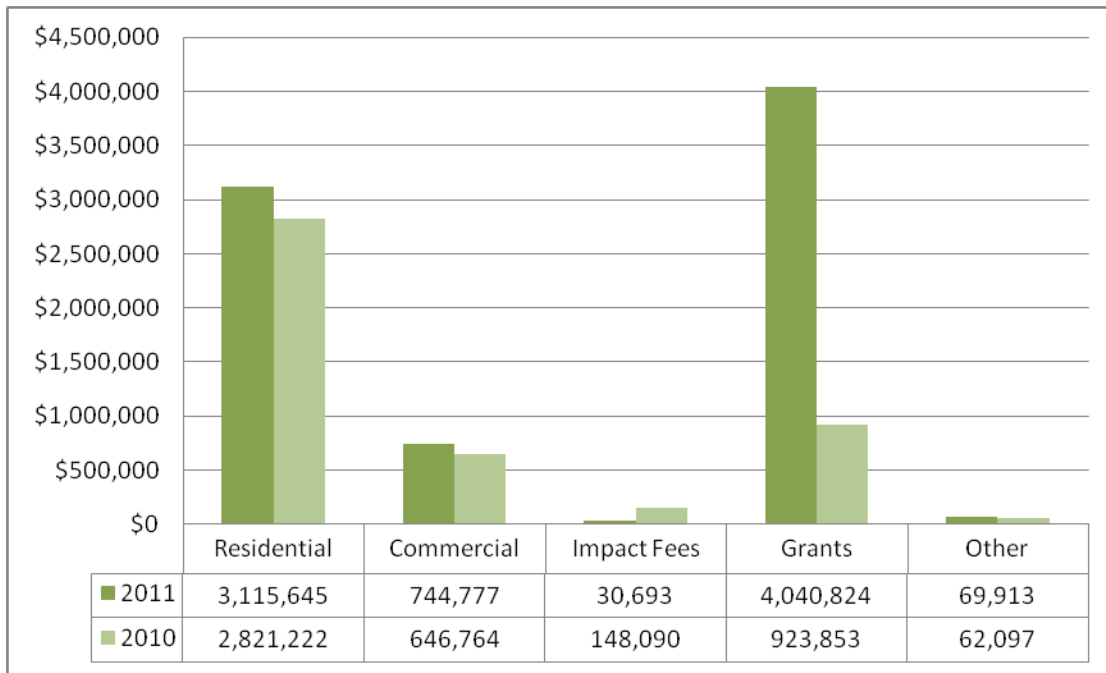
The pie chart above depicts the significance of each source of revenue to the town's overall fiscal health. Local sales tax leads the way and clearly indicates the importance of a proactive economic development program to keep this revenue stream strong.

State Shared revenues represent the second largest revenue stream. These revenues are volatile as the majority of the amount received each year depends on State appropriation. State shared income tax revenue is a predetermined amount based on returns 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 is in the process of constructing a 17 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.

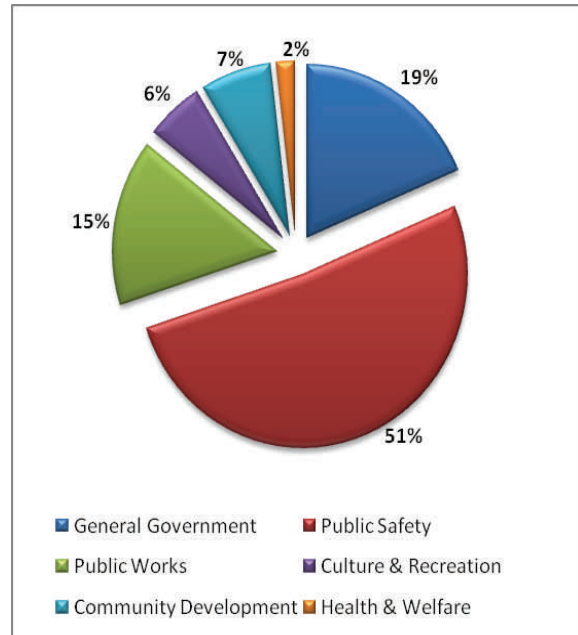


>>>>>>>> **MONIES OUT** >>>>>>>>

The two-year comparison below shows a very slight change in the total expenditures for governmental funds. The decreases were largely due to a reduction in the amount that the Town had to pay towards insurance premiums as compared to prior fiscal years. The increase in capital outlay was primarily due to the completion of construction on the third fire station. Overall, 2011 Total Governmental Fund expenditures were \$7,099 more than in 2010.

**Governmental Funds
Two-Year Town Expenditures by Type**

Expenditure	2011	2010
General Government	\$ 2,600,725	\$ 3,228,796
Public Safety	7,178,572	7,125,424
Culture & Recreation	791,896	958,959
Public Works	2,173,759	2,599,518
Community Development	967,377	898,971
Health & Welfare	259,707	272,196
Debt Service Payments	1,182,556	1,144,162
Capital Outlay	1,996,313	915,780
Total Expenditures	\$ 17,150,905	\$ 17,143,806



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

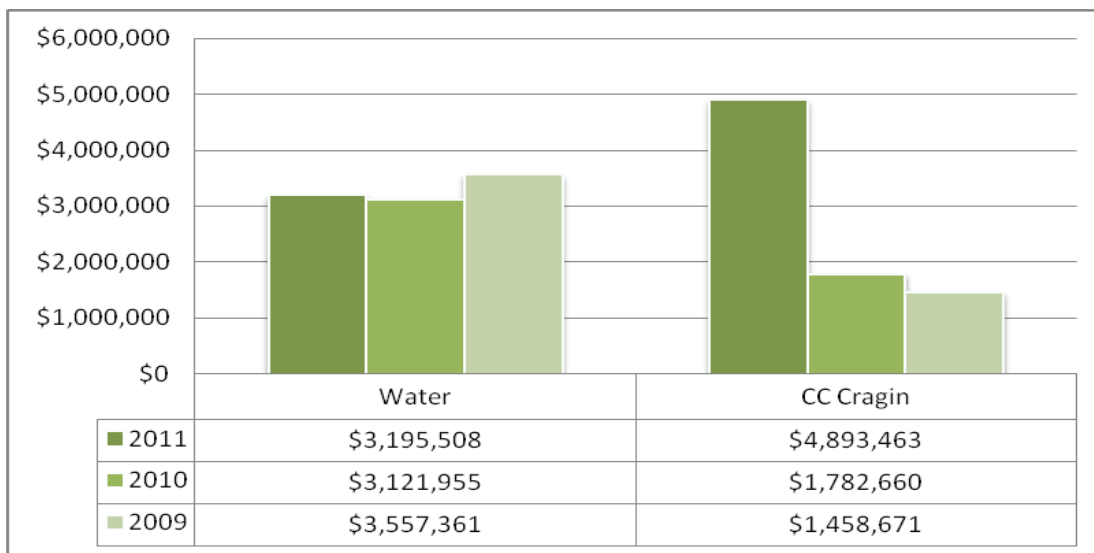
Debt service payments increased in 2011 by \$38,394. Although the Enterprise Funds incurred new debt, that is not reflected in the governmental funds.

Expenditures for capital overlay increased by \$1,080,533. As mentioned previously, the majority of these costs are associated with the completion of construction for the new fire station.

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
- **Culture & Recreation**-encompasses the services, programs and facilities provided by the Recreation & Tourism Department and the Library
- **Public Works**-encompasses the areas of Engineering, Grounds Maintenance and Streets Division
- **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



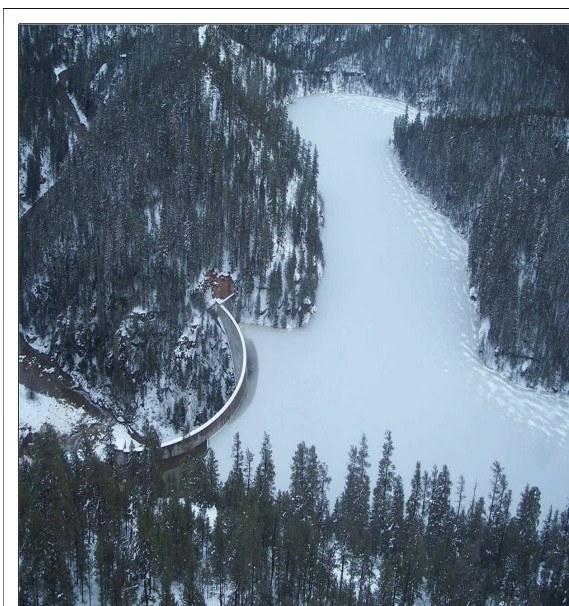
Fluctuations in expenses for Water resulted from funding requirements of different maintenance projects. In addition, personnel services, capital outlay and debt service comprise the expense categories.

In 2009 & 2010, 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. During fiscal year 2010/11, the Town continued its investment in the C.C. Cragin Project. Funds were used to complete the environmental studies, infrastructure planning, and purchase of steel pipe. Construction is scheduled to start in the 2011/2012 fiscal year. Upon completion of this project, 17 miles of 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 amount of the loan already 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 Town website at www.paysonas.gov.



Capital Reinvestments

The town is committed to doing its part in reinvesting in Payson, as evidenced by its long-term capital improvement planning. The 10-Year Capital Improvement Plan (CIP) is a separate document that can be obtained from the Financial Services Department. The chart at the right shows capital projects proposed for fiscal year 2011/2012.

NEW FIRE STATION

Land and design work for the new Fire Station on Rim Club Drive started in 2010. The new station was manned on August 15, 2011 and held a Public Grand Opening on October



15th, 2011. 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 provides state-of-the-art fire and emergency medical equipment and personnel to the east side of Town.

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 has reimbursed the Town for its complete costs.

2011/2012 Proposed Capital Projects

<u>Project Summary</u>	<u>Estimated Cost</u>
Streets:	
Vehicles	\$ 60,000
Pavement Preservation	\$ 50,000
Bonita St Phase 3 & 4	\$ 10,000
Montezuma Castle Land Exchg	\$ 6,250,000
Fire:	
AFG Facilities	\$ 185,000
Fire Truck	\$ 500,000
Police:	
Computer Equipment	\$ 50,000
Patrol Vehicles	\$ 120,000
Homeland Security Radio Program	\$ 44,000
Radar Equipment	\$ 20,000
Radio Program	\$ 100,000
Admin:	
Office Furniture / Equipment	\$ 10,700
Computer Equipment	\$ 86,500
Airport:	
Airfield Signage & Marking	\$ 490,000
Water:	
Environmental Project	\$ 18,600
Water Line Replacement	\$ 950,000
Buildings	\$ 110,000
Land Acquisition	\$ 142,800
Wells & Pumps	\$ 575,000
Radon Removal Study	\$ 30,000
Water Improvements	\$ 220,000
Computer Equipment	\$ 40,000
Replace Service Truck	\$ 85,000
SCADA Equipment	\$ 50,000
GVP Shoreline Protection	\$ 500,000
ES Tribe Reclamation Pond	\$ 1,800,000
Blue Ridge Water Line	\$ 2,615,300
CC Cragin Pipeline (SRP)	\$ 100,000
Consulting Fees	\$ 600,000
ES CC Cragin Pipe Repair	\$ 4,500,000 *
TOTAL	\$ 20,312,900

* Reflects full ARRA funding

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 Plan 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 projects are 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, 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.

TwoYear Debt Summary All Funds

Debt Type	2011	2010
General Obligation Bonds	\$ 2,883,978	\$ 3,273,633
Special Assessment Bonds	900,000	1,155,000
Revenue Bonds	770,000	860,000
Certificates of Participation	135,000	215,000
Notes Payable	768,548	1,062,675
Capital Leases	363,914	294,604
TOTAL DEBT	\$ 5,821,440	\$ 6,860,912

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

..... Outstanding Debt

Year Ended June 30,	Principal	Interest
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	\$ 4,625,000	\$ 780,923

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.

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. During the 2010/11 fiscal year, funds were used to complete the environmental assessments, infrastructure planning and purchase of the steel pipe. Construction of the water pipeline is expected to begin during the 2011/12 fiscal year.

..... 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 \$9.3 million in the 6% capacity and \$40.0 million in the 20% capacity. The Town is using 18.53% in the 6% capacity and 3.13% in the 20% capacity.

The Town's Net Assets

(in thousands)

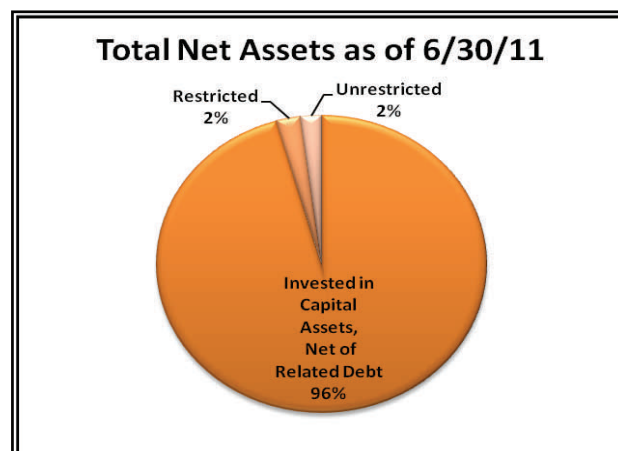
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current & Other Assets	\$ 6,294	\$ 9,013	\$ 7,265	\$ 8,247	\$ 13,559	\$ 17,260
Capital Assets	109,661	109,607	20,369	16,257	130,030	125,864
Total Assets	115,955	118,620	27,634	24,504	143,589	143,124
Liabilities						
Current Liabilities	672	1,016	1,361	723	2,033	1,739
Noncurrent Liabilities	10,208	9,198	1,448	1,623	11,656	10,821
Total Liabilities	10,880	10,214	2,809	2,346	13,689	12,560
Net Assets						
Invested in Capital As- sets, net of Related Debt	104,608	103,809	19,600	15,195	124,208	119,004
Restricted	3,106	3,138	0	1,066	3,106	4,204
Unrestricted	(2,639)	1,459	5,225	5,898	2,586	7,357
Total Net Assets	\$ 105,075	\$ 108,406	\$ 24,825	\$ 22,158	\$ 129,900	\$ 130,564

The Town's statement of net assets provides a "snapshot" of where we stood financially as of June 30, the last day of the fiscal year. Net assets represent the Town's ownership (equity) in the assets within its possession.

Assets represent what the Town owns. Current and other assets include cash, investments, and receivables (money due to the Town). Capital assets are land, buildings, infrastructure, water system, vehicles, machinery, and equipment. They are broken down into two categories: non-depreciable (land) and depreciable (all other capital assets).

Liabilities represent what the Town owes. Current and other liabilities consist of payables (money due from the Town to pay what it owes). Non-current liabilities represent debt that the Town must pay back and is broken out into the current year and future years.

Net assets may serve, over time, as useful indicators of a government's financial position and consist of three components. The largest portion of the Town of Payson, Arizona's net assets (96%) reflects its investment in capital assets less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of net assets (2%) represents resources



that are subject to external restrictions on how they may be used. These legal restrictions are imposed by outside 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 the revenue with local communities. These revenues are legally restricted by the State to be used only for expenditure on street projects. Also, portions of net assets are restricted to pay debt service and fund capital projects. The remainder of net assets (2%) is unrestricted as to purpose.

At the end of the current fiscal year, the Town of Payson was able to report positive balances in all three categories of net assets for the government as a whole. The negative unrestricted net assets reported in the governmental activities was largely due to the current year accruals for other post employment benefits.

Want more information? This Popular Annual Financial Report is intended to summarize the financial information appearing in the 2011 Comprehensive Annual Financial Report (CAFR). Visit the Financial Services Department, Library, or www.paysonaz.gov to obtain copies of the following planning / financial documents which can provide more detailed information:

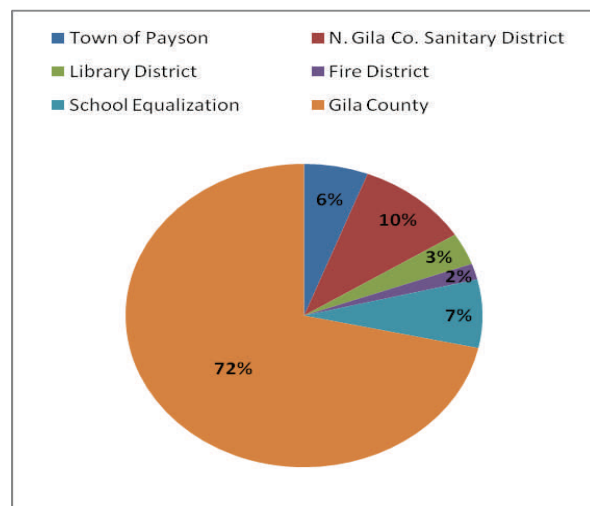
- Comprehensive Annual Financial Report (CAFR) - This report is published to provide detailed information concerning the financial condition and activities of the Town government.
- Annual Budget Document - The Budget, adopted annually by the Town Council, is designed to be a policy document, financial plan, operations guide, and communications medium.
- Capital Improvement Plan - This document outlines the Town's ten year capital improvement plan, sources of funds and associated debt including descriptions of the capital projects and the capital purchase plan for machinery & equipment.
- Business Plan Document - This plan, the framework for our Operations, is a flexible guide that is used to achieve the objectives set forth in the Corporate Strategic Plan, stay in line with the adopted budget, and respond to economic changes that may effect the budget.

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	0.3394
N. Gila Co. Sanitary District	0.6000
Library District	0.2000
Fire District	0.1000
School Equalization	0.4259
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 of this tax 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 3.9% of total revenue.

Profile of Payson, Arizona

Payson celebrated its 125th anniversary in 2007. The town site was established in 1882 with a population of 40, which has grown to 15,301. 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, just 90 miles north of Phoenix, Arizona. The Town's boundaries enclose 19.5 square miles in northern Gila County. Payson is nestled 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 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.

..... Citizen Involvement

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.

***Want to volunteer your talents?**

The Town of Payson has, on average, 139 citizens who volunteer their time and talents each month 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
Recreation and Tourism	Cameron Davis

The Government Finance Officers Association of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Payson, Arizona for its Popular Annual Financial Report for the fiscal year ending June 30, 2010. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

Town of Payson
Arizona

for the Fiscal Year Ended

June 30, 2010



Linda C. Davidson
President

Jeffrey L. Evers
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

Parks & Recreation

1000 W. Country Club Drive
Payson, AZ 85541

Water Division

303 N. Beeline Hwy
Payson, AZ 85541