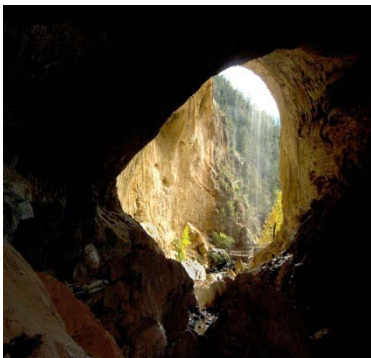




COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011



TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011

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**TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011
TABLE OF CONTENTS**

INTRODUCTORY SECTION

Letter of Transmittal	1
List of Town Officials	5
Organization Chart	6
GFOA Certificate of Achievement	7

FINANCIAL SECTION

Independent Auditors' Report	11
Management's Discussion and Analysis	13

Basic Financial Statements

Statement of Net Assets	26
Statement of Activities	27
Balance Sheet – Governmental Funds	28
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	29
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	32
HURF Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	34
Statement of Net Assets – Proprietary Funds	35
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	36
Statement of Cash Flows – Proprietary Funds	37
Notes to the Basic Financial Statements	39

**TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011
TABLE OF CONTENTS (CONTINUED)**

FINANCIAL SECTION (CONTINUED)

Required Supplementary Information Other Than MD&A

Schedules of Funding Progress	70
 Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	75
Debt Service Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	76
Capital Projects Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	77
Library District Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	78
JCEF/FTG Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	79

STATISTICAL SECTION

Financial Trends	
Net Assets by Component	82
Changes in Net Assets	84
Fund Balances of Governmental Funds	88
Changes in Fund Balances of Governmental Funds	90
Revenue Capacity	
General Government Tax Revenues by Source	93
Taxable Sales by Category	94
Direct and Overlapping Sales Tax Rates	96
Assessed Value and Estimated Actual Value of Taxable Property	97
Property Tax Rates – Direct and Overlapping Governments	98
Principal Property Taxpayers	99
Property Tax Levies and Collections	100

**TOWN OF PAYSON, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011
TABLE OF CONTENTS (CONTINUED)**

STATISTICAL SECTION (CONTINUED)

Debt Capacity

Ratio of Outstanding Debt by Type	101
Ratio of General Bonded Debt Outstanding	102
Direct and Overlapping Governmental Activities Debt	103
Legal Debt Margin Information	104
Calculation of Legal Debt Margin	106
Pledged-Revenue Coverage	107

Demographic and Economic Information

Demographic and Economic Statistics	108
Principal Employers	109

Operating Information

Full-time Equivalent Employees by Function	111
Operating Indicators by Function	112
Capital Assets Statistics by Function	114

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INTRODUCTORY SECTION

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

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

(928) 474-5242
(928) 472-6449 TDD
(928) 474-4610 Fax
www.ci.payson.az.us

December 15, 2011

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, AZ (the Town), for the
fiscal year ended June 30, 2011 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.

LarsonAllen LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the
Town of Payson's financial statements for the fiscal year ended June 30, 2011. 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. The
MD&A complements this letter of transmittal and should be read in conjunction with this letter.

PROFILE OF THE GOVERNMENT

The Town of Payson, Arizona, (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 19.5 square
miles in northern Gila County and serve a population of 17,281. Surrounded by the Tonto National
forest and the world's largest stand of virgin Ponderosa Pines, Payson is nestled just below Arizona's
Mogollon Rim at an elevation of 4,982 feet and enjoys a moderate four season climate.

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

The Town 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 Council is responsible for, among other things, passing ordinances, resolutions and adopting the Town's annual budget. They also appoint committees and hire the Town Manager and Town Attorney. The Town Manager is responsible for carrying out the policies, ordinances and resolutions of the Town Council, and for overseeing the day-to-day operations of the Town. The Council is elected on a nonpartisan "at large" basis. Council members are elected to four-year staggered terms with three Council members selected every two years. The qualified electors of the Town directly elect the Mayor for a two-year term.

The Town of Payson provides a full range of services, including police, fire, and emergency medical services; planning, zoning, and building code enforcement; the construction maintenance of streets and other infrastructure; recreational activities and cultural events; and airport and a library. In addition, the Town of Payson operates a municipal water utility that presently serves 7,827 customers.

The Council is required to adopt a tentative budget on or before the third Monday in July. Public hearings are held on the proposed budget with adoption of the final budget on or before the seventh day before the tax levy is adopted, which is on or before the third Monday in August. This annual budget serves as the foundation for the Town of Payson'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, needs approval from the Town Council.

LOCAL ECONOMY

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

Like the rest of the nation, Payson continued to experience an unfavorable economic environment during fiscal year 2010-2011. Based on the 2010 Census, the population of Payson is now 15,301. Over the last ten years, the population increased 12.3%. The Town's unemployment rate, as of June 2011 was 10.9 percent. This is the same as last year, and compares equitably with the State's rate of 9.9 percent and the county's rate of 10.9 percent. The region (which includes Payson, another town and the surrounding non-incorporated areas within the County) has an employed labor force of approximately 6,332 that has increased significantly over the last fifteen years.

LONG-TERM FINANCIAL PLANNING

The Town of Payson 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. Each year, the Town Council and the management staff participate in a strategic planning process to update the Corporate Strategic Plan (CSP) to accommodate changes in constituent's needs. 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 of Payson operates.

The Town's financial policies set forth the basic framework for the fiscal management of the Town. These include policies for accounting, budgeting, capital improvements, asset management, revenue management, risk management, and fund balance/reserve levels. These policies were developed within the parameters established by applicable provisions of Arizona Revised Statutes, Title 9 Cities and Towns, and the Town of Payson Code of Ordinances. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

The Town's accounting records for general governmental activities are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services of goods are received and the liabilities are incurred. Accounting records for the Town's water and sewer utility and other proprietary activities are maintained on the accrual basis.

Budgetary control is maintained at the fund level. Unused appropriations lapse at year-end, and must be re-appropriated or absorbed in the next year's operating budget. Appropriations for Capital Improvement Projects do not lapse at year-end, but are valid for the life of the project. Under the Town's budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be re-appropriated and honored the subsequent fiscal year.

The annual budget serves as the foundation for the Town of Payson's financial planning and control. All agencies of the Town of Payson are required to submit requests for appropriation to Financial Services by April 1 each year. These requests are used to develop a proposed budget. In early July, the Tentative Budget is adopted and a public hearing is held on the State Expenditure Limitation document. In early August, a public hearing is held on the Final Budget, which is then adopted by the Council. Within seven days of the Final Budget adoption, a public hearing is held on the proposed Primary and Secondary tax rates where they are then adopted by ordinance. Upon adoption, they are certified to the County Treasurer. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Transfer of appropriations within a department and within funds may be made with approval from the Town Manager. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

MAJOR INITIATIVES

Although the tough economic climate of the past couple years, has slowed down the progress of some of the strategic objectives of the Town, several initiatives were undertaken in fiscal year 2010/2011.

- In the fall of 2009, the Town secured a \$10.6 million loan from the Water Infrastructure Financing Authority (WIFA) of Arizona. \$4 million of which was an American Recovery and Reinvestment Act (ARRA). During the 2010/2011 fiscal year, funds were used to complete the environmental assessments, infrastructure planning and purchase of the steel pipe. Construction of the 14.5 mile water pipeline from the C.C. Cragin reservoir to the town is expected to begin during the next fiscal year.
- The round-about at Airport Road was completed.
- Constructed a third fire station using 2003 voter approved bonds.

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Payson for the comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the thirteenth consecutive year that the government achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized comprehensive annual financial report (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 the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for the annual budget document for fiscal year 2010/2011. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device. This also was the twelfth consecutive year that the government 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. We wish to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and members of the Town Council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Payson's finances.

Respectfully submitted,



Debra A. Galbraith, CGFM
Town Manager



Hope Cribb
Finance Manager

TOWN OF PAYSON, ARIZONA TOWN OFFICIALS

TOWN COUNCIL

Kenny J. Evans
Mayor

Michael Hughes, Vice Mayor
John R. Wilson
Su Connell

Ed Blair
Richard Croy
Fred Carpenter

TOWN MANAGER

Debra A. Galbraith

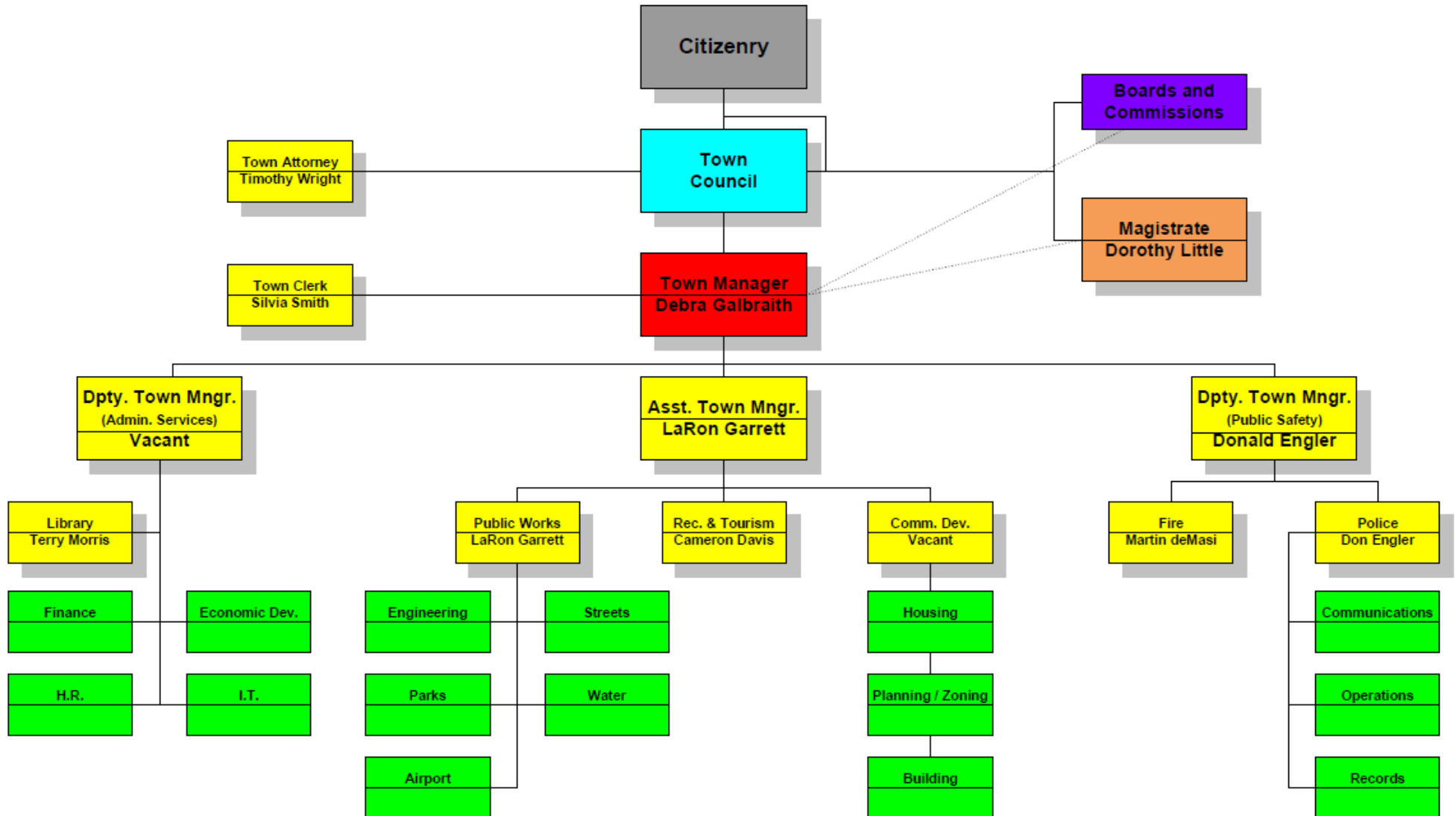
DEPARTMENT DIRECTORS

Town Clerk
Town Attorney
Magistrate
Police Chief
Fire Chief
Librarian
Public Works/Town Engineer
Community Development
Parks, Recreation and Tourism

Silvia Smith
Timothy Wright
Dorothy Little
Don Engler
Marty DeMasi
Terry A. Morris
LaRon Garrett
Ray Erlandsen, Acting
Cameron Davis

Town of Payson

Current Organizational Chart



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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

President

Jeffrey R. Enen

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

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, 2011 which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Highway User Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the year ended June 30, 2011, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011 on our consideration of the Town'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* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 13 - 23 and the Public Safety Personnel Retirement System and Other Postemployment Benefits Schedule of Funding Progress on page 70 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, combining and individual fund financial statements and 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
December 15, 2011

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

The Town of Payson, Arizona (Town) is pleased to offer readers of the Town's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2011. The intended purpose of the Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes. This discussion will help determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impact on our debt and operations. When referring to prior year's data in this analysis we will be drawing upon information from last year's audited financial reports.

Financial Highlights

- ◆ The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$129.9 million (net assets). Of this amount \$2.6 million is unrestricted and may be used to meet the Town's on-going obligations to citizens and creditors. The decrease in unrestricted net assets is largely due to the current year increase in other post employment benefits liability.
- ◆ As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4.2 million, a decrease of \$1.2 million in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$0.9 million or 7.8 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$0.3 million for fiscal year 2011. Additionally, budgetary basis expenditures were 70% (\$4.8 million (30%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues were more than expenditures by \$0.2 million; a variance of \$5.0 million from the final budget.
- ◆ In August 2009, the Town entered into a \$10.6 million (\$4.0 million in federal grant funding and \$6.6 million in loans) agreement with the Water Infrastructure Finance Authority of Arizona for completion of Phase I of the C.C. Cragin pipeline and for required repairs and replacements to the existing system. As of June 30, 2011, the Town has drawn down \$1.0 million of the loan and has drawn the maximum \$4.0 million in federal ARRA grant funds.
- ◆ The Town implemented the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the year ended June 30, 2011. The implementation of this statement resulted in the restatement of fund balances in several funds due to reclassification of funds.

Overview of the Financial Statements

The financial section of the Comprehensive Annual Financial Report (CAFR) for the Town of Payson, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds, and notes to the basic financial statements.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Payson, Arizona's finances, in a manner similar to private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid time off).

Both of the government-wide financial statements distinguish functions of the Town of Payson, Arizona 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 of Payson, Arizona include general government, public safety, highways and streets, culture and recreation, public works, community development and health and welfare. The business-type activities include only the operations of the water system.

The government-wide financial statements can be found on pages 26 - 27 of this report.

Fund financial statements. Also presented are the fund financial statements for governmental funds. The fund financial statements focus on major funds of the Town, rather than fund type. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Payson, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Payson, Arizona can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenses and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Highway Users Revenue Fund (HURF), Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The basic governmental fund financial statements can be found on pages 28 - 34 of this report.

Proprietary funds. The Town of Payson, Arizona maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Payson, Arizona uses enterprise funds to account for its operations of its water services. *Internal service funds* are an accounting device used to accumulate and allocate costs among the Town of Payson, Arizona's various functions. The Town of Payson, Arizona uses an internal service fund to account for its insurance services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

The basic proprietary fund financial statements can be found on pages 35 - 38 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 39 - 67) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the basic financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.D. and in the Required Supplementary Information on page 70 of this report.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2011 showing that assets exceeded liabilities by \$129.9 million.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Town of Payson, Arizona
Condensed Statement of Net Assets
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$ 6,294,164	\$ 9,012,719	\$ 7,265,263	\$ 8,246,669	\$ 13,559,427	\$ 17,259,388
Capital Assets						
Non-depreciable	13,934,633	12,656,418	9,804,142	4,972,679	23,738,775	17,629,097
Depreciable (net)	95,726,145	96,951,264	10,564,408	11,285,047	106,290,553	108,236,311
Total Assets	<u>115,954,942</u>	<u>118,620,401</u>	<u>27,633,813</u>	<u>24,504,395</u>	<u>143,588,755</u>	<u>143,124,796</u>
Liabilities						
Current Liabilities	671,904	1,015,847	1,361,470	723,106	2,033,374	1,738,953
Noncurrent Liabilities						
Due Within One Year	1,756,920	1,556,227	430,853	405,531	2,187,773	1,961,758
Due in More Than One Year	8,451,181	7,641,800	1,016,550	1,216,970	9,467,731	8,858,770
Total Liabilities	<u>10,880,005</u>	<u>10,213,874</u>	<u>2,808,873</u>	<u>2,345,607</u>	<u>13,688,878</u>	<u>12,559,481</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	104,607,886	103,809,445	19,600,002	15,195,051	124,207,888	119,004,496
Restricted	3,106,342	3,137,935	-	1,065,623	3,106,342	4,203,558
Unrestricted	(2,639,291)	1,459,147	5,224,938	5,898,114	2,585,647	7,357,261
Total Net Assets	<u>\$ 105,074,937</u>	<u>\$ 108,406,527</u>	<u>\$ 24,824,940</u>	<u>\$ 22,158,788</u>	<u>\$ 129,899,877</u>	<u>\$ 130,565,315</u>

Net assets consist of three components. The largest portion of the Town of Payson, Arizona's net assets (96%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, water system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town of Payson, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Payson, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Payson, Arizona's net assets (2.4%) represents resources that are subject to external restrictions. The remaining balance (\$2.6 million) represents unrestricted net assets.

At the end of the current fiscal year, the Town of Payson, Arizona 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 accrual for other post employment benefits.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

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

Changes in Net Assets Fiscal Years Ended June 30, 2011 and 2010						
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,459,662	\$ 1,727,955	\$ 3,961,028	\$ 3,678,173	\$ 5,420,690	\$ 5,406,128
Operating Grants and Contributions	2,237,241	1,840,478	-	-	2,237,241	1,840,478
Capital Grants and Contributions	862,801	448,191	3,100,474	117,124	3,963,275	565,315
General Revenues:						
Sales Taxes	5,915,905	5,919,923	-	-	5,915,905	5,919,923
Property Taxes	1,010,692	1,002,536	-	-	1,010,692	1,002,536
Franchise Taxes	344,833	349,061	-	-	344,833	349,061
State Shared Revenues	2,681,419	3,124,512	-	-	2,681,419	3,124,512
Auto Lieu Taxes	852,475	863,732	-	-	852,475	863,732
Investment Earnings (Loss)	76,978	(39,885)	(14,082)	(40)	62,896	(39,925)
Total Revenues	15,442,006	15,236,503	7,047,420	3,795,257	22,489,426	19,031,760
EXPENSES						
General Government	3,984,961	3,133,909	-	-	3,984,961	3,133,909
Public Safety	8,645,178	8,164,357	-	-	8,645,178	8,164,357
Highways and Streets	2,765,928	3,070,365	-	-	2,765,928	3,070,365
Culture and Recreation	1,466,906	1,575,542	-	-	1,466,906	1,575,542
Public Works	324,660	284,563	-	-	324,660	284,563
Community Development	1,228,298	1,119,712	-	-	1,228,298	1,119,712
Health and Welfare	259,854	273,394	-	-	259,854	273,394
Interest on Long-Term Debt	249,925	267,661	-	-	249,925	267,661
Water	-	-	4,229,154	4,164,224	4,229,154	4,164,224
Total Expenses	18,925,710	17,889,503	4,229,154	4,164,224	23,154,864	22,053,727
CHANGE IN NET ASSETS BEFORE TRANSFERS	(3,483,704)	(2,653,000)	2,818,266	(368,967)	(665,438)	(3,021,967)
Transfers	152,114	1,005,000	(152,114)	(1,005,000)	-	-
CHANGE IN NET ASSETS	(3,331,590)	(1,648,000)	2,666,152	(1,373,967)	(665,438)	(3,021,967)
Net Assets - Beginning of Year	108,406,527	110,054,527	22,158,788	23,532,755	130,565,315	133,587,282
NET ASSETS - END OF YEAR	<u>\$ 105,074,937</u>	<u>\$ 108,406,527</u>	<u>\$ 24,824,940</u>	<u>\$ 22,158,788</u>	<u>\$ 129,899,877</u>	<u>\$ 130,565,315</u>

Governmental activities. Total governmental revenues increased over the prior year with a net increase of \$0.2 million (1%).

Program revenues increased \$0.5 million over the prior fiscal year. The increase was the net result of a 22% increase in operating grants and contributions, 15% decrease in fees, fines and charges for services, and a 93% increase in capital grants and contributions. The increase in the operating grants and contributions was due to the Town receiving increased funding for wild fire assistance and the agreement for the vehicle purchase program. These two grants accounted for \$0.3 million of the \$0.4 million increase. Several small operating grants and one energy efficiency grant accounted for the remaining increase. The decrease in fees, fines, and charges was the net effect of a decrease in police patrol services, decrease in citations, increase in uncollectible citations and decreases in development fee revenue. The increase in capital grants was the result of the Town receiving a \$0.4 million grant from the Arizona Department of Transportation for completion of the roundabout road project at the airport, \$0.1 million reimbursement for a prior year land acquisition from the Federal Aviation Administration and \$0.2 million in community development block grants and \$0.1 million from the Justice Department for the purchase of police radio equipment.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

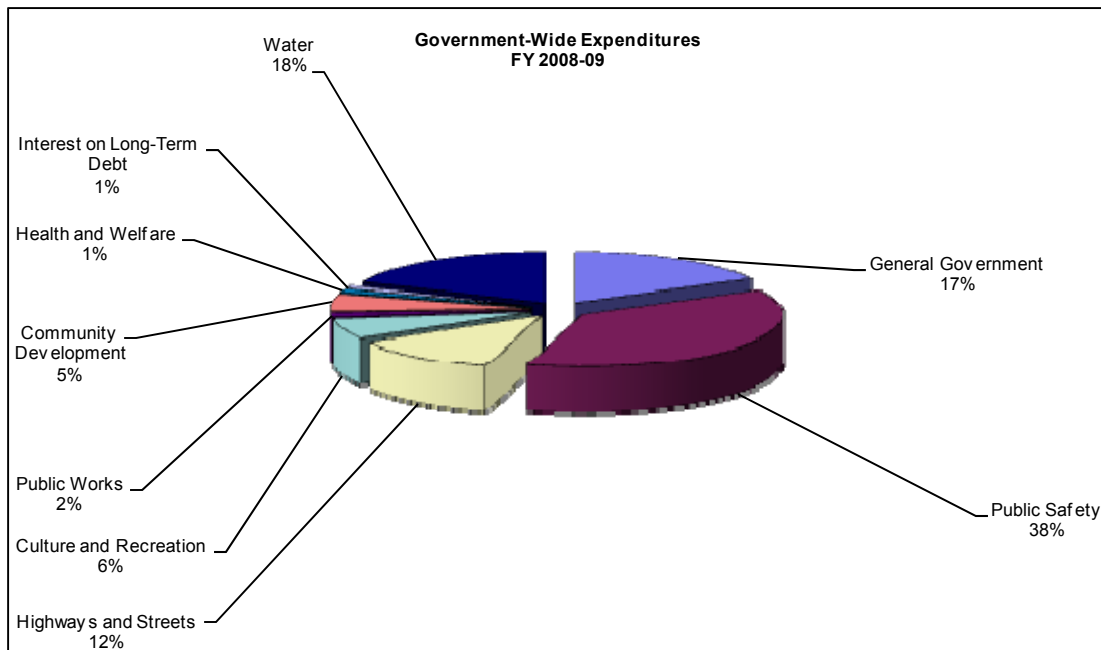
General revenues decreased \$0.3 million. The decrease was largely due to the net result of a 14% (\$0.4 million) decline in state shared revenues and a 293% increase in interest earnings (\$0.1 million). The decline in state shared revenue was due to current economic conditions that have caused a decrease in local spending and continued State budget problems that caused a decrease in the amount of state sales tax that was distributed to cities and towns. State shared revenues are collected by the State and "shared" based on population. Sales taxes are generated directly from consumers. Interest earnings increased largely due to more cash on hand throughout the year, as well as a slight increase in rates over the prior fiscal year.

Expenses generally increased, with the exception of a decrease of \$0.3 million in highways and streets and a decrease of \$0.1 million in culture and recreation. The decreases were largely due to the Town not paying as much of the health insurance premium as in the prior year. The overall increase in expenses was due primarily from the purchase of law enforcement vehicles for other entities and the completion of the construction of the third fire station. The increase in community development was due to operating grant expenses for housing rehabilitation.

Business-type activities. Charges for services increased over the prior fiscal year by almost \$0.3 million. The increase was due to increased rates that were implemented during the fiscal year 2010-11 for water usage. Capital grants increased \$3.0 million over the prior fiscal year. The increase was entirely due to the federal grant received as part of the Water Infrastructure Finance Authority of Arizona forgivable loan. Investment earnings decreased due to less cash, a loss in the adjustment of investments to market and lower interest rates on cash and investments.

The 2% (\$64,930) increase in expenses was not significant during the year.

The following graph illustrates the Town's government-wide expenses previously discussed in a comparative analysis of government-wide revenues, expenses and changes in net assets.



**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Financial Analysis of the Town's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$4.2 million, a decrease of \$1.2 million in comparison with the prior year. Approximately 37% of this total amount (\$1.5 million) constitutes General Fund fund balance, which is reported as either nonspendable, restricted, committed, assigned or unassigned fund balance. At fiscal year-end 2010-2011 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2009-10
General Fund	\$ 1,532,459	140,194
HURF Fund	435,557	167,363
Debt Service Fund	988,355	(213,935)
Capital Projects	1,142,769	(1,316,421)
Nonmajor Governmental Funds	83,036	(11,978)

The General Fund is the chief operating fund of the Town of Payson, Arizona. As a measure of the General Fund's liquidity, it may be useful to compare both the General Fund fund balance and total fund balance to total fund expenditures. The unassigned General Fund fund balance represents 8% of total General Fund expenditures, while total unassigned fund balance represents 5% of total fund expenditures.

The change in fund balance in the General Fund was relatively equal to the prior year change in fund balance (increasing approximately \$100,000 over the prior year). The slight increase in fund balance is the result of the Town's fiscal policy to spend not only within budget limits, but spend conservatively based on revenues received during the year.

The Highway User Revenue Fund increased \$0.2 million due to decreased spending for capital improvement projects. The Town completed the construction of the Airport Road roundabout; however, those costs were funded by a grant received through the Arizona Department of Transportation.

The Debt Service Fund accounts for the payment of general obligation bonds and special assessments. The debt service due on this long-term debt is funded largely by property tax, sales and special assessment revenues; however, funds are transferred in from other funds to contribute to the debt service due on the general obligation bonds. The debt service fund decreased \$0.2 million due to the use of carryover funds from prior years for current debt service.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

The Capital Projects Fund decreased \$1.3 million. The decrease in the Capital Projects Fund was due to the use of a prior year \$1.5 million bond issuance to finance the fire station #3 construction.

The Nonmajor Governmental Funds decrease of approximately \$12,000 was not significant.

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 32 - 34. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The Town did not amend its budget during the fiscal year.

The budget was prepared based on assumptions regarding the continuing decline of the national and regional economy. Although the economy seems to show small signs of stabilizing, the Town still follows a conservative approach to budgeting. When the Town went into this decline a few years ago, there were very few reserves available as a cushion. Over the past few years, the amount of reserves have shown some improvement, but are still at a level far below the requirements of the Town.

General fund revenues of \$12.3 million were less than budgeted revenues of \$12.7 million by \$0.4 million while expenditures of \$11.9 million were 69% of budgeted expenditures (savings of \$5.3 million). Revenues were less than budgeted revenues primarily due to economic downturns. The expenditure savings were derived largely from unspent contingencies, vacancies savings, and furloughs.

Capital Assets

Due to the tremendous decline in revenues as a result of the economy, the Town continued to delay most capital improvements projects.

The Town's capital assets for its governmental activities as of June 30, 2011 totaled \$109.7 million (net of accumulated depreciation), an increase from the prior year of \$53,000. Business-type activities capital assets amounted to \$20.4 million (net of accumulated depreciation), a net increase from the prior year of \$4.1 million. The increase in the Business-type activities was due to the continued investment in the C.C Cragin Pipeline project. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Major capital asset events during the current fiscal year included the following:

Governmental Activities

The most significant change in capital assets in the Governmental Activities was \$1.7 million in current year depreciation expense and \$1.3 million in additions to construction in progress. The construction in progress was for the construction of the fire station. The estimated cost to complete the fire station is less than \$100,000.

Business-Type Activities

The most significant change in capital assets in the Business Type Activities was \$1.0 million in current year depreciation expense and \$4.8 million in construction in progress additions for the continued construction on the CC Cragin Pipeline. The estimated cost to complete this phase of construction is \$5.8 million.

The following table provides a breakdown of the capital assets of the Town at June 30, 2011 and 2010.

Town of Payson, Arizona
Capital Assets (net)
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 12,238,995	\$ 12,222,878	\$ 1,504,077	\$ 1,504,077	\$ 13,743,072	\$ 13,726,955
Construction in Progress	1,695,638	433,540	4,476,060	3,468,602	6,171,698	3,902,142
Water Rights	-	-	3,824,005	-	3,824,005	-
Infrastructure	85,087,586	85,757,694	-	-	85,087,586	85,757,694
Buildings	5,659,319	5,920,314	220,989	240,933	5,880,308	6,161,247
Improvements Other Than Buildings	2,089,413	2,437,978	10,109,831	10,809,882	12,199,244	13,247,860
Vehicles, Machinery and Equipment	2,889,827	2,835,278	233,588	234,232	3,123,415	3,069,510
Total Capital Assets	<u>\$ 109,660,778</u>	<u>\$ 109,607,682</u>	<u>\$ 20,368,550</u>	<u>\$ 16,257,726</u>	<u>\$ 130,029,328</u>	<u>\$ 125,865,408</u>

Long-Term Debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$11.7 million. Of the outstanding debt, \$2.9 million (including \$4,720 of deferred amount on the refunding of the bonds and \$68,698 premium on the bonds) is general obligation bonds and \$0.8 million is loans payable backed by the full faith and credit of the Town. An additional \$0.9 million of special assessment bonds are backed by a guaranteed investment contract with the developer of the special assessment Town property. All other outstanding debt is secured by pledges of specific revenue sources in the Town, including revenue bonds of \$0.8 million and certificates of participation of \$0.1 million.

The State imposes certain debt limitations on the Town of six percent (6%) and twenty percent (20%) of the outstanding secondary net assessed valuation of the Town. The Town's available debt margin at June 30, 2011 is \$9.3 million in the 6% capacity and \$40.0 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (pages 104 - 106).

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2011 and 2010. Further detail on the Town's outstanding debt may be found in Notes 3.C., 3.D. and 3.E. on pages 53 - 59.

Town of Payson, Arizona
Outstanding Debt
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 2,883,978	\$ 3,273,633	\$ -	\$ -	\$ 2,883,978	\$ 3,273,633
Special Assessment Bonds	900,000	1,155,000	-	-	900,000	1,155,000
Revenue Bonds	770,000	860,000	-	-	770,000	860,000
Certificates of Participation	135,000	215,000	-	-	135,000	215,000
Notes Payable	-	-	768,548	1,062,675	768,548	1,062,675
Capital Leases	363,914	294,604	-	-	363,914	294,604
Compensated Absences	1,255,329	1,077,968	222,507	227,292	1,477,836	1,305,260
Other Postemployment Benefits	3,899,880	2,321,822	456,348	332,534	4,356,228	2,654,356
Total Outstanding Debt	<u>\$ 10,208,101</u>	<u>\$ 9,198,027</u>	<u>\$ 1,447,403</u>	<u>\$ 1,622,501</u>	<u>\$ 11,655,504</u>	<u>\$ 10,820,528</u>

Economic Factors and Next Year's Budgets and Rates

The Town, as well as all other Arizona cities, remains dependent on state shared revenues (26%) and local sales taxes for resources (41%). These revenue sources are sensitive to economic downturns and legislative appropriations. The Town expects the downturn of the economy to continue.

The Fiscal Year 2010-2011 budget preparation was influenced by the following factors:

- Reductions in every major operating fund due to revenue declines in town sales taxes, state shared tax revenues, highway user (gas tax) revenues, and building revenues
- Consideration of correspondingly reduced service levels in every department as a result of reductions in personnel
- Consideration of the impact of the continued local market downturn and the safeguards needed to deal with additional projected deadlines
- The pursuit of federal stimulus and other grant dollars to enhance the local economy
- Realignment of core services within reduced budget parameters that maintain Council goals
- Assessment and funding of long range capital needs and their associated operational impacts
- Completion of projects approved through the 2004 public safety bond election including completion of the third fire station
- Planning efforts for issuing the remaining bond authorization of \$1,525,000 for public safety improvements
- Continued assessment of future water resource needs.

**TOWN OF PAYSON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Financial Contact

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Payson
Financial Services Department
303 North Beeline Highway
Payson, AZ 85541

Or visit our website at:

<http://www.paysonaz.gov>

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Basic Financial Statements

TOWN OF PAYSON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	3,488,994	\$ 4,422,535	\$ 7,911,529
Cash on Deposit with Paying Agent	405,000	-	405,000
Receivables, Net			
Accounts Receivable	42,699	525,448	568,147
Intergovernmental Receivables	914,260	1,195,363	2,109,623
Special Assessments Receivable	818,205	-	818,205
Notes Receivable	-	127,913	127,913
Prepaid Items	7,629	-	7,629
Deferred Charges	125,868	-	125,868
Restricted Cash and Investments	491,509	939,517	1,431,026
Other Assets	-	54,487	54,487
Capital Assets			
Non-Depreciable	13,934,633	9,804,142	23,738,775
Depreciable (Net)	95,726,145	10,564,408	106,290,553
Total Assets	<u>115,954,942</u>	<u>27,633,813</u>	<u>143,588,755</u>
LIABILITIES			
Accounts Payable	243,216	807,784	1,051,000
Accrued Wages and Benefits	401,136	55,043	456,179
Interest Payable	14,802	-	14,802
Customer Deposits Payable	12,000	487,658	499,658
Unearned Revenue	750	10,985	11,735
Noncurrent Liabilities			
Due Within One Year	1,756,920	430,853	2,187,773
Due in More Than One Year	8,451,181	1,016,550	9,467,731
Total Liabilities	<u>10,880,005</u>	<u>2,808,873</u>	<u>13,688,878</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	104,607,886	19,600,002	124,207,888
Restricted for			
General Government	258,360	-	258,360
Public Safety	83,033	-	83,033
Highways and Streets	435,557	-	435,557
Debt Service	1,806,560	-	1,806,560
Capital Outlay	522,832	-	522,832
Unrestricted	(2,639,291)	5,224,938	2,585,647
Total Net Assets	<u>\$ 105,074,937</u>	<u>\$ 24,824,940</u>	<u>\$ 129,899,877</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities							
General Government	\$ 3,984,961	\$ 669,803	\$ 84,899	\$ 212,173	\$ (3,018,086)		\$ (3,018,086)
Public Safety	8,645,178	404,286	645,815	84,053	(7,511,024)		(7,511,024)
Highways and Streets	2,765,928	-	1,442,814	394,922	(928,192)		(928,192)
Culture and Recreation	1,466,906	138,524	-	-	(1,328,382)		(1,328,382)
Public Works	324,660	103,004	-	-	(221,656)		(221,656)
Community Development	1,228,298	124,893	63,713	171,653	(868,039)		(868,039)
Health and Welfare	259,854	19,152	-	-	(240,702)		(240,702)
Interest on Long-Term Debt	249,925	-	-	-	(249,925)		(249,925)
Total Governmental Activities	18,925,710	1,459,662	2,237,241	862,801	(14,366,006)		(14,366,006)
Business-Type Activities							
Water	4,229,154	3,961,028	-	3,100,474	-	\$ 2,832,348	2,832,348
Totals	\$ 23,154,864	\$ 5,420,690	\$ 2,237,241	\$ 3,963,275	(14,366,006)	2,832,348	(11,533,658)
General Revenues:							
Taxes							
Sales Taxes					5,915,905	-	5,915,905
Property Taxes					976,039	-	976,039
Franchise Taxes					344,833	-	344,833
Special Assessments					34,653	-	34,653
State Sales Tax Revenue Sharing - Unrestricted					2,681,419	-	2,681,419
Auto Lieu Tax Revenue Sharing - Unrestricted					852,475	-	852,475
Investment Earnings (Loss)					76,978	(14,082)	62,896
Transfers					152,114	(152,114)	-
Total General Revenues and Transfers					11,034,416	(166,196)	10,868,220
Change in Net Assets					(3,331,590)	2,666,152	(665,438)
Net Assets - Beginning					108,406,527	22,158,788	130,565,315
Net Assets - Ending					\$ 105,074,937	\$ 24,824,940	\$ 129,899,877

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,340,620	\$ 378,651	\$ 588,056	\$ 589,138	\$ 99,230	\$ 2,995,695
Cash with Paying Agents	-	-	405,000	-	-	405,000
Restricted Cash and Investments	-	-	-	491,509	-	491,509
Accounts Receivable	29,603	-	8,717	-	1,667	39,987
Intergovernmental Receivable	686,206	142,617	1,384	84,053	-	914,260
Special Assessments Receivable	-	-	818,205	-	-	818,205
Prepaid Items	7,629	-	-	-	-	7,629
Total Assets	<u>\$ 2,064,058</u>	<u>\$ 521,268</u>	<u>\$ 1,821,362</u>	<u>\$ 1,164,700</u>	<u>\$ 100,897</u>	<u>\$ 5,672,285</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 171,169	\$ 47,510	\$ -	\$ 21,931	\$ 2,606	\$ 243,216
Accrued Wages and Benefits	347,680	38,201	-	-	15,255	401,136
Interest Payable	-	-	14,802	-	-	14,802
Deferred Revenue	750	-	818,205	-	-	818,955
Customer Deposits Payable	12,000	-	-	-	-	12,000
Total Liabilities	<u>531,599</u>	<u>85,711</u>	<u>833,007</u>	<u>21,931</u>	<u>17,861</u>	<u>1,490,109</u>
Fund Balances						
Nonspendable for Prepaids	7,629	-	-	-	-	7,629
Restricted	258,357	435,557	988,355	522,832	83,036	2,288,137
Assigned						
Public Safety	133,373	-	-	-	-	133,373
Culture and Recreation	208,587	-	-	-	-	208,587
Capital Outlay	-	-	-	619,937	-	619,937
Unassigned	924,513	-	-	-	-	924,513
Total Fund Balance	<u>1,532,459</u>	<u>435,557</u>	<u>988,355</u>	<u>1,142,769</u>	<u>83,036</u>	<u>4,182,176</u>
Total Liabilities and Fund Balance	<u>\$ 2,064,058</u>	<u>\$ 521,268</u>	<u>\$ 1,821,362</u>	<u>\$ 1,164,700</u>	<u>\$ 100,897</u>	<u>\$ 5,672,285</u>

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances for Governmental Funds	\$ 4,182,176
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental Capital Assets	139,175,126
Less Accumulated Depreciation	(29,514,348)
Capital Assets Used in Governmental Activities	109,660,778

Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	818,205
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Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

General Obligation Bonds	(2,820,000)
Special Assessment Bonds	(900,000)
Revenue Bonds Payable	(770,000)
Certificates of Participation	(135,000)
Deferred Amount on Premium	(68,698)
Capital Leases	(363,914)
Compensated Absences	(1,255,329)
Other Postemployment Benefits	(3,899,880)
Deferred Charges for Bond Issuance	125,868
Deferred Amount on Refunding	4,720

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

	496,011
Total Net Assets of Governmental Activities	\$ 105,074,937

TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes						
Sales Taxes	\$ 5,593,466	\$ -	\$ 322,439	\$ -	\$ -	\$ 5,915,905
Property Taxes	598,977	-	147,832	-	229,230	976,039
Franchise Taxes	344,833	-	-	-	-	344,833
Intergovernmental	4,455,439	1,442,814	-	255,706	-	6,153,959
Fines and Forfeitures	161,712	-	-	-	15,602	177,314
Licenses and Permits	215,695	-	-	-	-	215,695
Charges for Services	684,754	-	-	-	-	684,754
Contributions and Donations	12,459	390,000	60,000	-	1,401	463,860
Development Impact Fees	-	22,230	-	26,625	-	48,855
Special Assessments	-	-	154,239	-	-	154,239
Investment Earnings	74,336	-	13	2,625	4	76,978
Other	221,518	16,522	-	75,000	20,004	333,044
Total Revenues	12,363,189	1,871,566	684,523	359,956	266,241	15,545,475
EXPENDITURES						
Current						
General Government	2,600,725	-	-	-	-	2,600,725
Public Safety	7,178,572	-	-	-	-	7,178,572
Highways and Streets	462,651	1,704,203	-	-	-	2,166,854
Culture and Recreation	396,672	-	-	-	395,224	791,896
Public Works	6,905	-	-	-	-	6,905
Community Development	967,377	-	-	-	-	967,377
Health and Welfare	259,707	-	-	-	-	259,707
Debt Service						
Principal Retirement	47,492	-	911,737	-	-	959,229
Interest on Long-Term Debt	788	-	222,539	-	-	223,327
Capital Outlay	218,539	-	-	1,777,774	-	1,996,313
Total Expenditures	12,139,428	1,704,203	1,134,276	1,777,774	395,224	17,150,905
Excess (Deficiency) of Revenues Over Expenditures	223,761	167,363	(449,753)	(1,417,818)	(128,983)	(1,605,430)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	235,818	189,997	117,005	542,820
Transfers Out	(302,106)	-	-	(88,600)	-	(390,706)
Proceeds from Capital Lease	218,539	-	-	-	-	218,539
Total Other Financing Sources (Uses)	(83,567)	-	235,818	101,397	117,005	370,653
Net Change in Fund Balance	140,194	167,363	(213,935)	(1,316,421)	(11,978)	(1,234,777)
FUND BALANCE						
Beginning of Year (As Restated)	1,392,265	268,194	1,202,290	2,459,190	95,014	5,416,953
End of Year	\$ 1,532,459	\$ 435,557	\$ 988,355	\$ 1,142,769	\$ 83,036	\$ 4,182,176

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances of Governmental Funds \$ (1,234,777)

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

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

Expenditures for Capital Assets	1,793,665
Less Current Year Depreciation	(1,740,569)
Excess Depreciation Over Capital Expenditures	53,096

Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities.

Special Assessments Recognized	(119,586)
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The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long term debt in the statement of activities.

Principal Payments on Long-Term Bonds	810,000
Proceeds on Capital Lease	(218,539)
Principal Payments on Capital Leases	149,229
Amortization of Issuance Costs	(31,253)
Amortization of Deferred Amount on Bond Premium	9,373
Amortization of Deferred Amount on Refunding	(4,718)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net Increase in Compensated Absences	(177,361)
Net Increase in Other Postemployment Benefits	(1,578,058)
Arizona State Retirement Liability	11,721

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental	(1,000,717)
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Change in Net Assets of Governmental Activities	\$ (3,331,590)
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See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes	\$ 809,800	\$ 6,537,276	\$ 5,727,476
Intergovernmental	10,662,400	4,455,439	(6,206,961)
Fines and Forfeitures	180,000	161,712	(18,288)
Licenses and Permits	-	215,695	215,695
Charges for Services	782,400	684,754	(97,646)
Contributions and Donations	43,500	12,459	(31,041)
Investment Earnings	-	74,336	74,336
Other	230,700	221,518	(9,182)
Total Revenues	<u>12,708,800</u>	<u>12,363,189</u>	<u>(345,611)</u>
EXPENDITURES			
Current			
General Government			
General Government Administration	813,300	636,615	176,685
Town Clerk	251,100	248,224	2,876
Elections	42,100	190	41,910
Town Manager	215,900	212,543	3,357
Town Council	86,400	72,003	14,397
Human Resources	181,000	172,990	8,010
Computer Information Services	545,200	293,547	251,653
Financial Services	284,800	217,423	67,377
Courts	273,000	231,463	41,537
Airport	3,600,700	96,309	3,504,391
Attorney	453,700	419,418	34,282
Total General Government	<u>6,747,200</u>	<u>2,600,725</u>	<u>4,146,475</u>
Public Safety			
Police Department	5,535,300	4,721,380	813,920
Fire Department	2,598,700	2,457,192	141,508
Total Public Safety	<u>8,134,000</u>	<u>7,178,572</u>	<u>955,428</u>
Highways and Streets			
Streets	466,300	462,651	3,649
Culture and Recreation			
Park Operations	54,900	45,679	9,221
Recreation	358,200	250,085	108,115
Aquatics	38,500	41,089	(2,589)
Trails	72,600	59,819	12,781
Total Culture and Recreation	<u>524,200</u>	<u>396,672</u>	<u>127,528</u>
Public works			
Town Engineer	\$ 9,700	\$ 6,905	\$ 2,795

(Continued)

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(Concluded)

	Final Budget	Actual	Variance with Final Budget
EXPENDITURES (CONTINUED)			
Current (Continued)			
Community Development			
Planning and Zoning	\$ 363,300	\$ 345,077	\$ 18,223
Building Inspections	343,000	347,157	(4,157)
Tourism - Economic Vitality	374,300	275,143	99,157
Total Community Development	<u>1,080,600</u>	<u>967,377</u>	<u>113,223</u>
Health and Welfare			
Health and Welfare	135,600	116,650	18,950
Animal Control	143,000	143,057	(57)
Total Health and Welfare	<u>278,600</u>	<u>259,707</u>	<u>18,893</u>
Debt Service			-
Principal Retirement	-	47,492	(47,492)
Interest on Long-Term Debt	-	788	(788)
Capital Outlay	-	218,539	(218,539)
Total Expenditures	<u>17,240,600</u>	<u>12,139,428</u>	<u>5,101,172</u>
 Excess (Deficiency) of Revenues Over Expenditures	 (4,531,800)	 223,761	 4,755,561
OTHER FINANCING SOURCES (USES)			
Transfers In	42,100	-	(42,100)
Transfers Out	(439,600)	(302,106)	137,494
Proceeds From Capital Lease	-	218,539	218,539
Total Other Financing Sources (Uses)	<u>(397,500)</u>	<u>(83,567)</u>	<u>313,933</u>
 Net Change in Fund Balance	 (4,929,300)	 140,194	 5,069,494
FUND BALANCE			
Beginning of Year (As Restated)	-	1,392,265	1,392,265
End of Year	<u>\$ (4,929,300)</u>	<u>\$ 1,532,459</u>	<u>\$ 6,461,759</u>

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes			
Intergovernmental	\$ 1,726,400	\$ 1,442,814	\$ (283,586)
Charges for Services	50,000	-	(50,000)
Contributions and Donations	5,000	390,000	385,000
Development Impact Fees	32,700	22,230	(10,470)
Other	10,000	16,522	6,522
Total Revenues	<u>1,824,100</u>	<u>1,871,566</u>	<u>47,466</u>
EXPENDITURES			
Current			
Highways and Streets	<u>1,941,100</u>	<u>1,704,203</u>	<u>236,897</u>
Excess (Deficiency) of Revenues Over Expenditures	(117,000)	167,363	284,363
FUND BALANCE			
Beginning of Year	-	268,194	268,194
End of Year	<u>\$ (117,000)</u>	<u>\$ 435,557</u>	<u>\$ 552,557</u>

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	<u>Water Fund</u>	
ASSETS		
Current Assets		
Cash and Investments	\$ 4,422,535	\$ 493,299
Receivables, Net		
Accounts Receivable	525,448	2,712
Intergovernmental Receivable	1,195,363	-
Notes Receivable	127,913	-
Restricted Cash and Investments	939,517	-
Total Current Assets	<u>7,210,776</u>	<u>496,011</u>
Noncurrent Assets		
Other Assets	54,487	-
Capital Assets		
Non-Depreciable	9,804,142	-
Depreciable (net)	10,564,408	-
Total Noncurrent Assets	<u>20,423,037</u>	<u>-</u>
Total Assets	27,633,813	496,011
LIABILITIES		
Current Liabilities		
Accounts Payable	807,784	-
Accrued Wages and Benefits	55,043	-
Unearned Revenue	10,985	-
Customer Deposits Payable	487,658	-
Compensated Absences	127,676	-
Notes Payable	303,177	-
Total Current Liabilities	<u>1,792,323</u>	<u>-</u>
Noncurrent Liabilities		
Compensated Absences	94,831	-
Other Postemployment Benefits	456,348	-
Notes Payable	465,371	-
Total Noncurrent Liabilities	<u>1,016,550</u>	<u>-</u>
Total Liabilities	<u>2,808,873</u>	<u>-</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	19,600,002	-
Restricted for		
Capital Outlay	-	-
Unrestricted	5,224,938	496,011
Total Net Assets	<u>\$ 24,824,940</u>	<u>\$ 496,011</u>

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Water Fund	Internal Service Funds
Operating Revenues		
Charges for Services	\$ 3,860,422	\$ -
Contributions	-	1,424,111
Total Operating Revenues	3,860,422	1,424,111
Operating Expenses		
Cost of Sales and Services	3,195,508	2,359,534
Claims	-	65,293
Depreciation	1,021,937	-
Total Operating Expenses	4,217,445	2,424,827
Operating Income	(357,023)	(1,000,716)
Nonoperating Revenues (Expenses)		
Development Impact Fees	30,693	-
Investment Earnings (Loss)	(14,082)	(1)
Interest Expense	(11,709)	-
Miscellaneous Nonoperating Revenues	69,913	-
Total Nonoperating Revenue (Expenses)	74,815	(1)
Income Before Capital Contributions and Transfers	(282,208)	(1,000,717)
Capital Contributions	3,100,474	-
Transfers In	17,300	-
Transfers Out	(169,414)	-
Change in Net Assets	2,666,152	(1,000,717)
Net Assets		
Beginning of Year	22,158,788	1,496,728
End of Year	\$ 24,824,940	\$ 496,011

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Business-type Activities - Enterprise Funds	Governmental Activities
	Water	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from Customers	\$ 3,820,868	\$ 1,421,451
Payments to Suppliers	(1,142,713)	(2,363,381)
Payments to Employees	(1,306,511)	-
Payments for Claims	-	(231,968)
Other Receipts	69,913	-
Customer Deposits Payable	20,124	-
Net Cash Flows from Operating Activities	<u>1,461,681</u>	<u>(1,173,898)</u>
Cash Flows from Noncapital Financing Activities		
Transfers In	17,300	-
Transfers Out	(169,414)	-
Development impact Fees	30,693	-
Net Cash Flows from Noncapital Financing Activities	<u>(121,421)</u>	<u>-</u>
Cash Flows from Capital and Financing Activities		
Purchases of Capital Assets	(5,132,761)	-
Principal Paid on Capital Debt	(294,127)	-
Interest Paid on Capital Debt	(11,709)	-
Intergovernmental Capital Grants	2,508,048	-
Net Cash Flows from Capital and Related Financing Activities	<u>(2,930,549)</u>	<u>-</u>
Cash Flows from Investing Activities		
Investment Earnings	<u>(14,082)</u>	<u>(1)</u>
Net Change in Cash and Cash Equivalents	(1,604,371)	(1,173,899)
Cash and Cash Equivalents, Beginning of Year	6,966,423	1,667,198
Cash and Cash Equivalents, End of Year	<u>\$ 5,362,052</u>	<u>\$ 493,299</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and Investments	\$ 4,422,535	\$ 493,299
Restricted Cash and Investments	939,517	-
Total Cash and Cash Equivalents	<u>\$ 5,362,052</u>	<u>\$ 493,299</u>

(Continued)

See accompanying Notes to the Basic Financial Statements.

**TOWN OF PAYSON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Business-type Activities - Enterprise Funds	Governmental Activities
	Water	Internal Service Funds
(Concluded)		
Reconciliation of Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (357,023)	\$ (1,000,716)
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,021,937	-
Nonoperating Receipts	69,913	-
Change in Assets/Liabilities:		
Receivables	(56,479)	(2,660)
Prepaid Items	20,000	-
Other Assets	5,940	-
Accounts Payable	608,332	(3,847)
Accrued Wages and Benefits	(1,077)	-
Unearned Revenue	10,985	-
Compensated Absences	(4,785)	-
Other Postemployment Benefits	123,814	-
Claims Payable	-	(166,675)
Customer Deposits Payable	20,124	-
Net Cash Provided (Used) for Operating Activities	<u>\$ 1,461,681</u>	<u>\$ (1,173,898)</u>

See accompanying Notes to the Basic Financial Statements.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Payson, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

For the year ended June 30, 2011, the Town implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the Town for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the Town's financial statements present only the funds of those entities for which its elected governing board is financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements and the proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences, debt service expenditures and claims and judgments, which are recorded only when payment is due.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Highway Users Revenue Fund (HURF)* accounts for the operations of the street maintenance department. Financing is provided by the Town's share of motor fuel tax revenues. State law requires these motor fuel taxes be used to maintain streets.

The *Debt Service Fund* accounts for the interest, principal and fees incurred due to general obligation and special assessment debt of the Town except those accounted for in the proprietary funds.

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

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town reports the following major proprietary fund:

The *Water Fund* accounts for the operations of the Town's drinking water treatment and distribution system. The intent of the Town is that all or most of the costs (expenses, including depreciation) of providing these services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the Town reports the following fund type:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for water services. The principal operating revenues of the Town's internal service fund are Town departmental contributions and charges to employees for health benefits. Operating expenses for the Internal Service Fund include the cost of administrative expenses, health claims and premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities and business-type activities, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

1. Deposits and Investments (Continued)

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school Towns, improvement Towns in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

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

Gila County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Notes Receivable

Notes receivable consist of \$127,913 due to the Town of Payson from Chilton LLC. The note matures July 1, 2011; however, the note has an extension clause to extend the note for three additional years. The note begins accruing interest at 3% per annum on the maturity date.

4. Prepaid Items

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

5. Restricted Cash and Investments

Certain proceeds of the Town's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Customer deposits in the Enterprise Fund are recorded as restricted assets because their use is limited.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, furniture, machinery, equipment, construction in progress, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets, purchased or acquired, are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	30 years
Improvements other than buildings	10-35 years
Infrastructure	35-50 years
Vehicles, furniture, machinery and equipment	5-15 years

7. Compensated Absences

The liability for compensated absences reported in the government-wide financial statements and proprietary fund financial statements consist of unpaid, accumulated leave balances. The Town switched to a Paid Time Off (PTO) program at the beginning of the year. The liability has been calculated based on the Town's compensated absence policy, in which employees will be paid at their full rate for the first 240 hours of PTO. All PTO hours between 241 and 816 will be paid out at half rate. For Firefighters, the first 360 hours of PTO will be paid at full rate and the PTO hours between 361 and 1166.4 will be paid out at half rate. Governmental funds report a liability for compensated absences for those employees who have unused leave outstanding at the end of the year following an employee's resignation or termination. The Town did not report any liability for compensated absences in the fund financial statements.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

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.

9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balances.

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either a) not in a spendable form or b) legally or contractually required to be maintained intact.

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

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Balance Classifications (Continued)

The Town reported restricted fund balances in the General Fund (\$258,357 restricted for general government grants), the HURF Fund (\$435,557 restricted for highways and streets), the Debt Service Fund (\$988,355 restricted to pay debt service on outstanding debt), the Capital Projects Fund (\$522,832 restricted by a water trust agreement), and the Nonmajor Governmental Funds (\$83,036 restricted for culture and recreation and judicial enhancement).

Committed fund balances are resources pursuant to constraints imposed by formal action of the government's highest level of decision making authority. These resources cannot be used for any other purpose unless the same authority takes formal action to change the use. The highest level of decision making authority for the Town of Payson is the Town Council. Formal action to modify or rescind a fund balance commitment would be done by Ordinance, Resolution of Council Decision Request, as required. Fund balances must be committed prior to the end of the fiscal year.

The *assigned* fund balance amounts are constrained by the government's intent to be used for specific purpose. Intent must be expressed by a) the governing body itself or b) a committee or official which the governing body has delegated the authority to assign amounts to be used as for a specific purpose. Per Financial Policy 101, section 1.5, adopted by Council, the Finance Manager, after consultation with the Town Manager, has the authority to assign fund balance to a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This is the balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the policy of the Town to expend fund balance in the following order:

- 1) Restricted – per external requirements
- 2) Committed – per Council requirements
- 3) Assigned
- 4) Unassigned

Any expenditure that could fall within multiple fund balance classifications will follow the order above.

It is the policy of the Town to maintain a fund reserve, if possible, for the general fund to pay expenditures caused by unforeseen emergencies, for shortfalls caused by revenue declines and to eliminate any short-term borrowing for cash flow purposes. This reserve shall be maintained at an amount that represents 5% of total General Fund operating budgeted revenues. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level. This is in addition to the carryover balance discussed below.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Balance Classifications (Continued)

The Town's general fund will maintain a year-to-year "carryover balance", if possible, in an amount necessary to maintain adequate cash flow and to reduce the demand for short-term borrowing. The carryover balance will equal 90 days operating expenditures from the prior year.

All other funds must never incur a negative fund balance.

Reserve funds in the Water utility operating fund should equal 5% of prior year total operating expenses and have a carry-over balance equal to 90 days prior year operating expenses.

The Town has established an equipment reserve fund and when fiscal resources permit, appropriates funds to it annually to provide for the timely replacement of equipment.

All expenditures drawn from reserve accounts shall require prior Town Council approval unless previously specifically authorized by the Town Council for expenditure in the annual budget.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through a passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between departments. The adopted budget cannot be amended in any way without Town Council approval.
5. Legal budgets are adopted in accordance with generally accepted accounting principles for the General, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund	
Aquatics	\$ 2,589
Building Inspections	4,157
Animal Control	57
Principal	47,492
Interest	788
Capital Outlay	218,539

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2011 consist of the following:

Deposits	
Cash on hand	\$ 1,355
Cash in bank	1,202,568
Cash on deposit with paying agent	405,000
Investments	
State Treasurer's Investment Pool	7,334,897
Cash on deposit with trustee	803,735
Total Deposits and Investments	9,747,555
Less: Restricted cash and investments	(1,431,026)
Cash on deposit with paying agent	(405,000)
Total cash and investments, statement of net assets	<u>\$ 7,911,529</u>

Deposits - The Town had a carrying value of \$1,202,568 for cash on deposit with a local financial institution and a bank balance of \$1,423,036 at June 30, 2011. The Town's deposits were entirely covered by federal depository insurance. The Town's deposits are not subject to custodial credit risk.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. Cash on deposit with trustee are held in trust for the Town under a Trust Agreement with Bank of New York. The funds held in trust are invested in money market funds, are valued at cost, and are invested in cash and cash equivalents and U.S. Treasury Bills. The funds are not subject to credit risk or interest rate risk.

Interest rate risk. 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. The average maturity of the State Treasurer's Investment Pool is less than one year.

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. The Town's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Cash and Investments

Restricted assets at June 30, 2011 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Central Arizona Project Trust	\$ 491,509	\$ -	\$ 491,509
Current debt service	-	409,940	409,940
Replacement and extension	-	41,919	41,919
Customer deposits	-	487,658	487,658
Total	<u>\$ 491,509</u>	<u>\$ 939,517</u>	<u>\$ 1,431,026</u>

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Special Assessments Receivable (Debt Service Fund)	\$ 818,205	\$ -
Miscellaneous Deferred Revenue (General Fund)	-	750
Total	<u>\$ 818,205</u>	<u>\$ 750</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,222,878	\$ 16,117	\$ -	\$ 12,238,995
Construction in Progress	433,540	1,262,098	-	1,695,638
Total Capital Assets, Not Being Depreciated	<u>12,656,418</u>	<u>1,278,215</u>	<u>-</u>	<u>13,934,633</u>
Capital Assets, Being Depreciated:				
Infrastructure	100,569,632	-	-	100,569,632
Buildings	8,728,618	-	-	8,728,618
Improvements Other Than Buildings	6,908,664	-	-	6,908,664
Vehicles, Machinery and Equipment	8,582,529	515,450	(64,400)	9,033,579
Total Capital Assets, Being Depreciated	<u>124,789,443</u>	<u>515,450</u>	<u>(64,400)</u>	<u>125,240,493</u>
Accumulated Depreciation for:				
Infrastructure	(14,811,938)	(670,108)	-	(15,482,046)
Buildings	(2,808,304)	(260,995)	-	(3,069,299)
Improvements Other Than Buildings	(4,470,686)	(348,565)	-	(4,819,251)
Vehicles, Machinery and Equipment	(5,747,251)	(460,901)	64,400	(6,143,752)
Total Accumulated Depreciation	<u>(27,838,179)</u>	<u>(1,740,569)</u>	<u>64,400</u>	<u>(29,514,348)</u>
Total Capital Assets, Being Depreciated, Net	<u>96,951,264</u>	<u>(1,225,119)</u>	<u>-</u>	<u>95,726,145</u>
Governmental Activities Capital Assets, Net	<u>\$ 109,607,682</u>	<u>\$ 53,096</u>	<u>\$ -</u>	<u>\$ 109,660,778</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,504,077	\$ -	\$ -	\$ 1,504,077
Water Rights	-	3,824,005	-	3,824,005
Construction in Progress	3,468,602	4,831,463	(3,824,005)	4,476,060
Total Capital Assets, Not Being Depreciated	4,972,679	8,655,468	(3,824,005)	9,804,142
Capital Assets, Being Depreciated:				
Buildings	600,906	-	-	600,906
Improvements Other Than Buildings	23,756,123	233,668	-	23,989,791
Vehicles, Machinery and Equipment	1,514,187	67,630	-	1,581,817
Total Capital Assets, Being Depreciated	25,871,216	301,298	-	26,172,514
Accumulated Depreciation for:				
Buildings	(359,973)	(19,944)	-	(379,917)
Improvements Other Than Buildings	(12,946,241)	(933,719)	-	(13,879,960)
Vehicles, Machinery and Equipment	(1,279,955)	(68,274)	-	(1,348,229)
Total Accumulated Depreciation	(14,586,169)	(1,021,937)	-	(15,608,106)
Total Capital Assets, Being Depreciated, Net	11,285,047	(720,639)	-	10,564,408
Business-Type Activities Capital Assets, Net	\$ 16,257,726	\$ 7,934,829	\$ (3,824,005)	\$ 20,368,550

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 99,127
Public Safety	435,567
Highways and Streets	635,944
Culture and Recreation	549,555
Public Works	4,286
Community Development	16,090
Total Depreciation Expense	<u>\$ 1,740,569</u>

Business-Type Activities:

Water	<u>\$ 1,021,937</u>
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TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The Town has active construction projects at June 30, 2011. At fiscal year end the Town's commitments with contractors were as follows:

<u>Governmental Activities</u>		
<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Fire Station #3	\$ 1,655,693	\$ 33,673
Airfield Signage and Marking	39,945	279,517
	<u>\$ 1,695,638</u>	<u>\$ 313,190</u>

<u>Business-type Activities</u>		
<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
CC Cragin Pipeline (Blue Ridge)	\$ 4,964,675	\$ 5,620,325

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2011 consisted of the following:

<u>Transfer In</u>					
<u>Transfer Out</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non Major Funds</u>	<u>Water Fund</u>	<u>Total</u>
General Fund	\$ 147,218	\$ 20,583	\$ 117,005	\$ 17,300	\$ 302,106
Capital Projects Fund	88,600	-	-	-	88,600
Water Fund	-	169,414	-	-	169,414
Total	<u>\$ 235,818</u>	<u>\$ 189,997</u>	<u>\$ 117,005</u>	<u>\$ 17,300</u>	<u>\$ 560,120</u>

Transfers were made to fund various projects, primarily from the General Fund and for the annual debt service requirements on outstanding excise tax revenue bonds. The transfer from the Water Fund was recorded to fund various capital projects.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases

Capital Leases

The Town has entered into lease agreements as a lessee for financing the acquisition of maintenance and public safety vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date. Revenues from the General and Highway Users Revenue Funds are used to pay the capital lease obligations. Accordingly, the principal amount of the asset is capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Vehicles, machinery and equipment	\$ 768,539
Less: accumulated depreciation	(402,809)
Total	<u>\$ 365,730</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2011, were as follows:

Year ending June 30,	Governmental Activities
2012	\$ 161,841
2013	149,764
2014	149,766
2015	47,491
2016	47,491
Total minimum lease payments	<u>394,512</u>
Less: amount representing interest	(30,598)
Present value of minimum lease payments	<u>\$ 363,914</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Notes Payable

The Town has entered into a note payable for the purchase of real property (Little Note Payable) and a Water Infrastructure Finance Authority of Arizona (WIFA) loan for improvements to the water system. A portion of the WIFA loan is funded through federal ARRA dollars and has an available balance of \$10,585,000, of which \$4,000,000 is forgivable and \$6,585,000 is to be paid back at 2.891%. Revenues from the Water Fund are used for repayment of the note.

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2011	Amount Due Within One Year
Business-type Activities:				
Little Note Payable	3.357%	7/1/10-15	\$ 209,614	\$ 48,219
Water Infrastructure Authority	2.891%	7/1/10-29	558,934	254,958
			<u>\$ 768,548</u>	<u>\$ 303,177</u>

Annual debt service requirements to maturity on the note payable at June 30, 2011 are summarized as follows:

		Business-type Activities	
		Principal	Interest
Year Ending June 30,			
2012	\$	303,177	\$ 22,666
2013		312,513	14,330
2014		93,874	4,702
2015		58,983	1,386
	\$	<u>768,548</u>	<u>\$ 43,084</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations

The Town has long-term bonds and special assessments payable issued to provide funds for the acquisition and construction of major capital facilities. The bonds are both callable and noncallable with the interest payable semiannually. General obligation bonds are backed by the full faith and credit of the Town. The refunding bonds are funded by property taxes in the Debt Service Fund and the Series 2004 is funded by the .12% sales tax. Special assessments imposed on certain parcels of land within the assessment district are used to pay the East Loop Road Improvement District and Westerly Drive Improvement District bonds. The excise tax revenue obligation bonds will be repaid from excise tax revenues of the Town and lease revenues from new airport hangars. The certificates of participation will be repaid from park development fees and is guaranteed by a land ground lease. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The Town has pledged secondary property taxes to be levied on all of the taxable property located within the boundaries of the Town to repay \$1.1 million in governmental general obligation refunding bonds issued in 2006. Proceeds of the bonds were used to refund and refinance the outstanding General Obligation Permanent Bond, Series 1996 previously issued by the Town to construct a retention basin for treated sewage known as Green Valley Park. The bonds are payable solely from secondary property taxes and are payable through 2012. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$406,294. Principal and interest paid for the current year and total secondary property taxes were \$201,088 and \$147,832, respectively.

The Town has pledged special sales taxes to repay \$2.0 million in governmental general obligation refunding bonds issued in 2004. Proceeds of the bonds provided financing for various public safety improvements. The bonds are payable solely from special sales taxes and are payable through 2014. Annual principal and interest payments on the bonds are expected to require approximately 75% percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$970,061. Principal and interest paid for the current year and total special sales taxes were \$230,843 and \$322,439, respectively.

The Town has pledged special sales taxes to repay \$1.5 million in governmental general obligation bonds issued in 2009. Proceeds of the bonds provided financing for the construction of the fire station. The bonds are payable solely from special sales taxes and are payable through 2019. Annual principal and interest payments on the bonds are expected to require more than 100% percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,835,297. Principal and interest paid for the current year and total special sales taxes were \$54,094 and \$91,596 respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town has pledged assessed taxes for each of the homeowners within the District to repay \$2.1 million in governmental special assessments obligations issued in 1996. Proceeds of the bonds provided financing for improvements in the East Loop Road Improvement District. The bonds are payable solely from special assessments levied against all privately owned lots, pieces and parcels of land lying within the boundaries of the District, all of which have been determined to be benefited by the Project. If there is no purchaser for any assessed parcel offered for sale, it will be struck off to the Town as the purchaser and the bonds will be payable by the General Fund or Debt Service Fund. If there is a deficiency in the funds collected from assessments to pay the principal and interest on the bonds, the Town may make good such deficiency by making a temporary loan from other available funds of the Town. The bonds are payable through 2012. Annual principal and interest payments on the bonds are expected to require 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$232,980. Principal and interest paid for the current year and total assessed taxes were \$229,175 and 96,248, respectively.

The Town has pledged assessed taxes for each of the homeowners within the District to repay \$0.9 million in governmental special assessments obligations issued in 1996. Proceeds of the bonds provided financing for improvements in the Westerly Drive Improvement District. The bonds are payable solely from special assessments levied against all privately owned lots, pieces and parcels of land lying within the boundaries of the District, all of which have been determined to be benefited by the Project. If there is no purchaser for any assessed parcel offered for sale, it will be struck off to the Town as the purchaser and the bonds will be payable by the General Fund or Debt Service Fund. If there is a deficiency in the funds collected from assessments to pay the principal and interest on the bonds, the Town may make good such deficiency by making a temporary loan from other available funds of the Town. The bonds are payable through 2022. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$924,750. Principal and interest paid for the current year and total excise taxes were \$83,638 and 57,991, respectively.

The Town has pledged future excise taxes to repay \$0.9 million in governmental excise tax revenue obligations issued in 2003. Proceeds of the bonds provided financing for a new public works building. The bonds are payable from excise taxes and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 2.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$895,487. Principal and interest paid for the current year and total excise taxes were \$124,093 and 7,308,773 respectively.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town has pledged park development fees to repay \$0.5 million in certificates of participation issued in 2005. Proceeds of the bonds provided financing for the installation and construction of fencing, lighting and synthetic turf for use as baseball and softball fields. The bonds are payable from park development fees and is guaranteed by a land ground lease. The bonds are payable through 2012. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$141,053. Principal and interest paid for the current year and total park development fees were \$88,640 and 17,625, respectively.

The Town has pledged net revenues from the operation of the Water System to repay \$6.6 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 2029; however, as of June 30, 2011, the Town has only drawn down \$0.8 million of the loan. Annual principal and interest payments on the bonds are expected to require less than 50.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$8,214,411, if the Town had drawn down all funds available. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$236,086 and \$751,438, respectively.

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds				
General obligation bonds, Green Valley Park, Series 2006	4.0-4.125%	07/01/11-12	\$ 1,085,000	\$ 390,000
General obligation bonds, Series 2004	3.0-3.65	07/01/11-14	2,030,000	905,000
General obligation bonds, Series 2009	3.0-4.0	07/01/11-18	1,525,000	1,525,000
Total general obligation bonds			4,640,000	2,820,000
Special Assessment Bonds				
East Loop Road Improvement District, Series 1996	5.9	1/1/2012	2,142,000	220,000
Westerly Drive Improvement District, Series 2005	5.5	01/01/12-22	875,000	680,000
Total special assessment bonds			3,017,000	900,000
Revenue Bonds				
Excise tax revenue obligations, Public Works, Series 2003A	3.75-4.625	10/01/11-17	860,000	770,000
Certificates of Participation				
Certificates of Participation, Series 2005	3.2-4.5	11/01/11-12	545,000	135,000
Total governmental activities			<u>\$ 9,502,000</u>	<u>\$ 4,625,000</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2011 are as follows:

	July 1, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Governmental Activities					
Bonds and Special Assessments					
General Obligation Bonds	\$ 3,205,000	\$ -	\$ (385,000)	\$ 2,820,000	\$ 405,000
Special Assessment Bonds	1,155,000	-	(255,000)	900,000	265,000
Revenue Bonds	860,000	-	(90,000)	770,000	95,000
Certificates of Participation	215,000	-	(80,000)	135,000	90,000
	<u>5,435,000</u>	<u>-</u>	<u>(810,000)</u>	<u>4,625,000</u>	<u>855,000</u>
Deferred Amounts:					
Premium	78,071	-	(9,373)	68,698	-
Deferred Amount on Refunding	(9,438)	-	4,718	(4,720)	-
Total Bonds and Special Assessments	<u>5,503,633</u>	<u>-</u>	<u>(814,655)</u>	<u>4,688,978</u>	<u>855,000</u>
Other Liabilities:					
Capital Leases	294,604	218,539	(149,229)	363,914	134,234
Compensated Absences	1,077,968	999,291	(821,930)	1,255,329	767,686
Other Postemployment Benefits	2,321,822	1,817,952	(239,894)	3,899,880	-
Total Other Liabilities	<u>3,694,394</u>	<u>3,035,782</u>	<u>(1,211,053)</u>	<u>5,519,123</u>	<u>901,920</u>
Governmental Activities Long-Term Liabilities	<u>\$ 9,198,027</u>	<u>\$ 3,035,782</u>	<u>\$ (2,025,708)</u>	<u>\$ 10,208,101</u>	<u>\$ 1,756,920</u>
	July 1, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Business-type Activities					
Notes Payable	\$ 1,062,675	\$ -	\$ (294,127)	\$ 768,548	\$ 303,177
Compensated Absences	227,292	135,324	(140,109)	222,507	127,676
Other Postemployment Benefits	332,534	142,636	(18,822)	456,348	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,622,501</u>	<u>\$ 277,960</u>	<u>\$ (453,058)</u>	<u>\$ 1,447,403</u>	<u>\$ 430,853</u>

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2011 are as follows:

Year Ending June 30,	Governmental Activities	
	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 - 2024	155,000	12,925
	<u>\$ 4,625,000</u>	<u>\$ 780,922</u>

In prior years, the Town defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2011, the amount of defeased debt outstanding but removed from the Town's financial statements was \$46,000.

F. Change in Accounting Principle

As a result of the implementation of GASB Statement No. 54, the Town reclassified several of its governmental funds for financial reporting purposes. The balances at the beginning of the year were restated as follows:

Fund	Fund Balance July 1, 2010 (As Previously Stated)	Restatement	Fund Balance July 1, 2010 (As Restated)
General Fund	\$ 841,623	\$ 550,642	\$ 1,392,265
Highway Users Revenue Fund	268,194	-	268,194
Debt Service Fund	1,202,290	-	1,202,290
Capital Projects Fund	37,524	2,421,666	2,459,190
Nonmajor Governmental Funds	3,067,322	(2,972,308)	95,014
Total	<u>\$ 5,416,953</u>	<u>\$ -</u>	<u>\$ 5,416,953</u>

The above adjustments were necessary to include six funds, previously reported as special revenue funds, in the General Fund and combine six funds previously reported as separate capital projects funds as one capital projects fund.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 OTHER INFORMATION

A. Risk Management

The Town of Payson, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The Arizona Municipal Risk Retention Pool is a public entity risk pool currently operating as a common risk management and insurance program for 70 member cities and towns. The Town pays an annual premium to Arizona Municipal Risk Retention Pool for its general insurance coverage. The agreement provides that Arizona Risk Retention Pool will be self-sustaining through member premiums. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention 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 is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents. Employees' medical needs are met through a Health and Medical Benefits program offered by the Town. There have been no claim settlements in excess of insurance coverage for the past three years.

In a prior fiscal year, the Town established a Self-funded Insurance Fund (an Internal Service Fund) to account for and finance its uninsured risks of loss related to health claims. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$50,000. Settlements did not exceed coverage for the past fiscal year. The Town discontinued the self-insurance at the beginning of the fiscal year.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Changes in the balances of claims liability during the past three years are as follows:

	Claims Liability at beginning of year	Current Year Claims and Changes in Estimates	Claims Payments	Claims Liability at end of year
2008-09	\$ 188,487	\$ 1,883,089	\$ 1,730,849	\$ 340,727
2009-10	340,727	1,468,484	1,642,536	166,675
2010-11	166,675	65,293	231,968	-

B. Contingent Liabilities

Lawsuits - The Town is a defendant in various lawsuits. In the opinion of the Town's attorney, the outcome of these lawsuits is not presently determinable and an unfavorable outcome, if any, would be covered by the Town's insurance. The Town's exposure to a loss, if any, would be its deductible on a claims basis.

Ground Lease - In November 2005, the Town executed a ground lease. Under the lease agreement, the Town leased a portion of Rumsey Park related to the two new ball fields to the Trustee. The Trustee, in turn, leased the property back to the Town for seven years or until the certificates of participation are fully paid or defeased. Upon maturity of the certificates, the ground lease will terminate and the Town will become the sole and only owner of the property.

C. Subsequent Events

Subsequent to June 30, 2011, the Town entered into a capital lease for the purchase of a 2009 Spartan Cab Over Fire Truck for \$497,715. The lease requires ten semiannual payments at 2.23% through November 2016.

D. Retirement Plans

Arizona State Retirement System

Plan Descriptions - The Town contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, .59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll. The Town was required to contribute an amount equal to the active plan members. The Town's contribution to the plan for the years ended June 30, 2011, 2010 and 2009, which was equal to 100 percent of the required contributions for each year, were as follows:

Arizona State Retirement System Contributions
Last Three Fiscal Years

<u>Years ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2011	\$ 301,068	\$ 19,715	\$ 8,354
2010	325,151	25,731	15,595
2009	326,034	42,403	20,579

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 10.71% and 11.38% of annual covered payroll for Police and Fire, respectively.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual Pension Cost - During the year ended June 30, 2011, the Town of Payson, Arizona's annual pension cost of \$485,067 for police and \$265,399 for fire was equal to the Town of Payson, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2010, the most recent actuarial valuation date, the plan was 52.5 percent funded for police and 70.4 percent funded for fire. The actuarial accrued liability for benefits was \$10.6 million for police and \$6.3 million for fire, and the actuarial value of assets was \$5.6 million for police and \$4.5 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$5.0 million for police and \$1.9 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.7 million for police and \$1.2 million for fire, and the ratio of the UAAL to the covered payroll was 303.7 percent for police and 151.7 percent for fire.

The actuarial accrued liability for other postemployment benefits was \$0.3 million for police and \$0.3 million for fire, and the actuarial value of assets was \$-0- for police and \$-0- for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.4 million for police and \$0.3 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.7 million for police and \$1.2 million for fire, and the ratio of the UAAL to the covered payroll was 23.0 percent for police and 20.6 percent for fire.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the Town of Payson, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Payson, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Three-Year Trend Information
Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2009	477,372	100.0	-
2010	426,869	100.0	-
2011	485,067	100.0	-

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Benefit Obligation</u>
2009	\$ 31,473	100.0 %	\$ -
2010	29,528	100.0	-
2011	32,585	100.0	-

Three-Year Trend Information
Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2009	261,760	100.0	-
2010	278,987	100.0	-
2011	265,399	100.0	-

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Benefit Obligation</u>
2009	\$ 17,074	100.0 %	\$ -
2010	17,724	100.0	-
2011	21,219	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed on page 70.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Postemployment Benefits Other Than Pension Benefits

During the fiscal year ended June 30, 2011, the Town complied with Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The Town engaged an actuary to determine the Town's liability for postemployment healthcare benefits other than pensions as of June 30, 2010.

Plan Description - The Town provides postretirement health care benefits in accordance with the Town of Payson Personnel Rules and Procedures manual. An employee eligible for the Retirement Medical Benefits Insurance Package from the Town of Payson, Arizona shall meet the requirements of "Rule 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 retiree medical benefit 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 148 active participants and 73 current retirees, beneficiaries and dependents. The Town makes average monthly contributions of \$355 for employee only plans and \$922 for employee and family plans.

Funding Policy - During the year ended June 30, 2011, the Town contributed \$258,716 for all eligible retirees.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Postemployment Benefits Other Than Pension Benefits (Continued)

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the Town's net OPEB obligation.

Annual Required Contribution	\$ 2,004,097
Interest on Net OPEB Obligation	119,446
Adjustment to Annual Required Contribution	<u>(162,955)</u>
Annual OPEB Cost (Expense)	1,960,588
Contributions Made	<u>(258,716)</u>
Increase in Net OPEB Obligation	1,701,872
Net OPEB Obligation-Beginning of Year	2,654,356
Net OPEB Obligation-End of Year	<u><u>\$ 4,356,228</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,769,039	23.0%	\$ 1,362,009
June 30, 2010	1,769,039	24.3%	2,654,356
June 30, 2011	1,960,588	13.2%	4,356,228

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

The actuarial accrued liability for other postemployment benefits was \$24.0 million and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$24.0 million.

**TOWN OF PAYSON, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Postemployment Benefits Other Than Pension Benefits (Continued)

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

In the June 30, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.5%, reduced by decrements to an ultimate rate of 5% after seven years. The initial self-pay trend rate was 8.25%, reduced by 5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2010, was 30 years.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**TOWN OF PAYSON, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

Payson Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2008	\$ 5,457,588	\$ 10,262,482	53.2%	\$ 4,804,894	\$ 1,768,119	271.8%
2009	5,360,800	10,217,612	52.5%	4,856,812	1,852,930	262.1%
2010	5,580,905	10,625,768	52.5%	5,044,863	1,661,240	303.7%

Other Postemployment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2008	\$ -	\$ 412,846	0.0%	\$ 412,846	\$ 1,768,119	23.3%
2009	-	366,780	0.0%	366,780	1,852,930	19.8%
2010	-	382,912	0.0%	382,912	1,661,240	23.0%

Payson Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2008	\$ 4,014,540	\$ 5,489,079	73.1%	\$ 1,474,539	\$ 1,626,100	90.7%
2009	4,271,855	5,774,172	74.0%	1,502,317	1,444,264	104.0%
2010	4,458,907	6,332,276	70.4%	1,873,369	1,234,935	151.7%

Other Postemployment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2008	\$ -	\$ 194,679	0.0%	\$ 194,679	\$ 1,626,100	12.0%
2009	-	202,575	0.0%	202,575	1,444,264	14.0%
2010	-	254,328	0.0%	254,328	1,234,935	20.6%

Payson Other Postemployment Benefits

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2008	\$ -	\$ 19,327,774	0.0%	\$ 19,327,774	N/A	N/A
2010	-	23,953,850	0.0%	23,953,850	N/A	N/A

The Town implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Library Town Tax - 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 Town specifically for libraries within the county. The tax is distributed by a population-based formula and must be used for library related expenditures.

Judicial Collection Enhancement (JCEF)/Municipal Court Fill the Gap (FTG) - accounts for a \$12 penalty fee established by the State of Arizona to be imposed by the local courts in addition to other fines. The distribution of the fee was split two ways: \$9.00 was remitted to the State Superior Court and \$3.00 was retained by the local court. The use of the \$3.00 fee is for the enhancement of the collection process. The State of Arizona established a 7% increase in surcharges on September 1, 1999 with Senate Bill 1013. A portion of the increase is distributed to Municipal Courts on a quarterly basis. The program is titled "Municipal Court Fill the Gap" or FTG. The monies collected by this program may be used for the same purposes for which local JCEF monies may be used.

**TOWN OF PAYSON, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue</u>		
	<u>Library District Fund</u>	<u>JCEF Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 16,197	\$ 83,033	\$ 99,230
Accounts Receivable	1,667	-	1,667
Total Assets	<u>\$ 17,864</u>	<u>\$ 83,033</u>	<u>\$ 100,897</u>
Liabilities and Fund Balance			
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 2,606	\$ -	\$ 2,606
Accrued Wages and Benefits	15,255	-	15,255
Total Liabilities	<u>17,861</u>	<u>-</u>	<u>17,861</u>
FUND BALANCES			
Restricted	<u>3</u>	<u>83,033</u>	<u>83,036</u>
Total Fund Balances	<u>3</u>	<u>83,033</u>	<u>83,036</u>
Total Liabilities and Balance	<u>\$ 17,864</u>	<u>\$ 83,033</u>	<u>\$ 100,897</u>

TOWN OF PAYSON, ARIZONA
COMBINING STATEMENT OF REVEUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Library District Fund	JCEF Fund	Total Nonmajor Governmental Funds
REVENUES			
Taxes			
Property Taxes	\$ 229,230	\$ -	\$ 229,230
Fines and Forfeits	15,602	-	15,602
Contributions and Donations	-	1,401	1,401
Investment Earnings	4	-	4
Other	20,004	-	20,004
Total Revenues	<u>264,840</u>	<u>1,401</u>	<u>266,241</u>
EXPENDITURES			
Current			
Culture and Recreation	<u>395,224</u>	<u>-</u>	<u>395,224</u>
Excess (Deficiency) of Revenues			
Expenditures	(130,384)	1,401	(128,983)
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>117,005</u>	<u>-</u>	<u>117,005</u>
Net Change in Fund Balance	(13,379)	1,401	(11,978)
FUND BALANCES			
Beginning of Year	13,382	81,632	95,014
End of Year	<u>\$ 3</u>	<u>\$ 83,033</u>	<u>\$ 83,036</u>

**TOWN OF PAYSON, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes			
Sales Taxes	\$ 300,000	\$ 322,439	\$ 22,439
Property Taxes	145,000	147,832	2,832
Contributions and Donations	60,000	60,000	-
Special Assessments	150,200	154,239	4,039
Investment Earnings	-	13	13
Total Revenues	<u>655,200</u>	<u>684,523</u>	<u>29,323</u>
EXPENDITURES			
Debt Service			
Principal Retirement	941,400	911,737	29,663
Interest on Long-Term Debt	232,800	222,539	10,261
Total Expenditures	<u>1,174,200</u>	<u>1,134,276</u>	<u>39,924</u>
Excess (Deficiency) of Revenues Over Expenditures	(519,000)	(449,753)	69,247
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>381,900</u>	<u>235,818</u>	<u>(146,082)</u>
Net Change in Fund Balance	(137,100)	(213,935)	(76,835)
FUND BALANCE			
Beginning of Year	-	1,202,290	1,202,290
End of Year	<u>\$ (137,100)</u>	<u>\$ 988,355</u>	<u>\$ 1,125,455</u>

**TOWN OF PAYSON, ARIZONA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes			
Intergovernmental	\$ 21,654,900	\$ 255,706	\$ (21,399,194)
Development Impact Fees	50,500	26,625	(23,875)
Investment Earnings	100	2,625	2,525
Other	900,000	75,000	(825,000)
Total Revenues	<u>22,605,500</u>	<u>359,956</u>	<u>(22,245,544)</u>
EXPENDITURES			
Capital Outlay	<u>31,610,400</u>	<u>1,777,774</u>	<u>29,832,626</u>
Excess (Deficiency) of Revenues Over Expenditures	(9,004,900)	(1,417,818)	7,587,082
OTHER FINANCING SOURCES (USES)			
Transfers In	-	189,997	189,997
Transfers Out	(88,600)	(88,600)	-
Issuance of Long-Term Debt	6,250,000	-	(6,250,000)
Proceeds from Capital Lease	100,000	-	(100,000)
Total Other Financing Sources (Uses)	<u>6,261,400</u>	<u>101,397</u>	<u>(6,160,003)</u>
Net Change in Fund Balance	(2,743,500)	(1,316,421)	1,427,079
FUND BALANCE			
Beginning of Year	-	2,459,190	2,459,190
End of Year	<u>\$ (2,743,500)</u>	<u>\$ 1,142,769</u>	<u>\$ 3,886,269</u>

**TOWN OF PAYSON, ARIZONA
LIBRARY DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes			
Property Taxes	\$ 229,200	\$ 229,230	\$ 30
Fines and Forfeitures	16,800	15,602	(1,198)
Investment Earnings	-	4	4
Other	20,000	20,004	4
Total Revenues	<u>266,000</u>	<u>264,840</u>	<u>(1,160)</u>
EXPENDITURES			
Current			
Culture and Recreation	<u>412,300</u>	<u>395,224</u>	<u>17,076</u>
Excess (Deficiency) of Revenues Over Expenditures	(146,300)	(130,384)	15,916
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>146,300</u>	<u>117,005</u>	<u>(29,295)</u>
Net Change in Fund Balance	-	(13,379)	(13,379)
FUND BALANCE			
Beginning of Year	-	13,382	13,382
End of Year	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>

TOWN OF PAYSON, ARIZONA
JCEF/FTG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Contributions and Donations	\$ 3,000	\$ 1,401	\$ (1,599)
Investment Earnings	100	-	(100)
Total Revenues	<u>3,100</u>	<u>1,401</u>	<u>(1,699)</u>
EXPENDITURES			
Current			
General Government	<u>6,500</u>	<u>-</u>	<u>6,500</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,400)	1,401	4,801
FUND BALANCE			
Beginning of Year	-	81,632	81,632
End of Year	<u>\$ (3,400)</u>	<u>\$ 83,033</u>	<u>\$ 86,433</u>

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STATISTICAL SECTION

This section of the Town of Payson, Arizona's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

**TOWN OF PAYSON, ARIZONA
NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 23,036,377	\$ 23,208,623	\$ 21,506,684	\$ 22,328,708
Restricted	3,092,732	2,581,423	4,207,316	4,734,371
Unrestricted	2,280,224	3,353,871	5,479,255	5,103,790
Total governmental activities net assets	<u>\$ 28,409,333</u>	<u>\$ 29,143,917</u>	<u>\$ 31,193,255</u>	<u>\$ 32,166,869</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 11,860,887	\$ 11,741,865	\$ 11,933,965	\$ 13,142,519
Restricted	3,121,234	3,499,111	3,626,754	4,211,504
Unrestricted	1,523,468	2,172,170	3,174,456	3,821,585
Total business-type activities net assets	<u>\$ 16,505,589</u>	<u>\$ 17,413,146</u>	<u>\$ 18,735,175</u>	<u>\$ 21,175,608</u>
Primary government				
Invested in capital assets, net of related debt	\$ 34,897,264	\$ 34,950,488	\$ 33,440,649	\$ 35,471,227
Restricted	6,213,966	6,080,534	7,834,070	8,945,875
Unrestricted	3,803,692	5,526,041	8,653,711	8,925,375
Total primary government net assets	<u>\$ 44,914,922</u>	<u>\$ 46,557,063</u>	<u>\$ 49,928,430</u>	<u>\$ 53,342,477</u>

Source: The Town's Finance Department.

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

Fiscal Year				
2007	2008	2009	2010	2011
\$ 101,360,121	\$ 106,049,982	\$ 105,561,440	\$ 103,809,445	\$ 104,607,886
5,448,557	4,310,080	3,971,451	3,137,935	3,106,342
4,590,792	2,456,973	521,636	1,459,147	(2,639,291)
<u>\$ 111,399,470</u>	<u>\$ 112,817,035</u>	<u>\$ 110,054,527</u>	<u>\$ 108,406,527</u>	<u>\$ 105,074,937</u>
\$ 12,283,170	\$ 14,363,974	\$ 14,720,036	\$ 15,195,051	\$ 19,600,002
4,681,554	4,909,657	4,921,901	1,065,623	-
4,707,319	5,282,327	3,890,818	5,898,114	5,224,938
<u>\$ 21,672,043</u>	<u>\$ 24,555,958</u>	<u>\$ 23,532,755</u>	<u>\$ 22,158,788</u>	<u>\$ 24,824,940</u>
\$ 113,643,291	\$ 120,413,956	\$ 120,281,476	\$ 119,004,496	\$ 124,207,888
10,130,111	9,219,737	8,893,352	4,203,558	3,106,342
9,298,111	7,739,300	4,412,454	7,357,261	2,585,647
<u>\$ 133,071,513</u>	<u>\$ 137,372,993</u>	<u>\$ 133,587,282</u>	<u>\$ 130,565,315</u>	<u>\$ 129,899,877</u>

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

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 2,785,934	\$ 2,754,686	\$ 2,727,457	\$ 3,191,559
Public safety	5,178,837	5,338,874	6,239,687	7,375,276
Highways and streets	1,490,366	2,022,194	2,285,810	4,827,042
Culture and recreation	1,672,123	1,751,941	1,772,917	1,738,625
Public works	472,664	687,511	551,668	529,950
Community development	737,479	883,030	871,706	839,792
Health and welfare	193,539	220,005	242,892	256,498
Interest on long-term debt	253,284	272,222	239,528	315,645
Total governmental activities	12,784,226	13,930,463	14,931,665	19,074,387
Business-type activities				
Water	2,831,506	3,156,618	2,632,184	2,046,035
Total primary government expenses	15,615,732	17,087,081	17,563,849	21,120,422
Program Revenues				
Governmental activities:				
Fees, Fines, and Charges for Services				
General government	730,057	2,154,657	1,126,063	1,341,311
Public safety	-	-	404,194	386,291
Highways and streets	-	-	54,843	91,574
Culture and recreation	-	-	116,635	103,873
Public works	-	-	86,489	82,158
Community development	-	-	761,468	841,640
Health and welfare	-	-	10,920	11,104
Interest on long-term debt	-	-	-	-
Operating grants and contributions	165,353	2,063,070	2,689,186	3,941,550
Capital grants and contributions	1,894,936	517,499	453,218	338,142
Total governmental activities program revenues	3,790,346	4,735,226	5,703,016	7,137,643
Business-type activities				
Charges for services:				
Water	2,948,175	3,543,006	3,508,276	4,199,650
Operating grants and contributions	-	194,921	38,752	50,000
Capital grants and contributions	824,073	-	-	210,323
Total business-type activities program revenues	3,772,248	3,737,927	3,547,028	4,459,973
Total primary government program revenues	7,562,594	8,473,153	9,250,044	11,597,616
Net (expense)/revenue				
Governmental activities	(8,993,880)	(9,195,237)	(9,228,649)	(11,936,744)
Business-type activities	940,742	581,309	914,844	2,413,938
Total primary government net expense	\$ (8,053,138)	\$ (8,613,928)	\$ (8,313,805)	\$ (9,522,806)

Source: The Town's Finance Department.

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

Fiscal Year				
2007	2008	2009	2010	2011
\$ 3,595,408	\$ 3,707,867	\$ 4,323,958	\$ 3,133,909	\$ 3,984,961
7,818,997	7,939,971	8,376,425	8,164,357	8,645,178
4,147,353	3,786,087	2,856,499	3,070,365	2,765,928
2,152,923	2,730,083	1,714,675	1,575,542	1,466,906
407,578	350,531	445,095	284,563	324,660
923,599	1,219,270	1,051,931	1,119,712	1,228,298
252,136	259,083	289,710	273,394	259,854
317,800	303,148	275,659	267,661	249,925
19,615,794	20,296,040	19,333,952	17,889,503	18,925,710
3,715,985	3,673,943	4,797,060	4,164,224	4,229,154
23,331,779	23,969,983	24,131,012	22,053,727	23,154,864
947,152	907,951	657,076	656,861	669,803
581,150	658,707	723,194	626,728	404,286
90,507	50,876	28,185	4,482	-
117,706	148,416	131,966	216,752	138,524
98,367	61,272	56,617	87,476	103,004
614,968	422,856	268,662	117,147	124,893
11,277	10,149	15,139	18,509	19,152
880,303	-	-	-	-
2,862,482	2,137,228	2,079,200	1,840,478	2,237,241
404,433	1,786,891	248,512	448,191	862,801
6,608,345	6,184,346	4,208,551	4,016,624	4,559,704
4,099,518	4,037,662	3,666,635	3,678,173	3,961,028
39,500	-	-	-	-
362,446	270,513	-	117,124	3,100,474
4,501,464	4,308,175	3,666,635	3,795,297	7,061,502
11,109,809	10,492,521	7,875,186	7,811,921	11,621,206
(13,007,449)	(14,111,694)	(15,125,401)	(13,872,879)	(14,366,006)
785,479	634,232	(1,130,425)	(368,927)	2,832,348
\$ (12,221,970)	\$ (13,477,462)	\$ (16,255,826)	\$ (14,241,806)	\$ (11,533,658)

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

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Sales taxes	\$ 5,184,889	\$ 5,434,673	\$ 5,936,919	\$ 7,314,067
Property taxes	618,838	646,156	727,678	784,437
Franchise taxes	300,495	304,226	336,881	336,399
Intergovernmental	3,871,733	2,373,960	2,513,814	3,851,170
Payments in lieu of taxes	810,736	852,815	964,324	-
Investment earnings	83,533	55,183	136,117	361,815
Transfers	45,440	42,350	254,790	262,470
Total governmental activities	10,915,664	9,709,363	10,870,523	12,910,358
Business-type activities:				
Investment earnings	(175,061)	44,156	117,928	288,965
Transfers	(45,440)	(42,350)	(254,790)	(262,470)
Total business-type activities	(220,501)	1,806	(136,862)	26,495
Total primary government	10,695,163	9,711,169	10,733,661	12,936,853
Change in Net Assets				
Governmental activities	1,921,784	514,126	1,641,874	973,614
Business-type activities	720,241	583,115	777,982	2,440,433
Total primary government	\$ 2,642,025	\$ 1,097,241	\$ 2,419,856	\$ 3,414,047

Fiscal Year				
2007	2008	2009	2010	2011
\$ 7,503,852	\$ 7,396,678	\$ 6,624,711	\$ 5,919,923	\$ 5,915,905
834,521	907,545	856,237	1,002,536	1,010,692
348,166	349,043	339,802	349,061	344,833
4,194,575	4,602,546	4,473,463	3,988,244	3,533,894
-	-	-	-	-
403,108	287,474	68,680	(39,885)	76,978
312,470	437,734	-	1,005,000	152,114
13,596,692	13,981,020	12,362,893	12,224,879	11,034,416
447,258	253,312	107,222	(40)	(14,082)
(312,470)	(437,734)	-	(1,005,000)	(152,114)
134,788	(184,422)	107,222	(1,005,040)	(166,196)
13,731,480	13,796,598	12,470,115	11,219,839	10,868,220
589,243	(130,674)	(2,762,508)	(1,648,000)	(3,331,590)
920,267	449,810	(1,023,203)	(1,373,967)	2,666,152
\$ 1,509,510	\$ 319,136	\$ (3,785,711)	\$ (3,021,967)	\$ (665,438)

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

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ 2,000	\$ -
Unreserved	1,495,468	1,854,581	2,141,833	2,649,209	3,428,794
Nonspendable					
Restricted					
Committed					
Assigned					
Unassigned					
Total General Fund	<u>\$ 1,495,468</u>	<u>\$ 1,854,581</u>	<u>\$ 2,141,833</u>	<u>\$ 2,651,209</u>	<u>\$ 3,428,794</u>
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 6,226
Unreserved, reported in:					
Special revenue funds	1,446,076	442,312	740,890	1,862,531	2,080,199
Debt service funds	598,259	633,999	697,199	1,123,656	877,863
Capital projects funds	2,506,894	3,328,898	2,262,426	3,811,793	2,968,412
Restricted					
Assigned					
Total all other governmental funds	<u>\$ 4,551,229</u>	<u>\$ 4,405,209</u>	<u>\$ 3,700,515</u>	<u>\$ 6,797,980</u>	<u>\$ 5,932,700</u>

Source: The Town's Finance Department.

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

Fiscal Year				
2007	2008	2009	2010	2011
\$ 14,662	\$ -	\$ 14,729	\$ 14,645	
2,934,445	1,052,084	785,962	826,978	
				\$ 7,629
				258,357
				-
				341,960
				924,513
<u>\$ 2,949,107</u>	<u>\$ 1,052,084</u>	<u>\$ 800,691</u>	<u>\$ 841,623</u>	<u>\$ 1,532,459</u>
\$ 250	\$ 250	\$ 250	\$ 3,869	
2,191,308	1,183,909	1,096,303	913,850	
1,164,787	1,553,209	1,416,112	1,198,421	
2,206,560	1,557,772	1,324,306	2,459,190	
				\$ 2,029,780
				619,937
<u>\$ 5,562,905</u>	<u>\$ 4,295,140</u>	<u>\$ 3,836,971</u>	<u>\$ 4,575,330</u>	<u>\$ 2,649,717</u>

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

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Taxes	\$ 5,783,380	\$ 6,104,222	\$ 6,080,829	\$ 7,001,478	\$ 8,434,903
Intergovernmental	5,402,043	6,254,690	5,666,760	6,500,510	8,000,326
Fines and forfeitures	204,346	206,062	250,868	285,048	288,141
Licenses and permits	733,158	422,956	697,611	575,256	634,614
Charges for services	904,408	1,040,039	959,342	931,057	960,699
Other	850,959	978,253	1,188,084	1,849,683	1,647,363
Total revenues	13,878,294	15,006,222	14,843,494	17,143,032	19,966,046
Expenditures					
General government and community development	3,059,005	3,268,647	3,359,597	3,428,453	3,967,139
Public safety	4,594,348	4,802,740	4,980,492	5,702,869	7,417,846
Public works & highways and streets	1,444,312	1,495,834	1,621,275	2,423,241	4,526,180
Health and welfare & culture and recreation	1,362,640	1,520,282	1,602,171	1,695,512	1,837,732
Capital outlay	3,519,421	4,542,267	2,906,359	1,936,984	2,746,022
Debt service					
Principal retirement	-	-	561,170	585,803	844,385
Interest on long-term debt	-	-	272,222	239,528	315,645
Other debt service	698,534	790,376	-	53,514	365,390
Total expenditures	14,678,260	16,420,146	15,303,286	16,065,904	22,020,339
Excess of revenues over (under) expenditures	(799,966)	(1,413,924)	(459,792)	1,077,128	(2,054,293)
Other financing sources (uses)					
Transfers in	1,969,885	1,867,050	1,627,291	2,113,691	2,769,621
Transfers out	(1,930,935)	(1,821,610)	(1,584,941)	(1,858,901)	(2,507,151)
Issuance of refunding debt	-	-	-	-	1,085,000
Issuance of long-term debt	1,100,000	1,300,000	-	2,048,723	1,420,000
Bond premium	-	-	-	-	41,531
Payment to refunded debt escrow agent	-	-	-	-	(1,020,403)
Proceeds from capital lease	-	281,577	-	226,200	178,000
Total other financing sources (uses)	1,138,950	1,627,017	42,350	2,529,713	1,966,598
Net change in fund balance	\$ 338,984	\$ 213,093	\$ (417,442)	\$ 3,606,841	\$ (87,695)
Debt service as a percentage of noncapital expenditures	6.26%	6.65%	6.72%	6.22%	7.91%

Source: The Town's Finance Department.

Note: Debt service principal and interest was not available prior to the fiscal year ended June 30, 2004 to present as separate line items.

Fiscal Year				
2007	2008	2009	2010	2011
\$ 8,686,539	\$ 8,653,266	\$ 7,820,750	\$ 7,271,520	\$ 7,236,777
7,332,472	7,362,721	6,595,255	6,193,464	6,153,959
265,598	255,155	235,284	221,523	177,314
464,571	331,783	252,931	209,031	215,695
1,103,001	1,113,467	1,033,870	937,636	684,754
1,264,172	1,113,304	660,187	514,413	1,076,976
19,116,353	18,829,696	16,598,277	15,347,587	15,545,475
4,133,694	5,018,872	4,246,206	4,127,767	3,568,102
7,612,207	7,731,920	7,242,658	7,125,424	7,178,572
3,705,640	4,627,564	2,585,497	2,599,518	2,173,759
2,093,694	2,464,067	1,368,395	1,231,155	1,051,603
1,063,615	1,997,629	593,607	915,780	1,996,313
1,249,354	897,754	988,117	847,866	959,229
420,101	277,630	250,141	241,063	223,327
-	-	-	55,233	-
20,278,305	23,015,436	17,274,621	17,143,806	17,150,905
(1,161,952)	(4,185,740)	(676,344)	(1,796,219)	(1,605,430)
3,797,776	2,955,804	577,983	2,035,274	542,820
(3,485,306)	(2,518,070)	(577,983)	(1,030,274)	(390,706)
-	-	-	-	-
-	-	-	1,525,000	-
-	-	-	45,510	-
-	-	-	-	-
-	550,000	-	-	218,539
312,470	987,734	-	2,575,510	370,653
\$ (849,482)	\$ (3,198,006)	\$ (676,344)	\$ 779,291	\$ (1,234,777)
8.69%	6.30%	8.02%	7.15%	7.70%

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**TOWN OF PAYSON, ARIZONA
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Property Taxes</u>	<u>Franchise Taxes</u>	<u>Bed Tax</u>	<u>Library District</u>	<u>Other</u>	<u>Total</u>
2002	\$ 5,019,735	\$ 489,358	297,149	\$ 132,086	\$ 122,000	20,201	\$ 6,080,529
2003	5,035,165	468,588	300,495	149,724	150,250	-	\$ 6,104,222
2004	5,310,375	490,156	304,226	124,298	156,000	-	\$ 6,385,055
2005	5,602,478	727,678	336,881	176,591	157,850	-	\$ 7,001,478
2006	7,102,970	593,694	336,399	211,097	190,743	-	\$ 8,434,903
2007	7,298,346	634,241	348,166	205,506	200,280	-	\$ 8,686,539
2008	7,214,023	695,245	349,043	182,655	212,300	-	\$ 8,653,266
2009	6,464,884	629,861	339,802	159,827	226,376	-	\$ 7,820,750
2010	5,784,193	773,306	349,060	135,730	229,230	-	\$ 7,271,519
2011	5,696,337	746,809	344,834	219,568	229,230	-	\$ 7,236,778

Source: The Town's Finance Department.

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

	Fiscal Year				
	2002	2003	2004	2005	2006
Sales Category					
Retail trade	\$ 2,620,782	\$ 2,678,919	\$ 2,811,849	\$ 2,946,388	\$ 3,655,505
Construction	944,401	1,012,819	937,590	1,008,971	1,207,041
Restaurants and bars	436,178	428,498	436,403	547,906	615,870
Communications and utilities	385,100	373,978	328,722	510,765	576,592
Transportation & warehousing	-	-	3,658	11,028	14,743
Services	214,264	227,783	208,446	137,325	142,882
Manufacturing	85,559	80,935	108,286	138,382	180,369
Real estate, rental & leasing	173,825	180,204	205,040	280,826	320,133
Finance and insurance	-	-	4,513	12,269	9,983
Accommodations	223,638	244,273	191,561	287,731	333,627
Wholesale trade	41,907	41,326	40,188	51,102	87,044
Arts & entertainment	-	-	22,951	40,820	46,401
Other	4,553	6,562	129,324	136,390	145,489
Total	<u>\$ 5,130,207</u>	<u>\$ 5,275,297</u>	<u>\$ 5,428,531</u>	<u>\$ 6,109,903</u>	<u>\$ 7,335,679</u>
Town sales tax rate	8.60%	8.60%	8.60%	8.72%	8.72%

Source: Arizona Department of Revenue.

Fiscal Year				
2007	2008	2009	2010	2011
\$ 3,809,689	\$ 3,644,827	\$ 3,411,550	\$ 3,188,660	\$ 3,190,013
1,171,982	953,990	897,002	379,158	372,588
638,635	614,752	586,231	554,640	529,279
626,516	812,819	750,808	812,622	787,188
25,914	10,272	8,363	8,783	9,090
127,827	111,830	110,342	126,490	134,700
198,832	188,595	141,061	121,831	132,780
305,467	403,451	356,298	322,460	294,262
8,299	8,612	7,837	5,307	5,547
342,659	313,025	269,210	222,243	300,769
63,060	89,777	82,084	69,460	75,675
67,811	81,039	55,972	53,083	54,470
117,161	69,305	42,293	55,186	29,543
<u>\$ 7,503,852</u>	<u>\$ 7,302,294</u>	<u>\$ 6,719,051</u>	<u>\$ 5,919,923</u>	<u>\$ 5,915,905</u>
8.72%	8.72%	8.72%	8.72%	9.72%

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

Fiscal Year	Town Direct Rate	Gila County	Arizona State	Total Tax Rate
2002	2.00 %	1.00 %	5.60 %	8.60 %
2003	2.00	1.00	5.60	8.60
2004	2.00	1.00	5.60	8.60
2005	2.12	1.00	5.60	8.72
2006	2.12	1.00	5.60	8.72
2007	2.12	1.00	5.60	8.72
2008	2.12	1.00	5.60	8.72
2009	2.12	1.00	5.60	8.72
2010	2.12	1.00	5.60	8.72
2011	2.12	1.00	6.60	9.72

Source: Arizona Dept. of Revenue

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

Fiscal Year	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2002	\$ 119,004,875	0.3949	847,000,464	14.050 %
2003	143,944,717	0.3407	945,809,543	15.219
2004	153,133,821	0.3481	1,144,148,351	13.384
2005	170,159,572	0.3444	1,251,385,801	13.598
2006	182,522,790	0.3502	1,383,662,572	13.191
2007	201,211,739	0.3447	1,500,887,154	13.406
2008	224,447,881	0.2813	1,745,155,468	12.861
2009	240,139,778	0.3201	2,071,174,745	11.594
2010	236,841,829	0.3150	2,875,030,889	8.238
2011	201,988,013	0.3394	1,778,795,861	11.355

Source: The Gila County Assessor's Office.

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

Fiscal Year	Town			Overlapping Rates					Rate Total
	Town of Payson Primary	Town of Payson Secondary	Total Town Rate	N. Gila Co. Sanitary District	Library District Secondary	Fire District Assistance Secondary	School Equalization Primary	Gila County Primary	
2002	0.3019	0.0930	0.3949	0.7000	0.2000	0.1000	0.4974	4.4100	6.3023
2003	0.2754	0.0653	0.3407	0.7000	0.2000	0.1000	0.4717	4.4100	6.2224
2004	0.2867	0.0614	0.3481	0.7000	0.2000	0.1000	0.4560	4.4100	6.2141
2005	0.2752	0.0692	0.3444	0.7000	0.2000	0.1000	0.4358	4.4100	6.1902
2006	0.2640	0.0862	0.3502	0.7000	0.2000	0.1000	N/A	4.3488	5.6990
2007	0.2476	0.0971	0.3447	0.7000	0.2000	0.1000	N/A	4.1100	5.4547
2008	0.2215	0.0598	0.2813	0.7000	0.2000	0.1000	N/A	3.9200	5.2013
2009	0.2215	0.0986	0.3201	0.7000	0.2000	0.1000	0.3306	3.7500	5.4007
2010	0.2560	0.0590	0.3150	0.6000	0.2000	0.1000	0.3564	4.1900	5.7614
2011	0.3065	0.0329	0.3394	0.6000	0.2000	0.1000	0.4259	4.1900	5.8553

Source: The Gila County Treasurer's Office.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2010 AND NINE YEARS PRIOR
(UNAUDITED)**

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service	9,859,748	1	4.88	4,239,625	1	3.56 %
Retail Trust III--Wal-Mart	1,884,589	2	0.93	2,108,575	3	1.77
Payson Regional Hospital	1,703,962	3	0.84	1,006,533	5	0.85
Payson Village Center I LLC	1,641,040	4	0.81	-	-	-
Rim Golf Investors LLC	1,154,487	5	0.57	-	-	-
Qwest Corporation	1,375,393	6	0.68	1,941,967	4	1.63
Home Depot USA Inc	1,226,096	7	0.61	-	-	-
Sawmill Crossing LLC	1,045,149	8	0.52	-	-	-
Buffalo Golf LLC	1,020,879	9	0.51	-	-	-
Rim Golf Club LLC	983,171	10	0.49	-	-	-
	<u>\$ 21,894,514</u>		10.84 %	<u>\$ 9,296,700</u>		7.81 %

Source: The Gila County Treasurer's Office.

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

Fiscal	(1) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
2002	\$ 479,250	\$ 480,546	100.27 %	\$ 8,812	\$ 489,358	102.11 %	\$ (10,108)	(2.11) %
2003	480,280	463,376	96.48	5,212	\$ 468,588	97.57	11,692	2.43
2004	496,600	490,156	98.70	8,569	\$ 498,725	100.43	(2,125)	(0.43)
2005	522,310	566,054	108.38	3,774	\$ 569,828	109.10	(47,518)	(9.10)
2006	588,279	585,930	99.60	7,764	\$ 593,694	100.92	(5,415)	(0.92)
2007	641,740	639,190	99.60	(4,949)	\$ 634,241	98.83	7,499	1.17
2008	703,207	690,260	98.16	4,985	\$ 695,245	98.87	7,962	1.13
2009	647,200	621,858	96.08	8,003	\$ 629,861	97.32	17,339	2.68
2010	790,354	760,451	96.22	12,855	\$ 773,306	97.84	17,048	2.16
2011	751,315	728,383	96.95	18,426	\$ 746,809	99.40	4,506	0.60

Source: The Gila County Treasurer's Office.

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

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

Fiscal Year	Governmental Activities						Business-type Activities		Total Primary Government	Percentage of Personal Income
	General Obligation Bonds	Certificates of Participation	Excise Tax Revenue Bonds	Special Assessment Bonds	Term Loans	Capital Leases	Water Revenue Bonds	Notes Payable		
2002	\$ 1,751,000	\$ -	\$ -	\$ 1,720,000	\$ 1,194,999	\$ 165,369	\$ 1,055,000	\$ -	\$ 5,886,368	1.33
2003	1,621,000	-	1,300,000	1,590,000	1,043,192	321,661	960,000	-	6,835,853	1.19
2004	1,486,000	-	1,300,000	1,450,000	891,590	187,090	855,000	-	6,169,680	1.05
2005	3,371,000	-	1,235,000	1,305,000	787,385	286,695	750,000	-	7,735,080	1.27
2006	3,015,000	515,000	1,165,000	2,025,000	596,334	321,361	640,000	-	8,277,695	1.34
2007	2,825,000	445,000	1,095,000	1,830,000	-	193,341	525,000	-	6,913,341	1.03
2008	2,465,000	375,000	1,070,000	1,615,000	-	565,587	405,000	343,239	6,838,826	0.96
2009	2,055,000	295,000	940,000	1,390,000	-	372,470	140,000	300,464	6,352,934	0.90
2010	3,205,000	215,000	860,000	1,155,000	-	294,604	115,000	1,062,675	6,907,279	0.96
2011	2,820,000	135,000	770,000	900,000	-	363,914	-	768,548	5,757,462	0.96

Source: The Town of Payson.

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

Fiscal Year	General Obligation Bonds	Taxable Assessed Value of Property	Percentage of Estimated Actual Value of Property	Population	Net General Obligation Bonded Debt Per Capita
2002	\$ 1,751,000	\$ 945,809,543	0.19	14,052	\$ 125
2003	1,621,000	1,144,148,351	0.14	14,819	109
2004	1,486,000	1,251,385,801	0.12	15,200	98
2005	3,371,000	1,383,662,572	0.24	15,375	219
2006	3,015,000	1,500,887,154	0.2	15,430	195
2007	2,825,000	1,745,155,468	0.16	16,742	169
2008	2,465,000	1,745,155,468	0.14	16,742	147
2009	2,055,000	2,071,174,745	0.10	17,281	97
2010	3,205,000	2,875,030,889	0.11	17,281	185
2011	2,820,000	1,778,795,861	0.16	15,301	184

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

TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2011
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
State of Arizona	Not Available	0.35%	\$ -
Gila County	\$ 1,395,000	43.80%	611,010
Gila Community College	None	43.80%	-
Northern Gila County Sanitary District	Not Available	100.00%	-
Payson Unified School District No. 10	33,845,000	74.42%	25,187,449
Town of Payson	2,820,000	100.00%	2,820,000
Total direct and overlapping debt			<u>\$ 28,618,459</u>

Source: Gila County Treasurer's Office.

(1) Proportion applicable to the Town of Payson, Arizona, is computed on the ratio of secondary assessed valuation for 2010-11.

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

6% Debt Limit

	Fiscal Year				
	2002	2003	2004	2005	2006
Debt limit	\$ 7,140,293	\$ 8,636,683	\$ 9,188,029	\$ 9,380,449	\$ 10,413,736
Total applicable to limit	-	-	-	2,030,000	1,930,000
Legal debt margin	<u>\$ 7,140,293</u>	<u>\$ 8,636,683</u>	<u>\$ 9,188,029</u>	<u>\$ 7,350,449</u>	<u>\$ 8,483,736</u>
Total net debt applicable to the limit as a percentage of the debt limit	N/A	N/A	N/A	N/A	18.53%

20% Debt Limit

	Fiscal Year				
	2002	2003	2004	2005	2006
Debt limit	\$ 25,808,015	\$ 28,938,425	\$ 30,626,764	\$ 31,268,162	\$ 34,712,452
Total applicable to limit	<u>1,751,000</u>	<u>1,621,000</u>	<u>1,486,000</u>	<u>1,341,000</u>	<u>1,085,000</u>
Legal debt margin	<u>\$ 24,057,015</u>	<u>\$ 27,317,425</u>	<u>\$ 29,140,764</u>	<u>\$ 29,927,162</u>	<u>\$ 33,627,452</u>
Total net debt applicable to the limit as a percentage of the debt limit	6.78%	5.60%	4.85%	4.29%	3.13%

Source: The Gila County Treasurer's Office.

Fiscal Year				
2007	2008	2009	2010	2011
\$ 12,669,820	\$ 12,669,820	\$ 14,408,387	\$ 14,210,510	\$ 12,119,281
1,740,000	1,545,000	1,305,000	3,205,000	2,430,000
<u>\$ 10,929,820</u>	<u>\$ 11,124,820</u>	<u>\$ 13,103,387</u>	<u>\$ 11,005,510</u>	<u>\$ 9,689,281</u>
13.73%	12.19%	9.06%	22.55%	20.05%

Fiscal Year				
2007	2008	2009	2010	2011
\$ 42,232,733	\$ 42,232,733	\$ 48,027,956	\$ 47,368,366	\$ 40,397,603
1,085,000	920,000	750,000	575,000	390,000
<u>\$ 41,147,733</u>	<u>\$ 41,312,733</u>	<u>\$ 47,277,956</u>	<u>\$ 46,793,366</u>	<u>\$ 40,007,603</u>
2.57%	2.18%	1.56%	1.21%	0.97%

**TOWN OF PAYSON, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2011
(UNAUDITED)**

Net secondary assessed valuation	<u><u>\$ 201,988,013</u></u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>	
Debt limit - 20% of secondary net assessed valuation	\$ 40,397,603
Net debt applicable to limit	<u>390,000</u>
20% legal debt margin	<u>40,007,603</u>
<u>All other general obligation bonds</u>	
Debt limit - 6% of secondary net assessed valuation	12,119,281
Net debt applicable to limit	<u>2,430,000</u>
6% legal debt margin	<u>9,689,281</u>
Total legal debt margin	<u><u>\$ 49,696,883</u></u>

Source: Gila County Assessor's Office.

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

Water Revenue Bonds and Notes Payable							Special Assessment Bonds			
Fiscal Year	Utility Service Charges (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage
2002	\$ 3,122,537	\$ 2,039,046	\$ 1,083,491	\$ 90,000	\$ 54,744	7.49	\$ 280,935	\$ 120,000	\$ 108,560	1.23
2003	3,772,248	2,831,506	940,742	95,000	50,119	6.48	274,139	130,000	101,480	1.18
2004	3,601,365	2,351,811	1,249,554	105,000	45,119	8.32	292,236	140,000	46,905	1.56
2005	3,664,956	1,796,271	1,868,685	105,000	38,269	13.04	260,854	145,000	85,550	1.13
2006	4,101,235	1,055,410	3,045,825	225,000	16,000	12.64	209,279	155,000	76,995	0.90
2007	4,116,226	2,599,177	1,517,049	120,000	39,657	9.50	160,928	195,000	124,530	0.50
2008	4,099,088	2,681,646	1,417,442	130,000	17,000	9.64	160,985	215,000	98,328	0.51
2009	3,725,307	3,557,361	167,946	135,000	10,375	1.16	121,577	225,000	85,508	0.39
2010	3,678,133	3,121,955	556,178	184,518	6,376	2.91	154,543	235,000	78,591	0.49
2011	3,946,946	3,195,508	751,438	184,518	11,709	3.83	154,239	255,000	57,813	0.49

Source: The Town of Payson.

(1): Utility service charges include charges for services, intergovernmental, investment earnings and miscellaneous revenues.

(2): Operating expenses do not include depreciation and interest expense.

**TOWN OF PAYSON, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Median Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Town of Payson Unemployment Rate</u>
2002	14,052	442,638,000	31,500	48.9	2,874	3.9
2003	14,819	573,687,947	38,713	48.9	2,800	3.8
2004	15,200	588,437,600	38,713	48.9	2,599	3.4
2005	15,375	607,312,500	39,500	48.9	2,613	3.2
2006	15,430	616,783,390	39,973	48.9	2,806	3.2
2007	16,742	669,227,966	39,973	49.1	2,812	4.1
2008	16,965	678,141,945	39,973	50.5	2,712	4.6
2009	17,281	708,400,033	40,993	49.3	2,657	7.3
2010	17,281	708,400,033	40,993	49.3	2,352	7.9
2011	15,301	562,525,964	36,764	54.2	2,420	7.7

Source: The Town of Payson.

**TOWN OF PAYSON, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2011 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2011			2002		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Mazatzal Casino	349	1	14.96%	280	4	12.32%
Payson Regional Medical Center	350	2	15.00%	300	3	14.72
Payson Unified School District	316	3	13.54%	580	1	16.44
Wal-Mart	300	4	12.86%	365	2	16.68
Town of Payson	168	5	7.20%	150	6	6.87
Gila County	167	6	7.16%	158	5	6.87
Rim Country Health	150	7	6.43%	N/A		4.42
Payson Care Center	123	8	5.27%	N/A		6.23
Safeway Supermarket	109	9	4.67%	100	9	5.00
Home Depot	104	10	4.46%	N/A	-	N/A
U.S. Forest Service	80	11	3.43%	145	7	4.66
Bashas' Supermarket	67	13	2.87%	72	10	3.88
Chaparral Pines/ The Rim Club	50	14	2.14%	123	8	N/A
	<u>2,333</u>			<u>2,273</u>		

Source: The Town of Payson.

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

Function	Full-time Equivalent Employees									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Town Manager	2	2	2	2	2	2	2	4	2	4
Town Clerks	5	5	5	5	5	7	6	4	4	4
Finance	6	6	6	8	8	6	7	7	6	6
Community Development	12.5	12.5	12	12	12	13	13	13	13	14
Legal	5	5	5	5	5	5	4.5	4.5	4	4
Human Resources	0	0	0	0	0	0	0	0	0	
Information Services	3.5	3.5	3.5	3.5	3.5	3.5	1	2	2	3
Police Department	39	39	40	42	45	49	49	49	49	48
Fire Department	24	24	24	25	25	25	25	27	27	27
Airport	1	1	1	1	1	1	-	-	-	1
Engineering & Streets	16.5	16.5	16.5	16.5	16.5	17	17	22.5	22.5	22
Library	6	6	6	6	7	8	8	8	8	8
Parks and Recreation	9.5	9.5	9.5	9.5	11.5	11.5	11.5	7	7	6.5
Water	17	17	17	17	17	17	19	19	20	20
Total	<u>147</u>	<u>147</u>	<u>148</u>	<u>153</u>	<u>159</u>	<u>165</u>	<u>163</u>	<u>167</u>	<u>165</u>	<u>168</u>

Source: The Town of Payson.

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

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Building Permits						
Permits Issued	249	207	202	374(a)	283	201
Value of Buildings in \$	\$ 30,218,533	\$ 37,637,997	\$ 29,178,927	\$ 55,123,657	\$ 68,105,715	\$ 45,006,009
Police						
Average Response Time	-	5.57	6.56	6.28	5.54	3.47
Number of Sworn Officers	-	26	26	27	29	30
Total Calls	-	18,850	19,500	20,085	18,944	24,398
Calls per Sworn Officer	-	725	750	744	653	813
Officer per 1000 of Population	-	1.755	1.711	1.756	1.88	1.875
Total of Index Crimes	743	691	608	587	577	527
Index Crimes per Capital	0.053	0.047	0.04	0.038	0.037	0.031
Number of Drug Arrests	-	367	582	486	410	275
Drug Arrests per Capita	-	0.025	0.038	0.032	0.027	0.016
Fire						
Average Response Time	-	4.18	4.47	5.09	5.4	5.06
Total Calls	-	2,101	2,003	2,106	2,197	2,236
Calls per Capita	-	0.142	0.132	0.137	0.142	0.013
Fire Personnel per 1000 of Pop.	-	1.552	1.513	1.561	1.49	1.434
Fire Safety Inspections	-	580	401	486	453	396
Event Center						
Number of Events	-	-	-	-	28	22
Number of Days Used	-	-	-	-	77	104
Other Public Works						
Street Slurry sealed (miles)	-	-	-	-	15	13.6
Snow Removal (hours)	-	-	-	-	453	250
Parks and recreation						
Use of Facilities - Number of Activities	-	-	-	-	30	39
Program Registrations	-	-	-	-	2,040	1,951
Ramada Reservations	-	-	-	-	372	232
Swim Lessons	-	-	-	-	201	207
Pool Passes	-	-	-	-	2,498	2,420
Library						
Number of Patrons	-	12,148	13,950	15,257	17,136	14,432
Number of Internet Users	-	17,504	18,725	20,305	18,423	15,095
Number of New Cards Issued	-	1,684	1,731	1,605	1,562	1,415
Circulation per Capita	-	11.07	11.41	11.71	9.23	9.07
Patrons as % of Population	-	82	91.8	99.2	111.1	86.2
Water						
Number of Water Taps	6,758	6,948	7,122	7,399	7,609	7,728
Average daily consumption (thousand of gallons)	1,633.60	1,523.90	1,462.30	1,533.70	1,561.70	1,502.30
Peak daily consumption (thousand of gallons)	2,302.30	2,349.60	2,117.90	2,094.10	2,169.40	2,055.10
Elections						
Number of Registered Voters	8,983	9,272	7,117	7,117	8,828	8,828
Number Voting in Last Election	3,150	3,482	4,149	4,149	5,479	5,479
% of Participation of Voters	35.07%	37.55%	58.30%	58.30%	62.06%	62.06%

Source: The Town of Payson.

(a) Starting in 2005 Multi-Family Residential is reflected in the total number of permits and building valuation

Fiscal Year				
2008	2009	2010	2011	
103	115	37	34	
\$ 41,597,955	\$ 20,388,596	\$ 9,358,003	\$ 26,851,445	
9.2	7.23	5	5.33	
31	31	31	30	
20,726	24,233	26,233	28,259	
669	782	846	942	
1.938	1.824	1.824	1961	
440	635	617	675	
0.026	0.037	0.036	0.044	
156	78	126	95	
0.009	0.005	0.007	0.006	
4.09	4.2	4.06	4.47	
2,280	3	2,387	2,588	
0.136	0.161	0.138	0.169	
1.374	1.562	1.562	1.765	
418	576	535	567	
21	25	30	35	
101	120	127	127	
14.2	0	0	6	
277	64	64	0	
90	115	118	122	
3,241	3,756	3,464	3,668	
276	250	264	302	
395	325	n/a	n/a	
2,450	2,500	n/a	n/a	
15,712	16,674	13,474	13,525	
15,342	15,532	14,838	18,388	
1,400	1,200	1,143	1,267	
9.07	9.71	9.53	11.34	
93.8	99.9	96.5	88.4	
7,777	7,827	7,854	7,800	
1,534.30	1,468.80	1,490.60	1,493.40	
2,384.20	2,467.50	2,044.30	2,050.40	
8,913	8,913	9,304	9,304	
5,123	5,123	5,123	5,123	
57.48%	57.48%	55.06%	55.06%	

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

Function/Program	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Area - Square Miles	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Police										
Number of Employees	28	29	29	31	28	30	32	32	31	31
Patrol Vehicles	33	49	50	43	23	21	23	23	23	22
Fire										
Number of Firefighters	22	21	21	23	24	24	24	24	24	27
Number of Fire stations	2	2	2	2	2	2	2	2	2	3
Number of Municipal Employees (excluding Public safety)	87	81	94	92	98	102	102	102	102	102.5
Public Works										
Streets (miles)	100	104.7	105.5	105.9	105.9	105.9	105.9	105.9	105.9	105.9
Number of Water taps	6,758	6,948	7,122	7,399	7,609	7,728	7,777	7,827	7,854	7,800
Parks and recreation										
Acreage	169	169	169	169	169	169	169	169	169	169
Playgrounds	3	3	3	3	3	3	3	3	3	3
Swimming Pools	1	1	1	1	1	1	1	1	1	1

Source: The Town of Payson.