

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 21, 2026

NEW ISSUES – BOOK-ENTRY ONLY

RATINGS: See “RATINGS” herein.

INSURANCE: See “BOND INSURANCE” and “RISK FACTORS RELATED TO BOND INSURANCE” herein.

THE PORTION OF EACH INSTALLMENT PAYMENT MADE BY THE TOWN PURSUANT TO THE PURCHASE AGREEMENT AND DENOMINATED AS AND COMPRISING INTEREST PURSUANT TO THE PURCHASE AGREEMENT AND RECEIVED BY THE OWNERS OF THE OBLIGATIONS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND IS NOT EXEMPT FROM TAXATION UNDER THE LAWS OF THE STATE OF ARIZONA. SEE “TAX MATTERS” HEREIN.



\$21,210,000*

TOWN OF PAYSON, ARIZONA

PLEDGED REVENUE OBLIGATIONS, TAXABLE SERIES 2026

Dated: Date of Delivery

Due: July 15, as shown on the inside front cover page

The Pledged Revenue Obligations, Taxable Series 2026 (the “Obligations”), will be executed and delivered for the purpose of (i) acquiring the evidence of payment executed and delivered by the Arizona Public Safety Personnel Retirement System (“PSPRS”) as a result of the Town of Payson, Arizona (the “Town”) funding all or a portion of the Town’s unfunded liabilities associated with Tier 1 and Tier 2 participants in PSPRS, (ii) funding amounts all or a portion of which will fund future portions of the Town’s unfunded liabilities with respect to PSPRS and acquiring in connection therewith evidences of payment executed and delivered by PSPRS as a result of such payments, and (iii) paying costs relating to the execution and delivery of the Obligations. See “PLAN OF FINANCE” herein.

Interest on the Obligations will be payable semiannually on each July 15 and January 15, commencing July 15, 2027*. The Obligations will be dated the date of delivery and will be issuable as fully registered obligations without coupons and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Obligations. Beneficial interests in the Obligations will be available to purchasers in amounts of \$5,000 of principal due on a specific maturity date and any integral multiple thereof only under the book-entry only system maintained by DTC through brokers and dealers who are, or act through, DTC Participants (as defined herein). Purchasers will not receive physical certificates. So long as any purchaser is the beneficial owner of an Obligation, such purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal and interest on such Obligations. See APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM” herein.

The Obligations will be subject to redemption prior to their stated maturities as described herein. See “THE OBLIGATIONS – Redemption Provisions” herein*.

SEE MATURITY SCHEDULE ON INSIDE FRONT COVER PAGE

The scheduled payment of principal of and interest on the Obligations when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Obligations by Assured Guaranty Inc.



The Obligations will be undivided, proportionate interests in the installment payments to be made by the Town pursuant to a First Purchase Agreement, to be dated as of October 1, 2026* (the “Purchase Agreement”), between the Town and U.S. Bank Trust Company, National Association, as trustee. The installment payments will be payable from and secured by a first lien on and pledge of Excise Tax Revenues (as defined herein) and State Shared Revenues (as defined herein) on a parity with any Additional Revenue Obligations (as defined herein) that may be incurred on a parity as provided in the Purchase Agreement. No obligations may be incurred that would have a prior pledge of Excise Tax Revenues and State Shared Revenues to the installment payments due pursuant to the Purchase Agreement. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS” herein.

THE OBLIGATIONS WILL BE SPECIAL, LIMITED, REVENUE OBLIGATIONS OF THE TOWN AND WILL BE PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE TOWN, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF AND THE FULL FAITH AND CREDIT OF THE TOWN, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WILL NOT BE PLEDGED FOR THE PAYMENT OF THE OBLIGATIONS.

The Obligations will be offered when, as and if executed and delivered, subject to the approving opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Special Counsel, as to validity and tax matters. Certain matters will be passed upon for the underwriter identified below by its counsel, Squire Patton Boggs (US) LLP, Phoenix, Arizona. It is anticipated that the Obligations in definitive form will be available for delivery through DTC on or about October 21, 2026*.

This cover page contains only a brief description of the Obligations and the security therefor. It is not a summary of all material information with respect to the Obligations. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Obligations.

STIFEL

* Subject to change.

MATURITY SCHEDULE*

\$21,210,000*

TOWN OF PAYSON, ARIZONA

PLEDGED REVENUE OBLIGATIONS, TAXABLE SERIES 2026

Maturity Date (July 15)	Principal Amount	Interest Rate	Yield	CUSIP® ⁽¹⁾ No.
2027	\$ 1,165,000	%	%	
2028	1,435,000			
2029	1,550,000			
2030	1,615,000			
2031	1,705,000			
2032	1,755,000			
2033	1,995,000			
2034	2,095,000			
2035	2,290,000			
2036	2,345,000			
2037	3,260,000			

* Subject to change.

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TOWN OF PAYSON, ARIZONA

TOWN COUNCIL

Stephen Otto, *Mayor*

Suzy Tubbs, *Vice Mayor*

Charlie Bell, *Councilmember*

Jim Ferris, *Councilmember*

Brett Flaherty, *Councilmember*

Dallin Haws, *Councilmember*

Scott Nossek, *Councilmember*

TOWN ADMINISTRATION

Darren Coldwell, *Town Manager*

Sheila DeSchaaf, *Deputy Town Manager*

Dave Christian, *Finance Director*

Pierce Coleman, P.L.L.C., *Town Attorney*

SPECIAL COUNSEL

Greenberg Traurig, LLP
Phoenix, Arizona

TRUSTEE

U.S. Bank Trust Company, National Association
Phoenix, Arizona

REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Town of Payson, Arizona (the “Town”) or Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) to give any information or to make any representations with respect to the Obligations, other than those in this Official Statement, which includes the cover page, the inside front cover page and the appendices hereto, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement, which includes the cover page, inside front cover page and appendices hereto, has been obtained from representatives of the Town and the Arizona Department of Revenue and other sources that are considered to be accurate and reliable and customarily relied upon in the preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Town or the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement: “The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.”

The presentation of information, including tables of receipts from taxes and other sources, shows recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. All information, estimates and assumptions contained herein are based on past experience and on the latest information available and are believed to be reliable, but no representations are made that such information, estimates and assumptions are correct, will continue, will be realized or will be repeated in the future. To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty, and no representation is made that any of these statements have been or will be realized. All forecasts, projections, opinions, assumptions or estimates are “forward looking statements” that must be read with an abundance of caution and that may not be realized or may not occur in the future. Information other than that obtained from official records of the Town has been identified by source and has not been independently confirmed or verified by the Town or the Underwriter and its accuracy cannot be guaranteed. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made pursuant hereto will, under any circumstances, create any implication that there has been no change in the affairs of the Town or any of the other parties or matters described herein since the date hereof.

None of the Town, the Underwriter, counsel to the Underwriter or Special Counsel (as defined herein) are actuaries. None of them have performed any actuarial or other analysis of the Town’s share of unfunded liabilities of the Arizona State Retirement System or the Arizona Public Safety Personnel Retirement System.

The Obligations will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission (the “SEC”) nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Obligations for sale.

A wide variety of information, including financial information, concerning the Town is available from publications and websites of the Town and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such publications and websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of Rule 15c2-12 of the SEC.

The Town will undertake to provide continuing disclosure as described in this Official Statement under the heading “CONTINUING DISCLOSURE” and in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING,” all pursuant to Rule 15c2-12 of the SEC.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM THE INITIAL PUBLIC OFFERING PRICES OF THE OBLIGATIONS TO DEALERS AND OTHERS.

Assured Guaranty Inc. (“AG”) makes no representation regarding the Obligations or the advisability of investing in the Obligations. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE” and APPENDIX H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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OFFICIAL STATEMENT

\$21,210,000*

TOWN OF PAYSON, ARIZONA PLEDGED REVENUE OBLIGATIONS, TAXABLE SERIES 2026

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the inside front cover page and the appendices hereto, provides certain information concerning the Pledged Revenue Obligations, Taxable Series 2026 (the “Obligations”), to be executed and delivered in the principal amount indicated hereinabove. The Obligations will be undivided, participating, proportionate interests in installment payments (the “Payments”) to be made by the Town of Payson, Arizona (the “Town”), pursuant to a First Purchase Agreement, to be dated as of October 1, 2026* (the “Purchase Agreement”), between the Town, as buyer, and U.S. Bank Trust Company, National Association, in its capacity as trustee (the “Trustee”). The Obligations are being executed and delivered for the purpose of (i) acquiring the evidence of payment (the “Project”) executed and delivered by the Arizona Public Safety Personnel Retirement System (“PSPRS”) as a result of the Town funding all or a portion of the Town’s unfunded liabilities associated with Tier 1 and Tier 2 participants in PSPRS, (ii) funding amounts all or a portion of which will fund future portions of the Town's unfunded liabilities with respect to PSPRS and acquiring in connection therewith evidences of payment (the “Additional Projects” and, collectively with the Project, the “Projects”) executed and delivered by PSPRS as a result of such payments, and (iii) paying costs relating to the execution and delivery of the Obligations. See “PLAN OF FINANCE” herein.

The Obligations will be executed and delivered pursuant to a First Trust Agreement, to be dated as of October 1, 2026* (the “Trust Agreement”), between the Town and the Trustee. Certain of the Trustee’s interests under the Purchase Agreement, including, without limitation, the right to receive and collect the Payments and the right to enforce the payment of the Payments, will be held by the Trustee for the benefit of the registered owners of the Obligations. See APPENDIX D – “SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS” in addition to the information hereinbelow for descriptions of the terms of the Purchase Agreement and the Trust Agreement. See APPENDIX A – “TOWN OF PAYSON, ARIZONA – GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION,” APPENDIX B – “TOWN OF PAYSON, ARIZONA – FINANCIAL DATA” and APPENDIX C – “TOWN OF PAYSON, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2025” for information about the Town.

The Payments will be payable from and secured by a first lien on and pledge of Excise Tax Revenues (as defined herein) and State Shared Revenues (as defined herein), on a parity with any Additional Revenue Obligations (as defined herein) hereafter issued or incurred as provided in the Purchase Agreement. The Obligations, the Purchase Agreement and the Trust Agreement are being executed and delivered pursuant to Resolution No. 2026-034, adopted by the Mayor and Council of the Town on August 12, 2026 (the “Resolution”). Pursuant to Arizona law, the Resolution has an effective date of September 11, 2026, which is the thirtieth day following the adoption of the Resolution, and is the end of the time period that a referendum petition must be filed to challenge the Resolution in accordance with A.R.S. Section 19-142. No referendum petitions were submitted to the Town Clerk to challenge the Resolution.

“Excise Tax Revenues” means revenues from any unrestricted transaction privilege (sales) tax, business license and franchise fees, parks and recreation fees and permits and fines and forfeitures which the Town imposes; provided that the Mayor and Council of the Town may impose other transaction privilege taxes in the future, the uses of revenue from which will be restricted, at the discretion of such Council. “State Shared Revenues” means revenues from any excise taxes, transaction privilege (sales) taxes, income taxes and vehicle license taxes imposed by the State of Arizona (the “State” or “Arizona”) or any agency thereof and returned, allocated or apportioned to the Town, except the Town’s share of any such taxes which by State law, rule or regulation must be expended for other purposes, such as motor vehicle fuel taxes and certain bed taxes.

* *Subject to change.*

So long as any amounts due under the Purchase Agreement remain unpaid or unprovided for, the Town may not further encumber Excise Tax Revenues and State Shared Revenues on a basis equal to the pledge for the Purchase Agreement (“Additional Revenue Obligations”) unless certain requirements are satisfied. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS – Additional Revenue Obligations; No Prior Lien Obligations” and, for detail about amounts due pursuant to the Purchase Agreement, see TABLE 6 herein. The Town may not encumber Excise Tax Revenues and State Shared Revenues on a basis prior to the pledge for the Purchase Agreement.

THE OBLIGATIONS AND THE OBLIGATION OF THE TOWN TO MAKE THE PAYMENTS EACH CONSTITUTE A LIMITED OBLIGATION OF THE TOWN, AND NEITHER CONSTITUTES A GENERAL OBLIGATION OF THE TOWN WITHIN THE MEANING OF THE CONSTITUTION OR LAWS OF THE STATE. THE TOWN’S OBLIGATION TO MAKE THE PAYMENTS IS NOT SUBJECT TO ANNUAL APPROPRIATION OR BUDGETING BY THE TOWN NOR IS SUCH OBLIGATION SUBJECT TO ANY CONSTITUTIONAL OR STATUTORY LIMITATION ON EXPENDITURES.

Unless and until discontinued, the Obligations will be held in book-entry form by The Depository Trust Company (“DTC”), a registered securities depository, and beneficial interests therein may only be purchased and sold, and payments of principal and interest on the Obligations will be made only to beneficial owners (the “Beneficial Owners”), through participants in the DTC system. Beneficial interests in the Obligations will be available to purchasers in amounts of \$5,000 of principal due on a specific payment date and any integral multiple thereof. So long as Cede & Co. is the registered Owner of the Obligations, as nominee for DTC, references in this Official Statement to “Owner” or registered Owners of the Obligations (other than with respect to the Obligations under the heading “TAX MATTERS”) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Obligations. See APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM” herein.

Brief descriptions of the security for the Obligations and of matters related to the Town are included in this Official Statement together with a summary of select provisions of the Purchase Agreement and the Trust Agreement. Such descriptions do not purport to be comprehensive or definitive. All references to the Purchase Agreement and the Trust Agreement are qualified in their entirety by reference to such documents, and references herein to the Obligations are qualified in their entirety by reference to the form thereof included in the Trust Agreement, copies of all of which are available for inspection at the designated corporate trust office of the Trustee.

Reference to provisions of Arizona law, whether codified in the Arizona Revised Statutes, or uncoded, or of the Arizona Constitution, are references to those current provisions. Those provisions may be amended, repealed or supplemented.

Neither this Official Statement nor any statement that may have been made orally or in writing in connection herewith is to be considered as, or as part of, a contract with the original purchasers or subsequent owners or beneficial owners of the Obligations.

THE OBLIGATIONS

General Provisions

The Obligations will be dated the date of their initial execution and delivery, and will bear interest payable semiannually on July 15 and January 15 of each year (each an “Interest Payment Date”), commencing on July 15, 2027*, until their maturity date or redemption dates, at the rates set forth on the inside front cover page of this Official Statement. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

As described in APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM,” the Obligations, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. So long as DTC, or its nominee Cede & Co., is the registered owner of all the Obligations, all payments on the Obligations and notices regarding the Obligations will be made directly to DTC.

Subject to the provisions summarized in APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM,” the principal of each Obligation will be payable at the designated office of the Trustee. Interest represented by the Obligations will be paid on each Interest Payment Date by check drawn on the Trustee mailed on or before the Interest Payment Date to the registered owners as shown on the records of the Trustee as of the last day of the month immediately preceding such Interest Payment Date or, if such date is not a business day, on the next succeeding business day (the “Regular Record Date”) or the Trustee may agree with a registered Owner of \$1,000,000 or more in aggregate principal amount of the Obligations for another form of payment.

If the Trustee fails to make payments or provision for payment of interest on the Obligations when due on any Interest Payment Date, that interest shall cease to be payable to the registered Owner of such Obligations as of the applicable Regular Record Date, and when moneys become available for payment of that interest, the Trustee shall establish a special record date for the payment of that interest, which shall be at least ten days prior to the proposed interest payment date, and notice of such special record date shall be mailed to each registered Owner at least ten days prior to the special record date.

Each Obligation will accrue interest from the Interest Payment Date next preceding the date of its execution, unless: (i) executed on an Interest Payment Date or after a Regular Record Date but before the following Interest Payment Date, in which case interest accrues from such Interest Payment Date, (ii) executed on the date of initial delivery or prior to July 15, 2027*, in which case interest accrues from its dated date, or (iii) payment of interest is in default, in which case interest is payable from the last date to which interest has been paid or, if none, its dated date.

Redemption Provisions*

Optional Redemption of Obligations. The Obligations maturing before or on July 15, 20__, will not be subject to redemption prior to their stated maturity dates. The Obligations maturing on or after July 15, 20__, will be subject to redemption, at the option of the Town, in whole or in part on any date on or after July 15, 20__, at the redemption price of the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Manner of Selection for Redemption. The Obligations will be redeemed only in principal amounts of \$5,000 each or integral multiples thereof. The Town will, at least 45 days prior to the redemption date, notify the Trustee of such redemption date and of the maturities of the Obligations and the principal amount of the Obligations of any such maturity to be redeemed on such date. For the purposes of any redemption of less than all of the Obligations of a single maturity, the particular Obligations or portions of the Obligations to be redeemed shall be selected through the procedures of DTC.

Notice of Redemption. Redemption notices will be sent only to DTC by electronic media, not more than 60 nor less than 30 days prior to the date set for redemption. See APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM.” Such notice will state that if, on the specified redemption date, moneys for redemption of all the Obligations to be redeemed

* Subject to change.

together with interest to the date of redemption, is held by the Trustee, then, from and after said date of redemption, interest with respect to the Obligations will cease to accrue and become payable and that if such moneys are not so held, the redemption will not occur.

SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS

General

The Obligations will be special, limited, revenue obligations, taking the form of undivided, participating, proportionate interests in the Payments. The obligation of the Town to make the Payments will be limited to payment from Excise Tax Revenues and State Shared Revenues and will in no circumstances constitute a general obligation or a pledge of the full faith and credit of the Town, the State or any of its political subdivisions, or require the levy of, or be payable from the proceeds of, any *ad valorem* property taxes.

Under the terms of the Trust Agreement, an irrevocable trust will be administered by the Trustee for the equal and proportionate benefit of the Owners of the Obligations, which trust includes: (1) all right, title and interest of the Trustee in the Purchase Agreement and the right to (a) make claim for, collect or receive all amounts payable or receivable thereunder, (b) bring actions and proceedings thereunder or for the enforcement of such rights, and (c) do any and all other things which the Trustee is entitled to do thereunder; (2) amounts on deposit from time to time in the funds created pursuant to the Trust Agreement, except, notwithstanding any provision in the Trust Agreement to the contrary, in the Additional Projects Fund; and (3) any and all other property of any kind hereafter conveyed as additional security for the Obligations.

Pledge

The Payments will be payable from and secured by a first lien on and pledge of Excise Tax Revenues and State Shared Revenues on a parity with the payments due pursuant to any Additional Revenue Obligations.

So long as any amounts due under the Purchase Agreement remain unpaid or unprovided for, the Town may not further encumber Excise Tax Revenues and State Shared Revenues on a basis equal to the pledge for the Purchase Agreement unless certain requirements are satisfied. See “Additional Revenue Obligations; No Prior Lien Obligations” below. For detail about amounts due pursuant to the Purchase Agreement, see TABLE 6.

If at any time the moneys in the funds held for payment of amounts due under the Purchase Agreement or the Trust Agreement are not sufficient to make the deposits and transfers required, any such deficiency will be made up from the first moneys thereafter received and available for such transfers under the terms of the Purchase Agreement and, with respect to payment from Excise Tax Revenues and State Shared Revenues, *pro rata*, as applicable, with amounts due with respect to the Purchase Agreement and any Additional Revenue Obligations. Excise Tax Revenues and State Shared Revenues in excess of amounts, if any, required to be deposited with or held by the Trustee for payments due under the Purchase Agreement and the Trust Agreement will constitute surplus revenues and may be used by the Town for any lawful purpose for the benefit of the Town. The Town may make such payments from its other funds as permitted by law and as the Town determines from time to time, but the Trustee will thereafter have no claim to such other funds. The Purchase Agreement will not terminate so long as any of the Payments are due and owing pursuant to the terms of the Obligations.

Payment of the principal represented by the Obligations will not be secured by the Projects, and neither the Trustee nor the Owners of the Obligations have any claim or lien on the Projects or any part thereof.

THE PAYMENTS WILL NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE TOWN NOR WILL THE TOWN BE LIABLE FOR THE PAYMENTS FROM AD VALOREM PROPERTY TAXES. PURSUANT TO THE TRUST AGREEMENT, THE OBLIGATIONS WILL BE SPECIAL, LIMITED, REVENUE OBLIGATIONS, PAYABLE SOLELY FROM THE PAYMENTS MADE PURSUANT TO THE PURCHASE AGREEMENT. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE TOWN, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF AND WILL NOT REPRESENT OR

CONSTITUTE A DEBT OR A DIRECT OR INDIRECT PLEDGE OF THE FULL FAITH AND CREDIT OF THE TOWN, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF.

Coverage Requirements

To the extent permitted by applicable law, Excise Tax Revenues will be retained and maintained so that the amounts received from Excise Tax Revenues plus State Shared Revenues, all within and for the most recently completed fiscal year of the Town, will be equal to at least two (2) times the Annual Debt Service for the current fiscal year of the Town. If Excise Tax Revenues plus State Shared Revenues for any such fiscal year shall not have been equal to at least two (2) times the Annual Debt Service for the current fiscal year of the Town or if at any time it appears that Excise Tax Revenues plus State Shared Revenues will not be sufficient to meet such requirements, the Town will, to the extent permitted by applicable law, impose new exactions of the type of the excise taxes which will be part of the Excise Tax Revenues or increase the rates for the excise taxes currently imposed fully sufficient at all times, after making allowance for contingencies and errors, in each fiscal year of the Town in order that (i) Excise Tax Revenues plus State Shared Revenues will be sufficient to meet all such requirements and (ii) Excise Tax Revenues and State Shared Revenues will be reasonably calculated to attain the level as required by the first sentence of this paragraph.

Additional Revenue Obligations; No Prior Lien Obligations

Additional Revenue Obligations may be incurred but only if Excise Tax Revenues plus State Shared Revenues in the most recently completed fiscal year of the Town have amounted to at least two (2) times the Maximum Annual Debt Service. No obligations may be incurred that would have a prior pledge of Excise Tax Revenues and State Shared Revenues to the Payments.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the execution and delivery of the Obligations, Assured Guaranty Inc. (“AG” or the “Bond Insurer”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Obligations. The Policy guarantees the scheduled payment of principal of and interest on the Obligations when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

Assured Guaranty Inc.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL” and together with its subsidiaries, “Assured Guaranty”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative

watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of obligations insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On August 3, 2026, KBRA announced that it had affirmed AG's insurance financial strength rating of "AA+" (stable outlook).

On July 27, 2026, Moody's announced that it had affirmed AG's insurance financial strength rating of "A1" (stable outlook).

On July 17, 2026, S&P announced that it had affirmed AG's financial strength rating of "AA" (stable outlook).

AG can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AG's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2025.

Capitalization of AG

At June 30, 2026:

- The policyholders' surplus of AG was approximately \$3,088 million.
- The contingency reserve of AG was approximately \$1,569 million.
- The net unearned premium reserves and net deferred ceding commission income of AG and its subsidiaries (as described below) were approximately \$2,411 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AG and (ii) the net unearned premium reserves and net deferred ceding commissions of AG's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK"), and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserve, and net unearned premium reserves and net deferred ceding commission income of AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AG are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2025 (filed by AGL with the SEC on February 27, 2026);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2026 (filed by AGL with the SEC on May 8, 2026); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2026 (filed by AGL with the SEC on August 7, 2026).

All information relating to AG included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Obligations shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG included herein under the caption “BOND INSURANCE – Assured Guaranty Inc.” or included in a document incorporated by reference herein (collectively, the “AG Information”) shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AG makes no representation regarding the Obligations or the advisability of investing in the Obligations. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE”.

RISK FACTORS RELATED TO BOND INSURANCE

The following are risk factors to bond insurance generally. In the event of default of the payment of principal or interest with respect to any of the Obligations when all or some become due, any owner of the Obligations on which such principal or interest was not paid will have a claim under the Policy for such payments. In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Obligations will remain payable solely from the Excise Tax Revenues and State Shared Revenues as described under “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS.” In the event the Bond Insurer becomes obligated to make payments with respect to the Obligations, no assurance will be given that such event will not adversely affect the market price of the Obligations and the marketability (liquidity) of the Obligations.

The long-term ratings on the Obligations will be dependent in part on the financial strength of the Bond Insurer and its claims paying ability. The Bond Insurer’s financial strength and claims paying ability will be predicated upon a number of factors which could change over time. No assurance will be given that the long-term rating of the Bond Insurer and of the rating on the Obligations insured by the Bond Insurer will not be subject to downgrade, and such event could adversely affect the market price of the Obligations and the marketability (liquidity) of the Obligations.

The obligations of the Bond Insurer will be general obligations of the Bond Insurer, and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law, state receivership or other similar laws related to insolvency of insurance companies.

None of the Town, the Underwriter (as defined herein), or their respective attorneys, agents or consultants have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer will be given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Town to pay principal of and interest on the Obligations and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

EXCISE TAX REVENUES AND STATE SHARED REVENUES

Excise Tax Revenues and State Shared Revenues will be pledged as security for the Payments due pursuant to the Purchase Agreement, which will be used to pay debt service on the Obligations. The major categories of such revenues are discussed more fully under this heading.

NO ASSURANCES CAN BE GIVEN THAT THE AMOUNT OF STATE SHARED SALES TAXES OR STATE SHARED INCOME TAXES DESCRIBED HEREINBELOW WILL NOT BE REDUCED OR ELIMINATED BY THE STATE LEGISLATURE IN THE FUTURE.

Excise Tax Revenues

Town Transaction Privilege (Sales) Tax. The Town collects a transaction privilege (sales) tax on a variety of categories of business activity. The Town's transaction privilege (sales) tax is levied by the Town upon persons on account of their business activities within the Town. The amount of taxes due is calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities shown in TABLE 1.

TABLE 1

Town Transaction Privilege (Sales) Tax Rates by Category Town of Payson, Arizona

Category (a)	Town Transaction Privilege Tax Rate
Advertising	3.88%
Amusements	3.88
Contracting – Prime	3.88
Contracting – Speculative Builders	3.88
Contracting – Owner Builder	3.88
Job Printing	3.88
Manufactured Buildings	3.88
Timbering and Other Extraction	3.88
Severance – Metal Mining	0.10
Publication	3.88
Hotels	3.88
Hotel/Motel (Additional Tax) (b)	5.00
Commercial Rental, Leasing, & Licensing for Use	3.88
Rental Occupancy	2.00
Rental, Leasing, & Licensing for Use of TPP	3.88
Restaurant and Bars	3.88
Retail Sales	3.88
Retail Sales Food for Home Consumption	3.88
Maintenance, Repair, Replace and Alteration (MRRA) Amount	3.88
Communications	3.88
Transporting	3.88
Utilities	3.88

- (a) *Chapter 204, Laws of Arizona 2023 (commonly referred to by its original bill number “SB 1131”), eliminates the ability of Arizona municipalities to levy a transaction privilege tax on the business of renting or leasing real property for residential purposes from and after December 31, 2024.*
- (b) *The Town levies an additional 5.00% transient lodging tax on any hotel, motel, apartment or individual charging for lodging space to any person for less than 30 consecutive days (the “Bed Tax”). This tax is restricted by State law to use for visitor and hospitality services. Such amounts are not part of the Excise Tax Revenues pledged to payment of the Payments.*

Source: Arizona Department of Revenue.

The following table shows actual collections of the Town's unrestricted transaction privilege (sales) tax by industry classification for fiscal years 2020/21 through and including 2024/25, unaudited actual collections for fiscal year 2025/26 and budgeted collections for fiscal year 2026/27.

TABLE 2

Transaction Privilege (Sales) Tax Collections by Industry Classification (a)
Town of Payson, Arizona

Industry Classification	Audited					Unaudited	Budgeted
	2020/21	2021/22	2022/23	2023/24	2024/25	Actual 2025/26 (b)	
Retail Trade	\$ 8,868,442	\$ 9,912,623	\$ 10,589,924	\$ 11,170,560	\$ 13,544,631	\$ 15,903,454	\$ 15,483,508
Construction	407,639	725,594	818,999	903,181	1,055,914	1,498,715	1,487,168
Restaurants and bars	-	-	-	-	2,491,749	2,524,997	2,516,666
Communication and Utilities	1,674,354	1,108,522	1,257,380	1,314,782	1,751,291	1,666,521	1,468,655
Services	47,918	48,574	39,114	275,481	84,197	1,687	1,000
Real Estate, Rental and Leasing (c)	378,117	428,933	452,730	497,979	751,328	395,809	944,386
Accommodations (d)(e)	1,271,335	1,335,561	1,523,917	1,705,074	507,271	499,649	490,267
Wholesale Trade	17,285	24,178	29,132	31,338	1,353,762	51,294	50,000
Arts and Entertainment	50,566	160,862	329,216	79,714	114,746	106,275	106,187
Other	17,233	366	1,155	38,550	1,261	167,554	35,130
Total	\$ 12,732,889	\$ 13,745,213	\$ 15,041,567	\$ 16,016,659	\$ 21,656,150	\$ 22,815,956	\$ 22,582,968

- (a) On February 6, 2024, the Mayor and Council of the Town passed and adopted Ordinance No. 964, which increased the Town's transaction privilege tax rate from 2.88% to 3.88%. Collections of transaction privilege taxes at the increased tax rate commenced in May of 2024.
- (b) Unaudited actual collections for fiscal year 2025/26 and budgeted collections for fiscal year 2026/27 are "forward-looking" statements, subject to change upon audit and should be considered with an abundance of caution.
- (c) See footnote (a) to TABLE 1 for a description of the elimination of the residential rental transaction privilege tax.
- (d) Collections of amounts of bar and restaurant taxes have been reallocated from Accommodations classification to Restaurants and Bars.
- (e) Excludes amounts related to the 5.00% additional Bed Tax that are not part of the Excise Tax Revenues pledged to payment of the Payments. See footnote (b) to TABLE 1.

Source: Annual Comprehensive Financial Reports and Finance Department of the Town.

The following table shows the monthly Town Transaction Privilege (Sales) Tax collections of the Town for the current Fiscal Year and the previous four Fiscal Years.

TABLE 3
TOWN TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS

	2022/23	2023/24	2024/25	2025/26	2026/27 (a)
July	\$ 1,385,378	\$ 1,493,444	\$ 1,955,495	\$ 1,964,495	\$ 2,074,958
August	1,466,860	1,495,790	2,090,332	2,038,699	
September	1,309,253	1,469,650	1,924,147	2,026,589	
October	1,315,860	1,421,399	2,012,766	1,858,007	
November	1,350,770	1,417,941	1,931,740	2,109,400	
December	1,396,647	1,402,498	1,741,752	1,776,175	
January	1,407,881	1,433,161	1,914,975	2,062,409	
February	1,220,705	1,277,115	1,719,578	1,650,741	
March	1,124,721	1,218,016	1,604,472	1,713,860	
April	1,289,218	1,353,438	1,705,764	1,897,312	
May	1,595,369	1,402,723	1,816,340	1,946,366	
June	1,464,015	1,939,701	1,917,184	2,014,098	

(a) The Town Transaction Privilege (Sales) Tax collections for Fiscal Year 2026/27 are only available through July 2026.

Source: Arizona Department of Revenue, for month reported.

Franchise Fees. The Town imposes and collects franchise fees to engage in certain activities within the Town and the right to utilize certain Town property.

Business Licenses. The Town imposes and collects fees for licenses to engage in certain activities within the Town and the right to utilize certain Town property. Those entities transacting more than one type of business are required to have separate business license for each activity they engage. The Town has the authority and ability to set the charge for the business license at whatever rate it determines.

Permits. The Town imposes and collects fees for permits to engage in certain activities within the Town and the right to utilize certain Town property.

Parks and Recreation Fees. The Town imposes and collects fees for parks and recreation to engage in certain activities within the Town and the right to utilize certain Town property.

Fines and Forfeitures. The Town imposes and collects fines and forfeitures for violations of State laws or Town ordinances relating to traffic, parking, animal control and other offenses.

State Shared Revenues

State Shared Sales Taxes. Pursuant to statutory formula, cities and towns in Arizona receive a portion of revenues from the State-levied transaction privilege (sales) tax. As TABLE 4 indicates, the rate of taxation on such tax varies among the different types of business activities taxed, with the most common rate being 5.0% of the amount or volume of business transacted.

Currently, the aggregate amount distributed to all Arizona cities and towns is equal to 25% of the “distribution share” of revenues attributable to each category of taxable activity. Each city’s or town’s allocation of the revenues available to all cities and towns is based on its population relative to the aggregate population of all cities and towns as shown by the latest census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed monthly to cities and towns.

TABLE 4

**State-Transaction Privilege (Sales) Tax Rates
Taxable Activities and Distribution Base**

Taxable Activities	State Tax Rate	Distribution Base	0.60% Education Tax Rate (a)	Combined Tax Rate
Transporting	5.000%	20.00%	0.60%	5.600%
Utilities	5.000	20.00	0.60	5.600
Communications	5.000	20.00	0.60	5.600
Private rail car and pipelines	5.000	20.00	0.60	5.600
Publishing	5.000	20.00	0.60	5.600
Printing	5.000	20.00	0.60	5.600
Contracting	5.000	20.00	0.60	5.600
Owner builder sales	5.000	20.00	0.60	5.600
Amusements	5.000	40.00	0.60	5.600
Restaurant and bars	5.000	40.00	0.60	5.600
Personal property rentals	5.000	40.00	0.60	5.600
Retail	5.000	40.00	0.60	5.600
Hotel/motel	5.500	50.00	N/A	5.500
Mining – non-metal, oil/gas	3.125	32.00	N/A	3.125
Mining severance	2.500	80.00	N/A	2.500
Use and use inventory tax	5.000	N/A	0.60	5.600
Medical marijuana	5.000	40.00	0.60	5.600
Adult use marijuana	5.000	40.00	0.60	5.600
Maintenance, repair, replacement or alteration	5.000	40.00	0.60	5.600
Online lodging marketplace	5.500	50.00	N/A	5.500
Remote seller or marketplace	5.000	40.00	0.60	5.600
Jet fuel use tax	(b)	N/A	N/A	(b)

N/A = Not applicable.

(a) Represents the State transaction privilege (sales) tax rate approved by voters of the State in November 2000 (the “Education Tax”) on certain of the categories of business activity at six-tenths of one percent (0.6%). **The Education Tax collections are dedicated exclusively to education and are not distributed to the Town or pledged to the payment of debt service with respect to the Obligations. The Education Tax is scheduled to expire on June 30, 2041.**

(b) Does not include \$0.0305 per gallon State tax on the retail sale of jet fuel, which tax is only levied on the first ten million gallons sold to each purchaser in each calendar year.

Source: Arizona Revised Statutes, Arizona Department of Revenue and the Arizona Secretary of State.

State Shared Income Taxes. Under current State law, Arizona cities and towns are preempted from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to receive a percentage of State personal and corporate income tax collections. Distribution of such funds is made monthly based on the proportion of the population of each city and town to the total population of all incorporated cities and towns in the State as determined by the latest census. The State Legislature has at various times adjusted the distribution percentage. Most recently, the percentage of State shared income tax received by cities and towns was 15.0%. As part of the State’s fiscal year 2021/22 budget, on June 30, 2021, the Governor signed Senate Bill 1828 (“SB1828”), which consolidated the State’s four personal income tax rate categories into a single flat rate of 2.5% over a three-year period, beginning after December 31, 2021.

Legislative reports at the time of passage of SB1828 indicated that such a rate consolidation was estimated to reduce significantly State income tax receipts, with a possible concurrent reduction in State shared income taxes distributed to Arizona cities and towns.

In order to partially mitigate impacts of the expected reduction in State shared income taxes, SB1828 increased, beginning in fiscal year 2023/24, the percentage of State income taxes distributed to cities and towns from 15% to 18%. As a result of the enactment of SB1828, the Town received increases in its State shared income tax distribution in fiscal year 2023/24. Such increases did not continue in fiscal year 2024/25, and such increases are not expected to continue in fiscal year 2025/26 and beyond as the enactment of the 2.5% flat income tax rate becomes fully implemented. The amount and continued receipt of State shared income taxes by the Town could be adversely affected by future changes in law by the State Legislature.

As reported by the Arizona Joint Legislative Budget Committee, the State recorded individual income tax revenues of \$5.48 billion in fiscal year 2024/25, an increase of 13.1% year-over-year.

In addressing past State budgetary deficiencies, the Governor and members of the State legislature have occasionally proposed certain adjustments that would reduce the distribution of State shared income taxes to cities and towns. The Town cannot determine whether any such proposals will occur in the future and become law or how they might affect the Town's receipt of State shared income taxes.

Legislation Regarding Withholding of State Shared Revenues. Section 41-194.01, Arizona Revised Statutes, permits the State to withhold from a county, city or town ("Local Jurisdiction") State revenues that would otherwise be shared with Local Jurisdictions.

Under such statute, at the request of one or more members of the State Legislature, the State Attorney General must investigate any ordinance, regulation, order or other official action ("Local Action") adopted or taken by the governing body of a Local Jurisdiction that the legislator alleges violates State law or the State Constitution. The Attorney General must make a written report within 30 days after receipt of the request. The Local Jurisdiction then has 30 days to resolve the violation. If the Attorney General determines that the violation has not been resolved within 30 days, the Attorney General must notify the State Treasurer and the State Treasurer must withhold payment to the Local Jurisdiction of State shared excise taxes otherwise due to the Local Jurisdiction pursuant to Section 42-5029(L), Arizona Revised Statutes and all State shared income taxes otherwise due to the Local Jurisdiction pursuant to Section 43-206(F), Arizona Revised Statutes, until such time as the Attorney General determines that the violation has been resolved. However, the State Treasurer may not withhold any amount that the Local Jurisdiction certifies to the Attorney General and the State Treasurer as being necessary to make deposits or payments for debt service on bonds or other long-term obligations that were issued or incurred before the Local Action occurred.

The Town is not aware of any Local Action by the Town taken or currently under consideration that does or if taken would violate State law or the State Constitution. State Shared Revenues are pledged to payments due to the Purchase Agreement. The withholding of State Shared Revenues could have a material adverse effect on the payment of principal of and interest on the Obligations during any period of withholding.

Section 42-17451, Arizona Revised Statutes (the "Refund Law"), provides that, beginning in tax year 2025, a property owner (i.e., the holder of fee title to the affected real property) may apply to the Arizona Department of Revenue ("ADOR") for a property tax refund for expenses incurred by the property owner if the city, town or county (the "Affected Entity") in which the property owner's real property is located fails to enforce certain public nuisance laws on or near the property owner's real property. The amount of the refund is equal to the documented expenses incurred by the property owner that were reasonably necessary to mitigate the effects of the failure to enforce such public nuisance laws but may not exceed the amount the property owner paid for the prior tax year in primary property taxes for the tax year to the Affected Entity. If the refund exceeds such amount, the property owner must apply to ADOR for the remaining portion of the refund the following and successive tax years, as needed.

Within 15 days after receipt of an application for a refund, ADOR will notify the Affected Entity. Within 30 days after receiving the notice, the Affected Entity will accept or reject the refund and notify ADOR of that determination. If the refund is accepted by the Affected Entity or if the Affected Entity does not respond to ADOR within the 30-day period, ADOR will pay the refund to the property owner. If the Affected Entity rejects the refund, ADOR may not pay the

refund and the property owner may file a cause of action in the superior court of the county in which the real property is located to challenge the rejection of the refund. In any such cause of action, the Affected Entity will bear the burden of demonstrating that its actions are lawful or that the amount of the refund is unreasonable.

On notice from ADOR, the State Treasurer will withhold from the distribution of State shared sales taxes, a component of State Shared Revenues, to the Affected Entity the aggregate amount of refunds issued under the Refund Law. The State Treasurer will continue to withhold such State shared sales taxes until the entire amount provided by ADOR has been withheld. Any moneys withheld by the State Treasurer will be credited as reimbursement to ADOR for issuing refunds. Notwithstanding the foregoing, pursuant to the Refund Law, the State Treasurer may not withhold any payments for debt service on bonds or other long-term obligations of the Affected Entity that were issued or incurred before the refund was issued.

The Town is not able to determine or predict what impact, if any, the Refund Law will have on the receipt of the Town's State Shared Revenues. State Shared Revenues are pledged to payments due with respect to the Purchase Agreement. The withholding of State shared sales taxes, a component of the State Shared Revenues, could have a material adverse effect on the payment of principal of and interest on the Obligations during any period of withholding.

Lack of Town's Control Over State Shared Sales Tax or State Shared Income Tax Levels; Recent Legislative Changes. From time to time, bills are introduced in, and legislation enacted by, the Arizona Legislature to change the formulas used to allocate State Shared Sales Taxes and State Shared Income Taxes, including proposed adjustments that would reduce the distribution to cities and towns. The possibility of changes in this respect are more likely to be adverse to the Town when the State is experiencing financial difficulties. The Town cannot determine whether any such measures will become law or how they might affect State Shared Sales Taxes and State Shared Income Taxes, which comprise State Shared Revenues. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law, which would repeal or modify State Shared Sales Taxes and State Shared Income Taxes (a major source of funds for state revenue sharing). The Town cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

It should be noted that no assurances can be given that the amount of State Shared Sales Taxes and State Shared Income Taxes will not be reduced or eliminated by the State Legislature in the future. The State Legislature may from time to time eliminate State Shared Sales Taxes and State Shared Income Taxes or may change the amount and timing of payment of State Shared Sales Taxes and State Shared Income Taxes and is under no legal obligation to maintain the amount of State Shared Sales Taxes and State Shared Income Taxes payable to the Town at any amount or level. For example, addressing State budgetary deficiencies, adjustments that reduce the distribution of State Shared Sales Taxes could be enacted. Likewise, legislative reductions in State sales or income taxes generally could result in reductions in the amounts distributed to local governments, including the Town. Accordingly, the Town is unable to covenant to maintain State Shared Sales Taxes or State Shared Income Taxes at any certain level.

Vehicle License Tax Revenues. Article IX, Section 11 of the Arizona Constitution provides that from and after December 31, 1973, a vehicle license tax shall be imposed as provided by law on vehicles registered for operation upon the highways in Arizona, which vehicle license tax shall be in lieu of all ad valorem property taxes on any vehicle subject to such license tax. The constitutional provision further provides that the Arizona Legislature shall provide for the distribution of the proceeds from such vehicle license tax to the State, counties, school districts, cities and towns, including distributions to the State General Fund.

Pursuant to statutory formula, cities and towns in Arizona, including the Town, receive a distribution of revenues from the State vehicle license tax from the Arizona Department of Transportation (the "Department"), which is the State agency charged with collecting the tax. 20.45% of the vehicle license tax collected by the State with respect to alternative fuel vehicles, car rental surcharges, and private ambulances, fire-fighting vehicles and school buses and 24.60% of the vehicle license tax collected by the State with respect to all other eligible vehicles is distributed by the Department to the cities and towns in Arizona. Such amounts may be applied by the cities and towns in Arizona to any municipal purpose. The amounts and percentages distributed to the Town are beyond any control of the Town. Accordingly, the Town is unable to covenant to maintain vehicle license tax revenues at any certain level.

From time to time, bills are introduced in the State Legislature to make changes in the formula to allot such vehicle license tax revenues. The Town cannot determine whether any such measures will become law or how such measures might affect the revenues that comprise vehicle license tax revenues.

In addition, initiative measures may be circulated from time to time seeking to place on the ballot changes to the State Constitution or State law which repeal or modify the imposition, collection or distribution of vehicle license tax revenues. The Town cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

Set forth in TABLE 5 below are audited collections of Excise Tax Revenues and State Shared Revenues for fiscal years 2020/21 through and including 2024/25, unaudited actual collections for fiscal year 2025/26 and budgeted collections for fiscal year 2026/27.

TABLE 5

**Historical, Unaudited Actual and Budgeted Excise Tax Revenues and State Shared Revenues Collections (a)
Town of Payson, Arizona**

Category	Audited					Unaudited	Budgeted
	2020/21	2021/22	2022/23	2023/24	2024/25	Actual 2025/26 (b)	2026/27 (b)
Town Transaction Privilege (Sales) Taxes (c)	\$ 13,408,152	\$ 14,403,570	\$ 15,718,051	\$ 16,016,659	\$ 21,656,150	\$ 22,815,956	\$ 22,582,968
Franchise Taxes	405,155	407,290	428,838	568,849	665,592	539,432	485,663
Charges for Services	1,170,444	1,409,489	1,270,649	718,031	2,274,478	4,826,181	1,799,213
Licenses and Permits	465,158	668,577	442,694	537,824	555,833	485,937	853,800
Fines and Forfeits	184,392	210,569	207,449	141,170	132,827	122,894	125,000
State-Shared Revenues:							
State Sales Tax	1,875,946	2,302,144	2,441,411	2,514,629	3,857,897	2,458,150	3,527,994
State Income Tax (d)	2,259,899	2,140,891	3,133,111	4,412,904	4,495,401	3,264,332	4,152,997
Vehicle License Tax	1,311,677	1,252,477	1,335,263	1,295,031	1,447,487	1,424,068	1,529,966
TOTAL	\$ 21,080,823	\$ 22,795,007	\$ 24,977,466	\$ 26,205,097	\$ 35,085,665	\$ 35,936,950	\$ 35,057,601

- (a) *The Obligations will be secured by a first lien on and pledge of Excise Tax Revenues and State Shared Revenues. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS."*
- (b) *Unaudited actual and budgeted figures are "forward looking" statements and should be considered with an abundance of caution.*
- (c) *See footnote (a) to TABLE 1 for a description of the elimination of the residential rental transaction privilege tax. Excludes amounts related to the 5.00% additional Bed Tax that are not part of the Excise Tax Revenues pledged to payment of the Payments. See footnote (b) to TABLE 1. See footnote (a) to TABLE 2 for a description of the Town's collection of transaction privilege taxes at an increased tax rate that commenced in May of 2024.*
- (d) *Pursuant to State law, the State's four personal income tax rate categories were consolidated into a single flat rate of 2.5% over a three-year period beginning after December 31, 2021, which resulted in a reduction in State shared income taxes distributed to Arizona municipalities. See "EXCISE TAX REVENUES AND STATE SHARED REVENUES - State Shared Revenues - State Shared Income Taxes."*

Source: The Finance Department of the Town.

PLAN OF FINANCE

The proceeds from the Obligations, net of amounts used to pay costs related to the execution and delivery of the Obligations, will be used (i) to acquire the Project in the form of the evidence of payment executed and delivered by PSPRS as a result of the Town paying all or a portion of the Town's unfunded accrued (pension) liabilities with respect to PSPRS and (ii) to make a deposit to the Additional Projects Fund.

The plans in PSPRS (including the Town's) have experienced increases in their unfunded liability. The payment of all or a portion of the Town's unfunded accrued liability associated with Tier 1 and Tier 2 participants in PSPRS with a portion of the proceeds of the sale of the Obligations is a step to reach a funding ratio of its current unfunded liability of 100%. See APPENDIX B – "TOWN OF PAYSON, ARIZONA – FINANCIAL DATA – RETIREMENT SYSTEM" herein for more information regarding the Town's retirement plans.

By attempting to reach a funding ratio of the Town's current unfunded liability associated with Tier 1 and Tier 2 participants in PSPRS of 100%, the following are anticipated to be achieved for this portion of the Town's PSPRS unfunded liability:

- (i) generally level debt service to provide for future budgetary certainty for the Town; and
- (ii) present value savings.

The Town will deposit a portion of the proceeds of the Obligations in the Additional Projects Fund created pursuant to the Trust Agreement. Such monies will be used to acquire the Additional Projects, which may be necessary as a result of increases in the Town's unfunded PSPRS liabilities as a result of market risk and changes in actuarial assumptions, including, but not limited to, the actuarial rate, cost of living allowance and mortality tables. **The monies on deposit in the Additional Projects Fund will not be pledged to the payment of the Obligations.** Although created pursuant to the Trust Agreement and held by the Trustee, the Additional Projects Fund is held solely for the benefit of the Town, is under the control of the Town, and is not part of the trust estate created pursuant to the Trust Agreement. Any amounts held in the Additional Projects Fund on the final Interest Payment Date will be transferred to the Payment Fund for payment of debt service on the Obligations; provided, however, that if at such time the amount in the Additional Projects Fund exceeds the payment to be made to the Owners on the final Interest Payment Date, such excess shall be paid over to the Town on the final Interest Payment Date.

SOURCES AND USES OF FUNDS

Principal Amount	\$21,210,000.00*
[Net] Original Issue Premium / Discount (a)	
Total Sources of Funds	
Transfer to PSPRS	
Deposit to Additional Projects Fund	
Deposit to Costs of Issuance Fund (b)	
[Deposit to Payment Fund]	
Total Uses of Funds	

* *Subject to change.*

- (a) *Net original issue premium consists of original issue premium on the Obligations less original issue discount on the Obligations.*
- (b) *Will include bond insurance premium, if any, and fees of Special Counsel (as defined herein), the Trustee, rating agency fees and other costs related to the delivery of the Obligations, including compensation and costs of the Underwriter.*

ESTIMATED DEBT SERVICE REQUIREMENTS AND COVERAGE

TABLE 6

Schedule of Estimated Debt Service Requirements and Coverage (a)
Town of Payson, Arizona

Period Ending July 15	Pledged Revenues (b)	The Obligations*		Total Estimated Annual Debt Service Requirements*	Projected Maximum Annual Debt Service Coverage (d) *
		Principal	Interest (c)		
2024/25	\$ 35,085,665				
2025/26	35,936,950				
2026/27		\$ 1,165,000	\$ 885,081 (e)	\$ 2,050,081	
2027/28		1,435,000	1,080,515	2,515,515	
2028/29		1,550,000	1,009,038	2,559,038	
2029/30		1,615,000	929,926	2,544,926	
2030/31		1,705,000	846,802	2,551,802	
2031/32		1,755,000	757,340	2,512,340	
2032/33		1,995,000	664,009	2,659,009	
2033/34		2,095,000	555,920	2,650,920	
2034/35		2,290,000	442,853	2,732,853	
2035/36		2,345,000	316,972	2,661,972	
2036/37		3,260,000	185,722	3,445,722	10.43x
		<u>\$ 21,210,000</u>	<u>\$ 7,674,178</u>	<u>\$ 28,884,178</u>	

* Subject to change.

(a) Prepared by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”).

(b) The amount of Excise Tax Revenues and State Shared Revenues used to calculate the coverage requirements is the unaudited actual amount for fiscal year 2025/26. These amounts are unaudited, actual collections, and are subject to change upon audit and should be considered with an abundance of caution. See TABLE 5 – “Historical, Unaudited Actual and Budgeted Excise Tax Revenues and State Shared Revenues Collections.”

See footnote (e) to TABLE 2 for a description of the Town’s collection of transaction privilege taxes at an increased tax rate that commenced in May of 2024.

(c) Interest on the Obligations is estimated.

(d) Debt service coverage is based on revenues available for debt service (see footnote (b)) compared to the highest combined total of the debt service requirements in any succeeding fiscal year for the Obligations.

(e) The first interest payment on the Obligations is due on July 15, 2027*. Thereafter, interest payments will be made semiannually on January 15 and July 15, until maturity or prior redemption. See “THE OBLIGATIONS – Redemption Provisions”.

TAX MATTERS

General

THE PORTION OF EACH PAYMENT MADE BY THE TOWN PURSUANT TO THE PURCHASE AGREEMENT AND DENOMINATED AS AND COMPRISING INTEREST PURSUANT TO THE PURCHASE AGREEMENT AND RECEIVED BY THE OWNERS OF THE OBLIGATIONS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL OR STATE INCOME TAX PURPOSES.

In general, prospective purchasers of the Obligations should consult their tax advisors regarding the federal, state, local, and foreign tax consequences of acquisition, ownership, and disposition of Obligations. For example, the legal defeasance of the Obligations may result in a deemed sale or exchange of the Obligations under certain circumstances, with concomitant tax consequences.

The following summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, a particular owner of Obligations, and is generally limited to U.S. Owners except as set forth below. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations promulgated or proposed thereunder, and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly on a retroactive basis. There can be no assurances that the IRS will agree with such statements and conclusions. As used in this summary, “U.S. Owners” are beneficial Owners of the Obligations that for U.S. federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state or the District of Columbia, and certain estates or trusts with specific connections to the United States. As used in this summary, the term “Non-U.S. Owner” means a beneficial Owner of Obligations that is not a U.S. Owner.

In particular, this summary does not address (a) special classes of taxpayers that are subject to special treatment under the U.S. federal income tax laws, such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the United States, broker-dealers, traders in securities, controlled foreign corporations, passive foreign investment companies, and tax-exempt organizations, (b) persons that own Obligations as a hedge against, or as obligations that are hedged against, currency risk, or that are part of a hedge, straddle, conversion, or other integrated transaction, or (c) persons whose functional currency is not the U.S. dollar. Unless specifically addressed herein, this summary does not address U.S. federal estate and gift tax consequences, U.S. federal alternative minimum tax consequences, or consequences under the tax laws of any state, local, or non-U.S. jurisdiction. In addition, this summary also does not address the tax consequences to an Owner of Obligations held through a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes. **Partnerships holding Obligations, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of an investment in the Obligations, including their status as U.S. Owners.**

Further, this discussion is limited to persons purchasing the Obligations for cash in this original offering at their “issue prices” (as described below) and who hold such Obligations as capital assets within the meaning of Code Section 1221. Owners that purchase the Obligations at prices other than their respective issue prices or after their original execution and delivery should consult their tax advisors regarding other tax considerations, such as market discount, as to all of which Special Counsel expresses no opinion.

Certain U.S. Federal Income Tax Consequences to U.S. Owners

Interest. In general, interest paid or accrued on the Obligations will be taxable to a U.S. Owner as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for federal income tax purposes.

Under the Tax Cuts and Jobs Act, U.S. Owners that use an accrual method of accounting for U.S. federal income tax purposes generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. This rule generally is effective for tax years beginning after December 31, 2017 (or, for debt securities issued with original issue discount, for tax years beginning after December 31, 2018). Accrual method

U.S. Owners should consult their tax advisors regarding the potential applicability of this rule to their particular situation.

Disposition of the Obligations. Upon the sale, exchange, retirement, or other taxable disposition of an Obligation, a U.S. Owner, in general, will recognize gain or loss equal to the difference between (a) the amount realized from the sale, exchange, retirement, or other disposition (except to the extent that the amount realized is attributable to accrued and unpaid stated interest, which will be treated as a payment of interest and taxed in the manner described above under “*Interest*” to the extent not previously included in income), and (b) the Owner’s adjusted tax basis, or applicable portion of the adjusted tax basis, in the Obligation. The Owner’s adjusted tax basis generally will equal the Owner’s cost of the Obligation, reduced by any principal payments (and any other payments on the Obligations not treated as qualified stated interest). Any such gain or loss generally will be long-term capital gain or loss, provided that the Obligations have been held for more than one year at the time of disposition. Net long-term capital gain recognized by individual or other non-corporate U.S. Owners generally will be subject to tax at a lower rate than that for net short-term capital gain or ordinary income. The deductibility of capital losses is subject to limitations.

Additional Tax on Net Investment Income. A 3.8% tax is imposed on the “net investment income” of certain U.S. citizens and residents, and on the undistributed “net investment income” of certain estates and trusts. Among other items, “net investment income” generally includes gross income from interest and certain net gain from the sale, exchange, redemption, or other taxable disposition of a debt instrument that produces interest, minus certain deductions. **A U.S. Owner that is an individual, estate, or trust should consult its tax advisor regarding the applicability of this additional tax.**

Information Reporting and Backup Withholding. The Trustee must report annually to the IRS and to each U.S. Owner any interest paid on, and the proceeds from the sale or other taxable disposition of, the Obligations and the amount of tax withheld, for each calendar year, except as to certain exempt recipients. In addition, a non-corporate U.S. Owner of the Obligations may be subject to backup withholding (currently at a rate of 24%) with respect to “reportable payments,” which include interest paid on the Obligations and the gross proceeds of a sale, exchange, redemption, or retirement of the Obligations, unless the Owner provides an accurate taxpayer identification number and certifies on an IRS Form W-9, under penalties of perjury, that the Owner is not subject to backup withholding and otherwise complies with applicable requirements of the backup rules or otherwise establishes an exemption.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Owners

Interest. Subject to the discussion below under “*Application of Foreign Account Tax Compliance Act*”, interest on any Obligation owned by a Non-U.S. Owner is generally not subject to U.S. federal income or withholding tax, provided that:

- the Non-U.S. Owner does not own, actually or constructively, 10% or more of the total combined voting power of all classes of voting stock of the issuer, and is not a controlled foreign corporation related to the issuer, directly or indirectly, through stock ownership;
- the Non-U.S. Owner is not a bank receiving such interest in the manner described in Code Section 881(c)(3)(A); and
- the Non-U.S. Owner certifies on IRS Form W-8BEN or W-8BEN-E, under penalties of perjury, that it is not a United States person. Special certification rules apply to Obligations that are held through foreign intermediaries.

If, however, a Non-U.S. Owner is engaged in a trade or business in the United States, and if interest on the Obligations is effectively connected with the conduct of such trade or business (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States), such interest will be subject to U.S. federal income tax in a manner similar to that for Obligations owned by a U.S. Owner, as described above, and, in the case of a Non-U.S. Owner that is a foreign corporation, may also be subject to an additional branch profits tax (currently imposed at a rate of 30%, or a lower applicable treaty rate) on its effectively connected earnings and profits, subject to adjustments. **Non-U.S. Owners should consult their tax advisors regarding the tax consequences of owning the Obligations.**

Disposition of the Obligations. Subject to the discussion below under “*Application of Foreign Account Tax Compliance Act*”, a Non-U.S. Owner generally will not be subject to U.S. federal income or withholding tax on any amount of gain recognized by the Non-U.S. Owner upon the sale, exchange, retirement, or other taxable disposition of an Obligation unless:

- the gain is effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Owner (and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Owner in the United States); or
- in the case of an individual, the Non-U.S. Owner is present in the United States for 183 days or more in the taxable year in which the sale, exchange, retirement, or other taxable disposition takes place and certain other conditions are met.

Application of Foreign Account Tax Compliance Act. The Foreign Account Tax Compliance Act (“FATCA”) generally imposes a 30% withholding tax on interest payments and proceeds from the sale of interest-bearing obligations for payments made after the relevant effective date to (i) certain foreign financial institutions that fail to certify their FATCA information and (ii) investment funds and non-financial foreign entities if certain disclosure requirements are not satisfied related to direct and indirect United States shareholders and/or United States accountholders.

Under applicable Treasury Regulations, a 30% FATCA withholding tax generally will be imposed, subject to certain exceptions, on payments of (i) interest on Obligations and (ii) gross proceeds from the sale or other disposition of Obligations on or after January 1, 2022, where such payments are made to persons described in the immediately preceding paragraph.

With respect to payments made to a “foreign financial institution” (generally including an investment fund) either as a beneficial owner or as an intermediary, the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the U.S. government (a “*FATCA Agreement*”) or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an “*IGA*”), in either case to, among other things, collect and provide to the United States or other relevant tax authorities certain information regarding U.S. account holders of such institution. With respect to payment made to a foreign entity that is not a financial institution (as a beneficial owner), the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such entity provides to the withholding agent a certification that such entity does not have any “substantial” U.S. owner (generally, any specified U.S. person that owns, directly or indirectly, more than a specified percentage of such entity) or identifies its “substantial” U.S. owners.

If the Obligations are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, subject to certain exceptions, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign institution) generally will be required to withhold the 30% FATCA tax on the payment of dividends or the items described above made to (i) a person (including an individual) that fails to comply with certain information requests, or (ii) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement, and that is not required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA. Coordinating rules may limit duplicative withholding where the withholding described above under “*Interest or Information Reporting and Backup Withholding*” also applies.

If any amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from payments made on Obligations because of a failure by the investor (or an entity or intermediary through which an investor holds the Obligations) to comply with FATCA, none of the Town, any paying agent, or any person would, pursuant to the terms of the Obligations, be required to pay additional amounts with respect to any Obligations because of the deduction or withholding of such tax. **Non-U.S. Owners should consult their tax advisors regarding the application of FATCA to the ownership or disposition of Obligations.**

Considerations for ERISA and other U.S. Benefit Plan Investors

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA. Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein, and on Individual Retirement Accounts described in Section 408(b) of the Code. Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code. Accordingly, assets of such plans may be invested in the Obligations without regard to the applicable ERISA and Code considerations; however, such plans may be subject to similar provisions under applicable federal and state law, including, without limitation, Section 503(b) of the Code. Furthermore, non-United States plans may be subject to requirements under non-U.S. law that are similar to such provisions of ERISA and the Code. Any fiduciary of a benefits plan considering whether to purchase, directly or indirectly, any of the Obligations on behalf of a such plan should consult with its counsel regarding the applicability of the fiduciary prohibited transaction provisions of ERISA and Sections 4975 and 503(b) of the Code and other similar requirements to such an investment.

LEGAL MATTERS

Legal matters incident to the authorization, sale and execution and delivery by the Town of the Obligations will be passed upon by Greenberg Traurig, LLP, Phoenix, Arizona, Special Counsel. A signed copy of that opinion, dated and speaking only as of the date of delivery of the Obligations, will be delivered to the Town. A draft of the form of that opinion is included as APPENDIX E hereto. Certain legal matters will be passed upon solely for the benefit of the Underwriter by its counsel, Squire Patton Boggs (US) LLP, Phoenix, Arizona. See “RELATIONSHIP AMONG PARTIES.”

While Special Counsel has participated in the preparation of portions of this Official Statement, it has not been engaged to confirm or verify, and expresses and will express no opinion as to, the accuracy, completeness or fairness of any statements in this Official Statement, or in any other reports, financial information, offering or disclosure documents or other information pertaining to the Town or the Obligations that may be prepared or made available by the Town or others to the bidders for or holders of the Obligations or others.

From time to time, there are legislative proposals (and interpretations of such proposals by courts of law and other entities and individuals) which, if enacted, could alter or amend the sales tax system of the State and numerous matters, both financial and nonfinancial, impacting the operations of municipalities which could have a material impact on the Town and could adversely affect the secondary market value of the Obligations. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Obligations) issued prior to enactment.

The legal opinion to be delivered concurrently with the delivery of the Obligations will express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

LITIGATION

General

To the knowledge of the Town, no litigation or administrative action or proceeding is pending, restraining or enjoining, or seeking to restrain or enjoin, the execution and delivery of the Obligations or the pledge of Excise Tax Revenues and State Shared Revenues to the payment of the Payments, contesting or questioning the proceedings and authority under which the Obligations have been authorized and are to be sold, executed or delivered, or the validity of the Obligations. An authorized Town representative will deliver a certificate to the same effect at the time of the original delivery of the Obligations.

FINANCIAL STATEMENTS

The financial statements of the Town for the period ended June 30, 2025, which are included as APPENDIX C – “TOWN OF PAYSON, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2025” of this Official Statement, have been audited by Squire & Company, PC. All financial information presented herein should be read in conjunction with the financial statements and accompanying Notes in APPENDIX C. **The Town neither requested nor obtained the consent of Squire & Company, PC. to include such financial statements and Squire & Company, PC. has not reviewed this Official Statement nor performed any procedures subsequent to rendering its opinion on such financial statements.**

THE FINANCIAL STATEMENTS INCLUDED IN APPENDIX C OF THIS OFFICIAL STATEMENT ARE NOT CURRENT AND MAY NOT REPRESENT THE CURRENT FINANCIAL CONDITION OF THE TOWN.

CONTINUING DISCLOSURE

The Town will covenant for the benefit of the owners of the Obligations to provide certain financial information and operating data relating to the Town by not later than February 1 in each year commencing February 1, 2027 (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notices of Listed Events”). The Annual Reports, the Notices of Listed Events and any other document or information required to be filed by the Town as such will be filed with the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access System, each as described in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The specific nature of the information to be contained in the Annual Reports and the Notices of Listed Events is also set forth in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” These covenants will be made in order to assist the Underwriter in complying with the Securities and Exchange Commission’s Rule 15c2-12(b)(5) (the “Rule”). A failure by the Town to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Obligations in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Obligations and their market price.

The Town has implemented written policies and procedures to facilitate timely and proper filing of its Annual Reports and Notices of Listed Events for all of the Town’s outstanding bonds and obligations.

UNDERWRITING

The Obligations are being purchased by the Underwriter. The Underwriter has agreed to purchase from the Town the Obligations at an aggregate purchase price of \$ _____ pursuant to an obligation purchase agreement between the Town and the Underwriter. The aggregate purchase price reflects compensation to the Underwriter of \$ _____. The Obligations may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices stated on the inside cover page hereof, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Obligations if any Obligations are purchased.

RATINGS

S&P is expected to assign the insured rating of "AA" (stable outlook) to the Obligations with the understanding that the Policy will be issued and delivered by the Bond Insurer simultaneously with the execution and delivery of the Obligations. S&P has also assigned the underlying rating of "AA-" to the Obligations. Such ratings reflect only the view of S&P. An explanation of the significance of a rating assigned by S&P may be obtained at One California Street, 31st Floor, San Francisco, California 94111. Such rating, if assigned, may be revised or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Obligations. The Town will covenant in its continuing disclosure undertaking with respect to the Obligations that it will file notice of any formal change in any rating relating to the Obligations. See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein.

RELATIONSHIP AMONG PARTIES

Greenberg Traurig, LLP, Special Counsel, has acted as counsel to the Underwriter in other transactions underwritten by the Underwriter and as bond counsel in other transactions underwritten by the Underwriter. Squire Patton Boggs (US) LLP, counsel to the Underwriter, has acted as bond counsel in other transactions underwritten by the Underwriter. Greenberg Traurig, LLP and Squire Patton Boggs (US) LLP have also acted as bond counsel and/or counsel to the underwriter with respect to bonds issued by the Town and/or other overlapping political subdivisions.

CONCLUDING STATEMENT

The summaries or descriptions of provisions in the Purchase Agreement and the Trust Agreement contained herein and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such provisions and do not summarize all the pertinent provisions of such documents.

All projections, forecasts and other information in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Town and the purchasers or holders of any of the Obligations.

The attached APPENDICES A through H are integral parts of this Official Statement and must be read together with all of the foregoing statements.

This Official Statement has been prepared on direction of the Town and has been approved by and executed for and on behalf of the Town by its authorized representative indicated below.

THE TOWN OF PAYSON, ARIZONA

By.....
Mayor

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TOWN OF PAYSON, ARIZONA – GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information regarding the Town is provided for background information only. No representation is made as to the relevance of the data to the repayment of the Obligations. The Obligations are payable solely from Payments to be paid by the Town under the Purchase Agreement which are secured by a first lien pledge of Excise Tax Revenues and State Shared Revenues as described under the heading "SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS."

General

The Town is located in the northwest portion of Gila County, Arizona (the "County") approximately 93 miles northeast of Phoenix, Arizona. The Town is noted for its four mild seasons, recreational areas and forests. The Town was founded in 1884 and subsequently incorporated in 1973. The Town consists of approximately 19.5 square miles and has a population of approximately 16,723. Well-known attractions include the Mogollon Rim, Green Valley Park, Roosevelt Lake, Knoll Lake, the Ponderosa Pines, and the Payson Pro Rodeo. The Rodeo, known as the "World's Oldest Continuous Rodeo," dates back to 1884 and takes place every August.

The following table illustrates population statistics for the Town, the County and the State.

TABLE A-1
POPULATION STATISTICS

	<u>Town of Payson</u>	<u>Gila County</u>	<u>State of Arizona</u>
2025 Estimate (a)	16,723	53,908	7,718,747
2020 Census	16,351	53,272	7,151,502
2010 Census	15,301	53,597	6,392,017
2000 Census	13,620	51,335	5,130,632
1990 Census	8,377	40,216	3,665,339

(a) Estimate as of July 2025 (data released in December 2025).

Source: Arizona Office of Economic Opportunity and the U.S. Census Bureau.

Municipal Government and Organization

The Town operates under a Council/Manager form of government. The Town Council consists of seven members, six of who serve four-year terms and the Mayor who serves a two-year term. Terms are staggered so that no more than four councilmember elections are up for election at any one time. The Town Council is responsible for establishing Town policies and the Town Manager is responsible for carrying out Council policies and administering Town operations.

The Town provides water, police protection and fire protection for its residents. Electricity is provided by Arizona Public Service Company and sewer service to portions of the Town is provided by Green Valley Water (the Northern Gila County Sanitary District).

Economy

The Town's economy is based on the recreation, travel and tourism industries and serves as a trading center for a variety of retail establishments, professional services and construction and manufacturing companies.

The following is a partial list of major employers in the Town.

TABLE A-2
MAJOR EMPLOYERS
Town of Payson, Arizona

Employer	Description	Approximate Number of Employees
Payson Unified School District	Education	327
Banner Payson / PRMC	Healthcare	300
Mazatzal Casino & Hotel	Hospitality	300
Walmart	Retail	280
Gila County	Government	225
Town of Payson	Government	209
United States Postal Service	Government	158
Safeway Supermarket	Retail	129
Payson Care Center/Life Care Center	Healthcare	125
Home Depot	Retail	121
Rim Country Health	Healthcare	110
US Forest Service	Government	106

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

The following table illustrates the unemployment rate averages for the Town, the County, the State and the United States of America.

TABLE A-3
UNEMPLOYMENT RATE AVERAGES (a)

Calendar Year	Town of Payson	Gila County	State of Arizona	United States of America
2026 (b)	5.2%	4.7%	4.8%	4.4%
2025	4.5	4.1	4.3	4.3
2024	4.0	3.6	3.7	4.0
2023	4.4	4.0	3.7	3.6
2022	4.5	4.0	3.8	3.6
2021	5.6	5.0	5.0	5.3

(a) Each year, historical estimates from the Local Area Unemployment Statistics (LAUS) program are revised to reflect new population controls from the Census Bureau, updated input data, and re-estimation. The data for model-based areas also incorporate new seasonal adjustment, and the unadjusted estimates are controlled to new census division and U.S. totals. Sub-state area data subsequently are revised to incorporate updated inputs, re-estimation, and controlling to new statewide totals.

(b) Data through July 2026.

Source: Arizona Office of Economic Opportunity, in collaboration with the U.S. Census Bureau.

APPENDIX B**TOWN OF PAYSON, ARIZONA –
FINANCIAL DATA**

The following information regarding the Town is provided for background information only. No representation is made as to the relevance of the data to the repayment of the Obligations. The Obligations are payable solely from Payments to be paid by the Town under the Purchase Agreement which are secured by a first lien pledge of Excise Tax Revenues and State Shared Revenues as described under the heading "SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS."

TABLE B-1**Current Year Statistics (For Fiscal Year 2026/27)
Town of Payson, Arizona**

General Obligation Bonds Outstanding	None
Excise Tax Revenue and State Shared Revenue Obligations Outstanding and to be Outstanding	\$ 21,210,000* (a)
Water Infrastructure Finance Authority Loans Outstanding	23,322,400

* *Subject to change.*

(a) *Includes the Obligations.*

STATEMENTS OF BONDED INDEBTEDNESS**General Obligation Bonds Outstanding
Town of Payson, Arizona**

Total General Obligation Bonds Outstanding	<u>None</u>
--	-------------

TABLE B-2**Excise Tax Revenue and State Shared Revenue Obligations Outstanding and to be Outstanding
Town of Payson, Arizona**

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding and to be Outstanding
-----------------	--------------------	---------	---------------------------------------	--

None currently outstanding

Total Excise Tax Revenue and State Shared Revenue Obligations Outstanding	\$ -
Plus: The Obligations	<u>21,210,000 *</u>
Total Excise Tax Revenue and State Shared Revenue Obligations Outstanding and to be Outstanding	<u>\$ 21,210,000 *</u>

* *Subject to change.*

TABLE B-3**Water Infrastructure Finance Authority Loans Outstanding
Town of Payson, Arizona**

Loan Number	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding
92A160-10	\$ 10,585,000	Water system improvements	2029	\$ 727,240
920232-13	6,250,000	Water system improvements	2032	1,899,361
920257-15	10,000,000	Water system improvements	2044	6,607,611
920263-16	10,000,000	Water system improvements	2045	6,950,116
920272-17	10,000,000	Water system improvements	2046	7,138,073
Total Water Infrastructure Finance Authority Loans Outstanding				<u>\$ 23,322,401</u>

**Other Indebtedness
Town of Payson, Arizona**

The Town has entered into various agreements to finance the acquisition of land improvements, vehicles and equipment, and energy retrofits. The aggregate outstanding principal amount owed under such agreements as of June 30, 2026 was \$1,038,541.00. The Town makes payments due under such agreements from its General Fund and Highway User Revenue Fund.

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GENERAL FUND

Below are the Town general fund revenues, expenditures and changes in fund balance for the audited fiscal years 2020/21 through and including 2024/25, unaudited actual figures for fiscal year 2025/26 and budgeted figures for fiscal year 2026/27. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS” for a description of the source of payment for the Obligations. This information is not intended to indicate that the Obligations will be payable from any source other than described under such heading or to indicate future or continuing trends of the financial affairs of the Town.

TABLE B-4

	Audited					Unaudited	
	2020/21	2021/22	2022/23	2023/24	2024/25	Actual	Budgeted
						2025/26 (a)	2026/27 (a)
REVENUES							
Taxes (b)	\$ 15,290,777	\$ 16,350,603	\$ 17,714,307	\$ 20,926,422	\$ 24,015,438	\$ 30,501,027	\$ 32,279,588
Licenses and permits	465,158	668,577	442,694	537,824	555,833	485,937	853,800
Intergovernmental	9,020,323	9,558,020	11,390,199	9,649,297	9,067,909	6,316,608	6,549,632
Charges for services	1,170,444	1,409,489	1,270,649	1,446,063	2,274,478	4,826,181	1,799,213
Fines and forfeits	184,392	210,569	207,449	160,190	132,827	122,894	125,000
Contributions	3,201	56,700	10,601	10,625	17,332	30,565	30,000
Miscellaneous	377,785	448,135	387,630	248,917	404,643	2,053,495	2,500,000
Investment income	5,272	34,935	1,047,388	1,849,895	1,470,497	1,872,000	1,200,000
TOTAL REVENUES	\$ 26,517,352	\$ 28,737,028	\$ 32,470,917	\$ 34,829,233	\$ 37,938,957	\$ 46,208,707	\$ 45,337,233
EXPENDITURES							
Current:							
General government	\$ 4,280,038	\$ 4,294,803	\$ 5,359,809	\$ 6,679,516	\$ 6,789,967	\$ 6,599,418	\$ 12,661,337
Public safety	11,415,538	12,290,325	13,515,838	14,811,988	17,105,510	17,029,450	19,306,182
Culture and recreation	1,410,997	1,466,262	2,047,440	2,457,837	3,100,004	3,423,537	3,552,410
Public works	1,008,725	1,240,426	2,202,534	2,271,939	2,658,095	2,865,677	1,020,527
Community development	714,791	1,061,551	983,878	1,335,734	1,231,142	1,708,003	2,513,777
Health and welfare	215,869	194,009	208,948	284,190	310,582	142,700	-
Capital Outlay	3,120,600	766,315	1,268,740	892,587	4,298,573	2,634,595	3,283,000
Debt service:							
Principal retirement	51,013	336,927	318,601	289,913	297,123	209,322	3,000,000
Interest and fiscal charges	12,825	230,125	146,817	62,775	39,134	8,203	-
TOTAL EXPENDITURES	\$ 22,230,396	\$ 21,880,743	\$ 26,052,605	\$ 29,086,479	\$ 35,830,130	\$ 34,620,905	\$ 45,337,233
Excess of revenues over (under) expenditures	\$ 4,286,956	\$ 6,856,285	\$ 6,418,312	\$ 5,742,754	\$ 2,108,827	\$ 11,587,802	\$ -
Other financing sources (uses):							
Transfers in	\$ 321,956	\$ 952,442	\$ 400,000	\$ 420,000	\$ 509,000	\$ 441,000	\$ 4,581,481
Transfers out	(265,730)	(1,437,524)	(5,862,100)	(5,844,384)	(2,646,540)	(3,211,256)	(4,581,481)
Sale of assets	-	-	-	21,206	17,901	-	-
Capital lease agreements	1,950,821	-	-	-	-	-	-
Total Other financing sources (uses)	\$ 2,007,047	\$ (485,082)	\$ (5,462,100)	\$ (5,403,178)	\$ (2,119,639)	\$ (2,770,256)	\$ -
Fund balance at beginning of year	\$ 7,467,855	\$ 13,761,858	\$ 20,133,061	\$ 21,089,273	\$ 21,428,849	\$ 21,418,037	\$ 30,235,583
Fund balance at end of year	\$ 13,761,858	\$ 20,133,061	\$ 21,089,273	\$ 21,428,849	\$ 21,418,037	\$ 30,235,583	\$ 30,235,583

- (a) Unaudited actual figures for 2025/26 and budgeted figures for 2026/27 are “forward-looking” statements, subject to change upon audit and should be considered with an abundance of caution.
- (b) See footnote (a) to TABLE 2 for a description of the Town’s collection of transaction privilege taxes at an increased tax rate that commenced in May of 2024.

RETIREMENT SYSTEM

Pension and Retirement Plans

The Town contributes to the retirement plans described below and as referenced in Note 10 in APPENDIX C – “TOWN OF PAYSON, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2025.” Benefits are established by State statute and, depending on the plan, provide retirement, death, long-term disability, survivor and health insurance premium benefits. Both the Town and each covered employee contribute to the plans.

Each of the plans has reported increases in its unfunded liabilities. The increases in unfunded liabilities is expected to result in increased future annual contributions by the Town and its employees; however, the specific impact on the Town’s and its employees’ future contributions cannot be determined at this time.

The Governmental Accounting Standards Board (“GASB”) adopted Statement Number 68, Accounting and Financial Reporting for Pensions, which requires that cost-sharing employers report their “proportionate share” of a plan’s net pension liability in their government-wide financial statements and that the cost-sharing employer’s pension expense component include its proportionate share of the system’s pension expense, the net effect of annual changes in the employer’s proportionate share and the annual differences between the employer’s actual contributions and its proportionate share. GASB’s Statement No. 67, Financial Reporting for Pensions, is designed to improve financial reporting by state and local governmental pension plans.

Starting on page 45 in APPENDIX C – “TOWN OF PAYSON, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2025” is information about the plans based on GASB’s Statements Nos. 67 and 68. Please refer to APPENDIX C for more specific information about the plans. In the case of any difference between what is here versus what is in APPENDIX C, the latter supersedes the former.

The Arizona State Retirement System (“ASRS”). ASRS is a multiple-employer defined benefit pension plan, a multiple-employer defined benefit health insurance premium benefit plan, and a multiple-employer defined benefit long-term disability plan for approximately 650,000 Arizona public employees including qualified employees of the State, municipal governments, counties and K-12 education agencies. As of June 30, 2025, the unfunded liability for ASRS was \$18.294 billion with a funding ratio of 75.6% and an assumed earning rate of 7.0%. As of June 30, 2025, the Town reported a liability of \$9,480,892 for its proportionate share of the net pension liability under ASRS. Pursuant to State statute, the contribution rate for the employer (the Town) and active members of ASRS are equal. For Fiscal Year 2025/26, the actuarially determined contribution rate for the Town and active members of ASRS is 12.00% (11.86% for retirement and health insurance and 0.14% for long-term disability).

The table below shows recent actuarially determined contribution rates that the active ASRS members and the Town are/were required to contribute, the plan’s funded status and the pension contributions under ASRS for the next, current and past three fiscal years.

<u>Fiscal year ended</u>	<u>Retirement and Health Insurance Premiums</u>	<u>Long-term Disability</u>	<u>Total Contribution Rate</u>	<u>Funded Status</u>	<u>Pension Contributions</u>
June 30, 2027	11.87%	0.11%	11.98%	unavailable	unavailable
June 30, 2026	11.86	0.14	12.00	unavailable	unavailable
June 30, 2025	12.12	0.15	12.27	75.6%	\$928,207
June 30, 2024	12.14	0.15	12.29	74.0	812,825
June 30, 2023	12.03	0.14	12.17	73.1	805,191

The Arizona Public Safety Personnel Retirement System (“PSPRS”). PSPRS is an agent multiple-employer defined benefit pension plan and an agent multiple employer defined benefit health insurance premium benefit plan that covers public safety personnel who are regularly assigned to hazardous duties for which the Arizona State Legislature establishes active plan members’ contribution rates and member benefits. This is not a “pooled” system – a separate account exists for the police and fire employees of each participating political subdivision. In total, there are 258 individual plans in PSPRS. Each plan has its own financial condition, funding status, etc. which varies greatly across the system.

A 2016 amendment to the State constitution (“Prop 124”) created an exception to the prohibition in the Constitution against diminishing or impairing public retirement system benefits by allowing for certain adjustments to PSPRS and preserved the State’s legislative ability to modify public retirement benefits. Prop 124 allowed for, among other things, the replacement of permanent benefit increases then required by law with COLA (defined below) provisions tied to the regional consumer price indexes.

PSPRS active membership is comprised of three separate “tiers” based on date of hire which are shown in the following table.

<u>“Tier 1” Members</u>	<u>“Tier 2” Members</u>	<u>“Tier 3” Members</u>
Hired into PSPRS position before January 1, 2012	Hired into PSPRS position on or after January 1, 2012 and before July 1, 2017	Hired into PSPRS position on or after July 1, 2017

The different tiers have different types of plans. Tier 1 members have a defined benefit plan, Tier 2 members have a defined benefit or defined benefit hybrid plan and Tier 3 members have a defined contribution, defined benefit or defined benefit hybrid plan. (The hybrid plan is a pension with an additional defined contribution tax-deferred retirement savings account for Tier 2 and Tier 3 members who do not contribute to Social Security). For Tier 1 and Tier 2 members, the type of plan is determined automatically. For Tier 3 members the type of plan is an irrevocable career choice with a default to a defined benefit plan after 90 days. The actuarially determined employer contribution rate varies among the different tiers and the different types of plans as shown in the tables below.

As of June 30, 2025, the unfunded liability for Tiers 1 and 2 of PSPRS was \$7.1 billion with a funding ratio of 70.5%. When calculating, an assumed earning rate of 7.2% was used and an assumed rate of 1.75% was used for increases in the cost of living allowance (“COLA”).

The following tables show the actuarially determined annual contribution rates, funded status and total audited contribution amounts for PSPRS.

Fire

	Fiscal Year Ended				
	6/30/2027	6/30/2026	6/30/2025	6/30/2024	6/30/2023
<u>Contribution Rates*</u>					
Tier 1 Defined Benefit Employer	43.36%	41.19%	42.14%	38.66%	41.81%
Tier 1 Defined Benefit Employee	7.65%	7.65%	7.65%	7.65%	7.65%
Tier 2 Defined Benefit Employer (a)	43.36%	41.19%	42.14%	38.66%	41.81%
Tier 2 Defined Benefit Employee (a)(b)	11.65%	11.65%	11.65%	11.65%	11.65%
Tier 3 Defined Benefit Employer (a)(c)	35.96%	35.01%	37.68%	34.66%	38.37%
Tier 3 Defined Benefit Employee (a)	8.69%	8.52%	8.89%	9.56%	9.94%
Tier 3 Defined Contribution Employer (c)	38.08%	37.06%	39.52%	35.70%	39.28%
Tier 3 Defined Contribution Employee	10.78%	10.74%	10.73%	10.60%	10.85%
Pension Funded Status	N/A	N/A	65.8%	65.4%	63.3%
Health Funded Status	N/A	N/A	71.6%	65.7%	58.6%
Total Town (Employer) Pension and Health Contribution	N/A	N/A	\$1,572,608	\$1,265,426	\$1,240,234

Police

	Fiscal Year Ended				
	6/30/2027	6/30/2026	6/30/2025	6/30/2024	6/30/2023
<u>Contribution Rates*</u>					
Tier 1 Defined Benefit Employer	72.90%	83.69%	75.48%	71.80%	69.72%
Tier 1 Defined Benefit Employee	7.65%	7.65%	7.65%	7.65%	7.65%
Tier 2 Defined Benefit Employer (a)	72.90%	83.69%	75.48%	71.80%	69.72%
Tier 2 Defined Benefit Employee (a)(b)	11.65%	11.65%	11.65%	11.65%	11.65%
Tier 3 Defined Benefit Employer (a)(c)	66.40%	78.45%	69.96%	71.06%	68.68%
Tier 3 Defined Benefit Employee (a)	8.69%	8.52%	8.89%	9.56%	9.94%
Tier 3 Defined Contribution Employer (c)	68.52%	80.50%	71.80%	72.10%	69.59%
Tier 3 Defined Contribution Employee	10.78%	10.74%	10.73%	10.60%	10.85%
Pension Funded Status	N/A	N/A	58.1%	54.4%	50.8%
Health Funded Status	N/A	N/A	72.9%	64.5%	63.5%
Total Town (Employer) Pension and Health Contribution	N/A	N/A	\$2,149,307	\$2,236,821	\$1,831,912

* Sum of the Pension and Health insurance premium benefit contribution rates.

- (a) Does not include additional contribution percentage of 3% associated with Tier 2 & 3 defined benefit members additionally participating in the defined contribution plan. Employer rate is 4% for Tier 2 members for a period of time depending on the individual's membership date and 3% for Tier 3 members.
- (b) Tier 2 employees contribute a maximum of 11.65%, but statutory requirements dictate only 7.65% is applied toward employer costs.
- (c) The amortization of unfunded liabilities for Tier 1 and Tier 2 is applied to the payroll for employees in all tiers, including Tier 3, on a level percent basis.

Statutory Changes and Court Decisions Regarding the PSPRS

PSPRS is operated under the umbrella of the Public Safety Personnel Retirement System and the Public Safety Personnel Retirement System Board of Trustees. Since 2011 there have been various retirement program modifications designed to mitigate the increasing unfunded liabilities in the programs. Some of these modifications were enacted by the Arizona Legislature and other changes (like Prop 124) were implemented by voter approved amendments to the State Constitution. Additionally, in some instances, modifications enacted by the Arizona Legislature were reversed based on the outcome of successful court challenges. Substantively, the modifications have included changes to contribution rates, retirement criteria, funding horizons, retirement benefits and post-retirement benefit increase calculations.

Potential Future State Legislation Affecting ASRS and PSPRS

Bills are frequently introduced at sessions of the State Legislature that, if enacted, could impact the administration of the ASRS and PSPRS and the eligibility, timing and payment of benefits from such plans. The Town is unable to determine whether any such bills will be enacted into legislation or in what form such legislation may be enacted and what the impact of any such legislation may be.

Risks of Using Debt for Pension Payment

Using debt, such as the Obligations, to make pension payments carries three types of risks for the Town: (i) actuarial risk, (ii) market risk and (iii) other risks. Actuarial risks relate to the risks associated with alterations to projections and contributions due to changes in assumptions such as investment returns, payroll increase, COLA, mortality, early retirement and benefit payments. Market risk is the risk associated with the Obligations and long-term investment return performance. Other risks include, but are not limited to, variance from the anticipated investment return, payroll increase, COLA, mortality, early retirement, covered payroll and other assumptions. Anticipated savings are based on achieving rates assumed in actuarial reports and other documents and such savings could be greater or less than projected and could even result in a loss.

Other Post-Employment Retirement Benefits

During the year ended June 30, 2018, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”). The Town is required to report the actuarially accrued cost of post-employment benefits, other than pension benefits (“OPEB”), such as health and life insurance for current and future retirees. GASB 75 addresses reporting by governments that provide OPEB by measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB provided through defined benefit OPEB plan. Please refer to APPENDIX C of the Official Statement which includes the Town’s audited financial statements and specifically “Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

Plan Description. The Town provides postretirement healthcare benefits in accordance with the Town Personnel Rules and Procedures manual. A Council Member who was elected prior to 1998 and has served eight (8) consecutive years will be eligible for retirement Medical, Dental, Vision and Life Insurance benefits upon reaching sixty (60) years of age. No Council Member who was elected or appointed to the office in the year 1998 or later shall be eligible under any circumstances, for retirement Medical, Dental, Vision and Life Insurance benefits. The Town ended the retirement program and the postretirement health care benefit plan for employees hired after January 2010.

The plan is a single-employer defined benefit OPEB plan administered by the Town. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Generally, resources from the General Fund are used to pay for postemployment benefits. 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.

Benefits Provided. The plan provides postretirement insurance (health, dental, vision, and life) benefits for eligible retirees either up to age 65 (if hired on or after May 10, 1997) or through the individual's lifetime (if hired before May

10, 1997). To be eligible for Town-paid benefits, an employee must have acquired 70 points (years of age plus years of service) under ASRS and be a benefited employee with 10 consecutive years of full-time satisfactory service.

Contributions. The Town makes average monthly contributions of \$307 for employee only health care benefits plans and \$684 for employee and family health care benefit plans. The Town makes average monthly contributions of \$588 for retiree only postretirement health care benefits plans and \$1,149 for retiree and family postretirement health care benefit plans. The Town's regular insurance providers underwrite the retiree policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. A separate financial report is not issued for the plan.

Employees covered by benefit terms. The following employees were covered as of the effective date of the OPEB valuation:

Inactive employees or beneficiaries	
currently receiving benefit payments	64
Active employees	<u>31</u>
Total	<u><u>95</u></u>

Total OPEB Liability. The Town's total OPEB liability of \$16,562,585 was measured as of June 30, 2025, and was determined by an actuarial valuation as of July 1, 2024.

Please refer to Note 11 in APPENDIX C for more specific information about the plan.

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APPENDIX C

TOWN OF PAYSON, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2025

The following audited financial statements are for the fiscal year ended June 30, 2025. These are the most recent audited financial statements available to the Town. THESE FINANCIAL STATEMENTS ARE NOT CURRENT AND MAY NOT REPRESENT THE CURRENT FINANCIAL CONDITION OF THE TOWN.

The Town neither requested nor obtained the consent of Squire & Company, PC. to include such financial statements and Squire & Company, PC. has not reviewed this Official Statement nor performed any procedures subsequent to rendering its opinion on such financial statements.

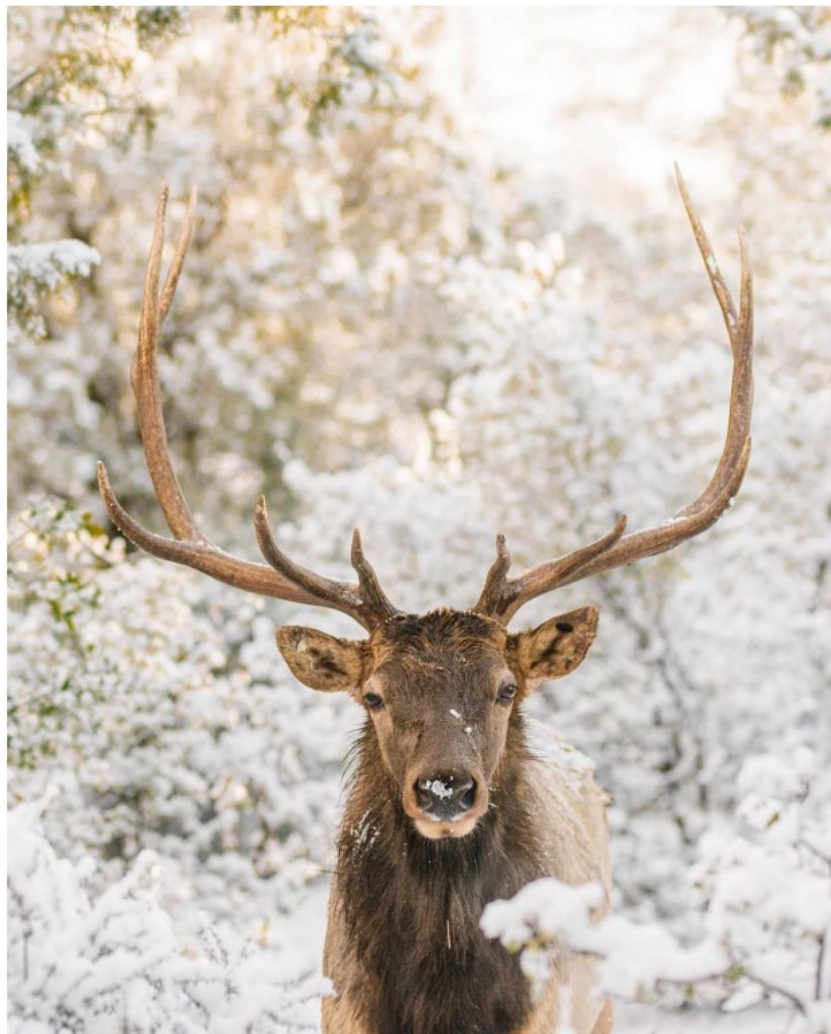
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ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Year Ended June 30, 2025

Town of Payson, Arizona



303 N Beeline Highway Payson, Arizona 85541

TOWN OF PAYSON, ARIZONA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Issued by:
Finance Department

TOWN OF PAYSON, ARIZONA

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INTRODUCTORY SECTION

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TOWN OF



Town Hall (928) 474-5242
Police Dept. (928) 474-5177
Water Dept. (928) 472-5100
Fax (928) 474-4610

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

February 28, 2026

To the Honorable Mayor, Members of the Town Council, and the Citizens of the Town of Payson, Arizona:

The Annual Comprehensive Financial Report (ACFR) of the Town of Payson, Arizona (the Town), for the fiscal year ending June 30, 2025, is submitted herewith.

This report is published to provide the Town Council, Town staff, our citizens, 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, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the cost of internal controls 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.

Squire & Company PC, a Certified Public Accounting firm, has issued an unmodified ("clean") opinion on the Town of Payson's financial statements for the fiscal year ending June 30, 2025. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with this letter.

Profile of the Government

The Town of Payson, Arizona (the Town) was incorporated in 1973, and is located at the intersection of State Routes 87 and 260, 90 miles north of Phoenix, Arizona. The Town's boundaries enclose 20.5 square miles in northern Gila County and serves a population of 16,762. Surrounded by the Tonto National Forest and the world's largest stand of virgin Ponderosa Pines. Payson is nestled just below Arizona's Mogollon Rim at an elevation of 4,982 feet and enjoys a moderate four-season climate.

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

The Town operates under the council-manager form of government. The Town Council, which has policy-making and legislative authority, consists of a mayor and a six-member council. Council members are elected on a nonpartisan "at large" basis; and are elected to four-year staggered terms with three council members elected every two years. The town mayor is directly elected for a two-year term. The Town Council is responsible for, among other things, passing ordinances and resolutions and adopting the Town's annual budget. They also appoint committees and hire the Town Manager and Town Attorney. The Town Manager is responsible for carrying out the policies, ordinances and resolutions of the Town Council, and for overseeing the day-to-day operations of the Town.

The Town provides a full range of services, including police, fire, and emergency medical services; planning, zoning, and building code enforcement; the construction and maintenance of streets and other infrastructure; recreational activities and cultural events; an airport, and a library. In addition, the Town operates a municipal water utility that presently serves 9,123 customers.

The Council is required to adopt a tentative budget on or before the third Monday in July which establishes the Town's annual expenditure limitation. Public hearings are held on the proposed budget, with adoption of the final budget at least seven days before the tax levy is adopted, which must be completed by the third Monday in August. The annual budget serves as the Town's annual financial plan.

Local Economy

In its early years, Payson's economy was based on logging, ranching, and mining. Over the years, the economy has shifted to community retail, manufacturing, health care, accommodation and food service, and light industrial for a growing retirement population relocating to the area for clean air, good climate, and a rural, small-town quality of life. Tourism presently dominates the local economy. The Town's elected leadership desires to encourage economic development that will create well-paying jobs that protect the environment.

Long-Term Planning

The Town is dedicated to enhancing the quality of life for its citizens and providing a level of service that is effective and efficient while exercising fiscal responsibility. Payson has been and will continue to be proactive in improving the community's quality of life and organizational development. Every few years, the Town Council and the management staff participate in a strategic planning process to update the Town's Corporate Strategic Plan (CSP) to accommodate the changing needs of the Town's constituency. The CSP operationalizes the Town's mission statement and its General Plan by identifying specific objectives and strategies for achieving the CSP. Funding for the CSP is allocated during the subsequent budgeting process.

Relevant Financial Policies

The information presented in the financial statements is best understood when it is considered from the perspective of the specific environment within which the Town operates.

The Town's financial policies establish 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 of the applicable provisions of Arizona Revised Statutes, Title 9 Cities and Towns, and the Town of Payson Code of Ordinances. The policies are reviewed annually and modified to accommodate changing circumstances or conditions as needed.

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

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

The annual budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Each year departments submit requests for their budget appropriations. These requests are reviewed at various levels and those deemed appropriate are incorporated into the annual proposed budget.

Major Initiatives

The Town has remained focused on quality of life including:

- Resurfacing of the Pickleball Courts at Rumsey Park
- 2025 General Plan Update
- A Unified Development Code Update
- Completion of the Granite Dells Roadway improvements
- Updating the Airport Master Plan
- Collaborative Payson Area Trail System
- Installation of surveillance cameras at the Police Department, Airport, Water Facilities, Parks and Town Hall
- Pavement preservation throughout the Town

Awards And Acknowledgements

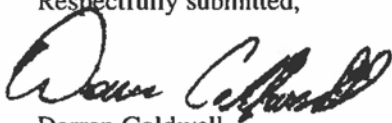
Awards. The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Town for its Annual Comprehensive Financial Report (ACFR) for fiscal year ending June 30, 2024 . This was the 27th consecutive year that the Town achieved this prestigious award. The Certificate of Achievement is awarded to a city or town that “clearly communicates its financial story and motivates potential users to read the report”. The ACFR report must also satisfy US generally accepted accounting principles and applicable legal requirements. We believe the current ACFR continues to meet the Certificate of Achievement Program’s requirements and it is being submitted to the GFOA for another Certificate of Achievement.

In addition to the ACFR, the Town has been producing its Popular annual Financial Report (PAFR) since 2006. The PAFR is a report based on the ACFR but is specifically designed for use by the general public and other interested parties who do not have a background in public finance. The Town has received the GFOA’s Popular Annual Financial Report Award each year since 2006.

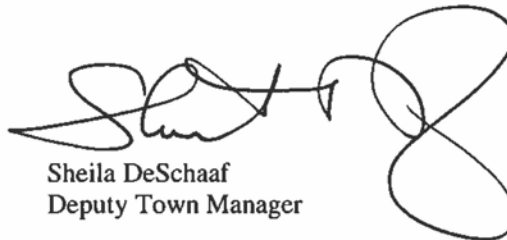
The Town submitted its fiscal year 2025-2026 Budget Book to GFOA for consideration and received GFOA’s Distinguished Budget Presentation Award, which would be the Town 25th consecutive year achieving this prestigious award.

Acknowledgements. The preparation of this report would not have been possible without the dedicated services of the Finance Department and the Town’s Administration Staff. We wish to express our appreciation to all employees who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and members of the Town Council for their continuous efforts and support to maintain the highest standards and professionalism in managing the Town of Payson’s Finances.

Respectfully submitted,



Darren Coldwell
Town Manager



Sheila DeSchaaf
Deputy Town Manager

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Payson
Arizona**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

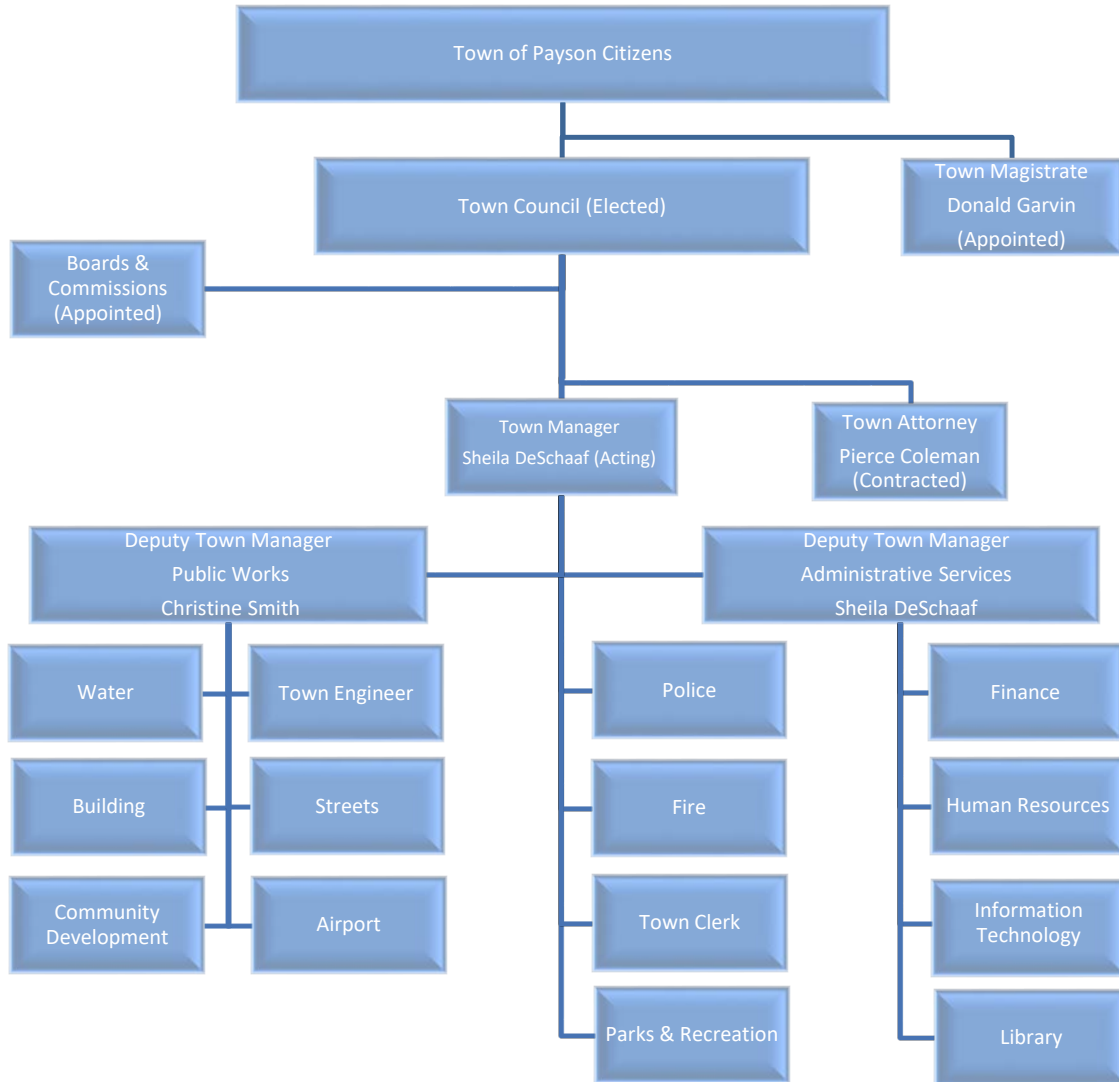
June 30, 2024

Christopher P. Morill

Executive Director/CEO



Management Organizational Chart 2024 - 2025



Department Management

Tanner Henry, Water Director
 Larry Halberstadt, Deputy Public Works
 Director/Town Engineer
 Andrew Jackson, Streets Operations Manager
 Doni Wilbanks, Planning/Development Director
 Dennis Dueker, Airport Operations Supervisor

David Staub, Public Safety Chief
 Tracie Bailey, Town Clerk
 Steve Richardson, Parks & Recreation
 Director

Dana Ohanesian, Finance Director
 Lynne ODonnell, Human Resources
 Director
 Jeff Benedict, Information Technology
 Director
 Emily Linkey, Library Director

Town of Payson, Arizona

List of Principal Officials

Town Council

Steve Otto, Mayor

Suzy Tubbs, Vice-Mayor

Scott Nossek, Councilmember

Jim Ferris, Councilmember

Charlie Bell, Councilmember

Dallin Hawes, Councilmember

Brett Flaherty, Councilmember

Administrative Staff

Darren Coldwell, Town Manager

Sheila DeSchaaf, Deputy Town Manager

Department Directors

Tracie Bailey, Town Clerk

Donald Garvin, Magistrate Court

Dana Ohanesian, Finance Manager

Jeff Benedict, Information Technology Director

David Staub, Chief of Public Safety

Emily Linkey, Library Director

Steve Richardson, Parks and Recreation Director

Doni Wilbanks, Community Development Director

Tanner Henry, Director, Water Department

Lynne ODonnell, Human Resources Director

Larry Halberstadt, Town Engineer

FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Payson, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited the 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 (the Town), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion the accompanying financial statements 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, the schedule of changes in the net OPEB liability and related ratios, the schedule of contributions, and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining statements and individual nonmajor fund budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and individual nonmajor fund and enterprise fund budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2026, 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 solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Squire & Company, PC

Squire & Company, PC
Mesa, Arizona
February 28, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

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Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

As management of the Town of Payson, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2025. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letters of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The Town's total net position of governmental activities increased \$6.7 million to \$118.0 million, and the business-type activities increased \$5.7 million to \$52.4 million, representing a 6.1 percent and 12.3 percent increase respectively, of the total net position of \$170.5 million.
- General revenues from governmental activities accounted for \$35.3 million in revenue, or 82 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7.7 million or 18 percent of total governmental activities revenues. The Town had \$12.8 million of program specific revenues and \$1.1 million in general revenues related to business-type activities.
- The Town had \$36.7 million in expenses related to governmental activities, an increase of 29.5 percent from the prior fiscal year. The Town had \$7.6 million in expenses related to business-type activities, a decrease of 9.4 percent from the prior fiscal year.
- Among major governmental funds, the General Fund had \$37.9 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$35.8 million. The General Fund's fund balance decreased \$10,812 to \$21.4 million at the end of the current fiscal year, primarily due to funding an annual allocation for equipment replacement and to paying special assessments on Town owned property within the Town.
- The Enterprise Funds' net position at the end of the year amounted to \$52.4 million. The increase in net position of \$5.7 million was due primarily to an increase in intergovernmental revenues and a decrease in operational costs resulting in part from reallocations of pension related liabilities related to normal operations.

Overview of Financial Statements

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

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

Overview of Financial Statements

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

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

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, culture and recreation, public works, community development, and health and welfare. The business-type activities include the operations of the water system.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into 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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

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

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

Overview of Financial Statements

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and HURF Funds, both of which are considered to be major funds.

Proprietary funds - The Town maintains one type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its operations of the water system.

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

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

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, governmental activities assets and deferred outflows exceeded liabilities and deferred inflows by \$118.0 million at the current fiscal year end. The business-type activities assets and deferred outflows exceeded liabilities and deferred inflows by \$52.4 million at the end of the current fiscal year.

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

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

Government-Wide Financial Analysis

The following tables present a summary of the Town's net position for the fiscal years ended June 30, 2025 and June 30, 2024.

	Governmental activities		Business-type activities		Total	
	6/30/2025	6/30/2024	6/30/2025	6/30/2024	6/30/2025	6/30/2024
Current and other assets	\$ 37,707,780	\$ 40,238,763	\$ 28,119,568	\$ 26,982,989	\$ 65,827,348	\$ 67,221,752
Capital assets, net	124,876,930	113,584,695	58,331,031	55,387,297	183,207,961	168,971,992
Total assets	162,584,710	153,823,458	86,450,599	82,370,286	249,035,309	236,193,744
Deferred outflows of resources	7,416,145	7,501,223	454,199	294,652	7,870,344	7,795,875
Current and other liabilities	6,907,998	4,221,699	3,957,205	3,059,308	10,865,203	7,281,007
Long-term liabilities outstanding	42,338,233	44,289,013	29,579,267	32,069,691	71,917,500	76,358,704
Total liabilities	49,246,231	48,510,712	33,536,472	35,128,999	82,782,703	83,639,711
Deferred inflows of resources	2,712,745	1,506,786	946,832	851,611	3,659,577	2,358,397
Net position:						
Net investment in capital assets	123,508,264	111,795,465	30,838,406	26,497,261	154,346,670	138,292,726
Restricted	11,215,846	16,687,758	4,761,697	3,254,367	15,977,543	19,942,125
Unrestricted	(16,961,849)	(17,176,040)	16,735,149	16,932,700	(226,700)	(243,340)
Total net position	\$ 117,762,261	\$ 111,307,183	\$ 52,335,252	\$ 46,684,328	\$ 170,097,513	\$ 157,991,511

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

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

- The principal retirement of \$420,565 of financed purchases payable, and \$1.4 million of notes payable.
- The addition of \$14.2 million of governmental activities and business-type capital assets through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- The net decrease of \$727,633 in net pension liabilities due to current year changes in estimates and payments.
- The net decrease of \$1.9 million in total OPEB liabilities due to current year changes in estimates and payments.

Government-Wide Financial Analysis

Changes in net position. The Town's total revenues for the current fiscal year were \$56.8 million. The total cost of all programs and services was \$44.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2025 and June 30, 2024.

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

	Governmental activities		Business-type activities		Total	
	6/30/2025	6/30/2024	6/30/2025	6/30/2024	6/30/2025	6/30/2024
Revenues:						
Program revenues:						
Charges for services	\$ 4,662,550	\$ 3,334,153	\$ 9,799,921	\$ 9,290,314	\$ 14,462,471	\$ 12,624,467
Operating grants and contributions	2,574,629	2,561,277	181,810	250,203	2,756,439	2,811,480
Capital grants and contributions	440,095	2,060,827	2,773,081	186,643	3,213,176	2,247,470
General revenues:						
Sales tax	22,343,544	19,280,372	-	-	22,343,544	19,280,372
property tax	1,006,302	956,104	-	-	1,006,302	956,104
Auto lieu taxes	1,447,487	1,342,106	-	-	1,447,487	1,342,106
Franchise taxes	665,592	689,946	-	-	665,592	689,946
Unrestricted state revenues	8,353,298	9,271,238	-	-	8,353,298	9,271,238
Investment income	1,470,497	1,849,895	1,080,342	1,264,718	2,550,839	3,114,613
Gain (loss) on sale of capital assets	10,463	(44,441)	-	44,738	10,463	297
Total revenues	42,974,457	41,301,477	13,835,154	11,036,616	56,809,611	52,338,093
Expenses:						
General government	6,831,732	8,920,136	-	-	6,831,732	8,920,136
Public safety	17,495,496	11,523,641	-	-	17,495,496	11,523,641
Public works	2,305,907	2,271,939	-	-	2,305,907	2,271,939
Highways and streets	3,540,540	1,328,835	-	-	3,540,540	1,328,835
Culture and recreation	4,974,065	2,687,554	-	-	4,974,065	2,687,554
Community development	1,238,239	1,289,394	-	-	1,238,239	1,289,394
Health and welfare	310,582	284,190	-	-	310,582	284,190
Interest on long-term debt	51,200	77,509	-	-	51,200	77,509
Water	-	-	7,589,988	8,376,256	7,589,988	8,376,256
Total expenses	36,747,761	28,383,198	7,589,988	8,376,256	44,337,749	36,759,454
Increase (decrease) in net position before transfers	6,226,696	12,918,279	6,245,166	2,660,360	12,471,862	15,578,639
Transfers	508,000	730,999	(508,000)	(730,999)	-	-
Change in net position	6,734,696	13,649,278	5,737,166	1,929,361	12,471,862	15,578,639
Net position, beginning	111,307,183	97,657,905	46,684,328	44,754,967	157,991,511	142,412,872
Net position, ending	\$ 118,041,879	\$ 111,307,183	\$ 52,421,494	\$ 46,684,328	\$ 170,463,373	\$ 157,991,511

Government-Wide Financial Analysis

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

- An increase of \$3.1 million in sales taxes is due to increased economic activity and the continued impact of inflation.
- A decrease of \$0.9 million in unrestricted state revenues as a result of normal changes in the Town's share of the urban revenue sharing, largely due to the fluctuations in commuting, leisure travel, and commercial transportation.
- Depreciation expense of \$2.4 million from governmental activities and \$2.8 million from business-type activities.

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

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

	Year ended June 30, 2025		Year ended June 30, 2024	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 6,831,732	\$ (5,040,002)	\$ 8,920,136	\$ (7,790,014)
Public safety	17,495,496	(15,580,364)	11,523,641	(9,726,274)
Public works	2,305,907	(1,371,198)	2,271,939	(1,555,052)
Highways and streets	3,540,540	(789,127)	1,328,835	2,472,394
Culture and recreation	4,974,065	(4,755,424)	2,687,554	(2,271,639)
Community development	1,238,239	(1,238,239)	1,289,394	(1,289,394)
Health and welfare	310,582	(244,933)	284,190	(189,453)
Interest on long-term debt	51,200	(51,200)	77,509	(77,509)
Total	<u>\$ 36,747,761</u>	<u>\$ (29,070,487)</u>	<u>\$ 28,383,198</u>	<u>\$ (20,426,941)</u>
Business-type Activities				
Water	\$ 7,589,988	\$ 5,164,824	\$ 8,376,256	\$ 1,350,904
Total	<u>\$ 7,589,988</u>	<u>\$ 5,164,824</u>	<u>\$ 8,376,256</u>	<u>\$ 1,350,904</u>

Government-Wide Financial Analysis

- The cost of all governmental activities this year was \$36.7 million. The cost of all business-type activities this year was \$7.6 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$20.4 million.
- Net cost of governmental activities of \$36.7 million was financed by general revenues, which are made up of primarily sales taxes of \$22.3 million and state shared revenues of \$8.4 million.

Financial Analysis of the Town's Funds

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$32.6 million, a decrease of \$5.5 million due to a combination of increased revenues, and expenditures being greater than budgeted.

**Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025**

The General Fund comprises 66 percent of the total fund balance. Approximately \$20.0 million or 93 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the Town. The fund balance decreased \$10,812 to \$21.4 million as of fiscal year end. General Fund revenues increased \$3.1 million primarily due to increased sales tax revenue and state shared revenues.

General Fund expenditures increased \$6.8 million primarily due to the increased costs for personnel, goods and services.

The HURF Fund comprises 21 percent of total fund balance. The fund balance decreased \$5.6 million from the prior year primarily due to an increase in capital projects.

Financial Analysis of the Town's Funds

Proprietary funds - Net position of the Enterprise Funds at the end of the fiscal year amounted to \$52.4 million. The increase in net position in the Enterprise Funds of \$5.7 million from the prior fiscal year was primarily due to increased investment income and normal operations.

Budgetary Highlights

A statement showing the budget amounts compared to the Town's actual financial activity for the General Fund and major special revenue fund is provided in this report as part of the required supplemental information. The significant variances are summarized as follows:

- The favorable variance of \$1.5M in general government function expenditures was due to decreases in administrative costs, legal costs, and information systems costs coming in under budgeted amounts.
- The unfavorable variance of \$1.1M in public works expenditures was a result actual expenditures exceeding budgeted amounts in all categories.
- The favorable variance of \$1.9M in public safety expenditures was a result of staffing variances throughout the year.

Capital Assets and Debt Administration

Capital Assets - As of the end of the current fiscal year, the Town had invested \$176.7 million in governmental capital assets and \$96.0 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent a net increase prior to depreciation of \$13.7 million and \$5.7 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to additions of vehicles, machinery and equipment, infrastructure, and improvements other than buildings. Total depreciation expense for the current fiscal year was \$2.4 million for governmental activities and \$2.8 million for business-type activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2025 and June 30, 2024.

Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025

<u>Governmental Activities</u>	<u>As of June 30, 2025</u>	<u>As of June 30, 2024</u>
Land	\$ 89,685,549	\$ 86,056,522
Construction in progress	13,517,313	6,961,415
Buildings	10,605,521	10,573,530
Infrastructure	32,194,628	31,996,068
Improvements other than buildings	15,255,377	13,019,818
Vehicles, machinery, and equipment	15,428,793	14,406,096
Less: accumulated depreciation	(51,810,251)	(49,428,752)
Total	<u>\$ 124,876,930</u>	<u>\$ 113,584,697</u>

<u>Business-Type Activities</u>	<u>As of June 30, 2025</u>	<u>As of June 30, 2024</u>
Land	\$ 3,075,198	\$ 1,840,494
Pipeline right to use	3,718,009	3,718,009
Construction in progress	5,052,042	2,348,071
Buildings	1,549,226	860,212
Improvements other than buildings	78,917,446	78,146,233
Vehicles, machinery, and equipment	3,652,117	3,312,392
Less: accumulated depreciation	(37,633,007)	(34,838,114)
Total	<u>\$ 58,331,031</u>	<u>\$ 55,387,297</u>

The estimated cost to complete current construction projects is \$7.7 million for governmental activities and \$58 million for business-type activities.

Additional information on the Town's capital assets can be found in Note 7.

Debt Administration - At year-end, the Town had \$1.4 million in governmental long-term debt outstanding with \$330,215 due within one year. The Town had \$27.5 million in business-type long-term debt outstanding, with \$1.4 million due within one year. Long-term debt decreased by \$420,565 for governmental activities and decreased \$1.4 million for business-type activities. The following presents a summary of long-term debt outstanding for the fiscal years ended June 30, 2025 and June 30, 2024.

The Governmental Activities balance for financed purchases payable was \$1.4 million at June 30, 2025, and \$1.8 million at June 30, 2024, respectively. The Business-type Activities balance for notes payable was \$27.5 million at June 30, 2025, and \$28.9 million at June 30, 2024, respectively.

State statutes currently limit the amount of general obligation debt a Town may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the Town is \$48.0 million. State statutes also currently limit the amount of general obligation debt a Town may issue to six percent of its total assessed valuation for all other purposes. The current six percent debt limitation for the Town is \$14.4 million. The Town's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes and special assessment.

Additional information on the Town's long-term debt can be found in Note 8 in the notes to the financial statements.

**Town of Payson, Arizona
Management's Discussion and Analysis
(MD&A) Year Ended June 30, 2025**

Economic Factors and Next Year's Budget

Many factors were considered by the Town's officials during the process of developing the fiscal year 2025-26 budget for governmental funds. Among them:

- Historical Revenue and expenditure trends
- League of Cities' state tax revenue projections
- Local economic trends and inflation
- The Town's Corporate Strategic plan
- Budget is consistent with State budget regulations
- Existing fund balance and maintaining Town fiscal reserves

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

Contacting the Town's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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TOWN OF PAYSON, ARIZONA
Statement of Net Position
June 30, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 33,103,050	\$ 20,260,215	\$ 53,363,265
Intergovernmental receivable	3,384,141	1,357,011	4,741,152
Restricted cash and investments	-	4,761,697	4,761,697
Accounts receivable	866,744	1,002,504	1,869,248
Leases receivable	74,227	651,899	726,126
Total current assets	<u>37,428,162</u>	<u>28,033,326</u>	<u>65,461,488</u>
Noncurrent assets:			
Capital assets not being depreciated	103,202,862	11,845,249	115,048,111
Capital assets, net of accumulated depreciation	21,674,068	46,485,782	68,159,850
Net OPEB asset	279,618	86,242	365,860
Total noncurrent assets	<u>125,156,548</u>	<u>58,417,273</u>	<u>183,573,821</u>
Total assets	<u>162,584,710</u>	<u>86,450,599</u>	<u>249,035,309</u>
Deferred Outflows of Resources			
Pension and other postemployment benefit plan items	7,416,145	454,199	7,870,344
Total deferred outflows	<u>7,416,145</u>	<u>454,199</u>	<u>7,870,344</u>
Liabilities			
Current liabilities:			
Accounts payable	3,436,626	860,996	4,297,622
Accrued payroll and employee benefits	1,249,247	75,221	1,324,468
Deposits held for others	37,531	893,491	931,022
Other accrued expenses	-	327,989	327,989
Compensated absences payable	933,838	285,545	1,219,383
OPEB payable	830,191	81,499	911,690
Financed purchases payable	420,565	-	420,565
Loans payable	-	1,432,464	1,432,464
Total current liabilities	<u>6,907,998</u>	<u>3,957,205</u>	<u>10,865,203</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	42,338,233	29,579,267	71,917,500
Total noncurrent liabilities	<u>42,338,233</u>	<u>29,579,267</u>	<u>71,917,500</u>
Total liabilities	<u>49,246,231</u>	<u>33,536,472</u>	<u>82,782,703</u>
Deferred Inflows of Resources			
Pension and other postemployment benefit plan items	2,641,870	299,526	2,941,396
Leases	70,875	647,306	718,181
Total deferred inflows of resources	<u>2,712,745</u>	<u>946,832</u>	<u>3,659,577</u>
Net Position			
Net investment in capital assets	123,508,264	30,838,406	154,346,670
Restricted for:			
Pension/OPEB	279,618	86,242	365,860
Debt service	-	4,761,697	4,761,697
Capital outlay	4,145,353	-	4,145,353
Highway and streets	6,977,645	-	6,977,645
Court enhancement	92,848	-	92,848
Unrestricted	<u>(16,961,849)</u>	<u>16,735,149</u>	<u>(226,700)</u>
Total net position	<u>\$ 118,041,879</u>	<u>\$ 52,421,494</u>	<u>\$ 170,463,373</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Statement of Activities
For the Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
General government	\$ 6,831,732	\$ 1,791,730	\$ -	\$ -	\$ (5,040,002)	\$ -	\$ (5,040,002)
Public safety	17,495,496	1,440,376	318,005	156,751	(15,580,364)	-	(15,580,364)
Highways and streets	3,540,540	497,155	2,236,897	17,361	(789,127)	-	(789,127)
Culture and recreation	4,974,065	198,914	19,727	-	(4,755,424)	-	(4,755,424)
Public works	2,305,907	668,726	-	265,983	(1,371,198)	-	(1,371,198)
Community development	1,238,239	-	-	-	(1,238,239)	-	(1,238,239)
Health and welfare	310,582	65,649	-	-	(244,933)	-	(244,933)
Interest on long-term debt	51,200	-	-	-	(51,200)	-	(51,200)
Total governmental activities	36,747,761	4,662,550	2,574,629	440,095	(29,070,487)	-	(29,070,487)
Business-type activities:							
Water	7,589,988	9,799,921	2,748,606	206,285	-	5,164,824	5,164,824
Total business-type activities	7,589,988	9,799,921	2,748,606	206,285	-	5,164,824	5,164,824
Total primary government	\$ 44,337,749	\$ 14,462,471	\$ 5,323,235	\$ 646,380			
General Revenues:							
Taxes:							
Sales taxes					22,343,544	-	22,343,544
Property taxes					1,006,302	-	1,006,302
Auto lieu taxes					1,447,487	-	1,447,487
Franchise taxes					665,592	-	665,592
Unrestricted state shared revenue					8,353,298	-	8,353,298
Investment income					1,470,497	1,080,342	2,550,839
Gain (loss) on disposal of assets					10,463	-	10,463
Transfers					508,000	(508,000)	-
Total general revenues & transfers					35,805,183	572,342	36,377,525
Changes in net position					6,734,696	5,737,166	12,471,862
Net position, beginning of year					111,307,183	46,684,328	157,991,511
Net position, end of year					\$ 118,041,879	\$ 52,421,494	\$ 170,463,373

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2025

	General	HURF Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 20,140,785	\$ 8,538,087	\$ 4,424,178	\$ 33,103,050
Intergovernmental receivables	2,298,991	1,043,657	41,493	3,384,141
Accounts receivable	866,744	-	-	866,744
Leases receivable	74,227	-	-	74,227
Total assets	\$ 23,380,747	\$ 9,581,744	\$ 4,465,671	\$ 37,428,162
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Accounts payable	\$ 652,528	\$ 2,556,628	\$ 227,470	\$ 3,436,626
Accrued payroll and employee benefits	1,201,776	47,471	-	1,249,247
Deposits held for others	37,531	-	-	37,531
Total liabilities	1,891,835	2,604,099	227,470	4,723,404
Deferred inflows of resources				
Leases	70,875	-	-	70,875
Total deferred inflows of resources	70,875	-	-	70,875
FUND BALANCES				
Restricted:	-	6,977,645	4,238,201	11,215,846
Assigned:	1,476,705	-	-	1,476,705
Unassigned	19,941,332	-	-	19,941,332
Total fund balances	21,418,037	6,977,645	4,238,201	32,633,883
Total liabilities, deferred inflows of resources, and fund balances	\$ 23,380,747	\$ 9,581,744	\$ 4,465,671	\$ 37,428,162

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2025

Total governmental fund balances	\$	32,633,883
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Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental capital assets	\$ 176,687,181	
Less accumulated depreciation	<u>(51,810,251)</u>	
		124,876,930

Net OPEB asset is not an available resource and, therefore is not reported in the funds.	279,618
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Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	7,416,145	
Deferred inflows	<u>(2,641,870)</u>	
		4,774,275

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Other postemployment benefits payable	(15,514,341)	
Compensated absences payable	(1,648,820)	
Financed purchases payable	(1,368,666)	
Net Pension liability	<u>(25,991,000)</u>	
		(44,522,827)

Net position of governmental activities	\$	<u>118,041,879</u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2025

	General	HURF Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 24,015,438	\$ -	\$ -	\$ 24,015,438
Licenses and permits	555,833	-	-	555,833
Intergovernmental	9,067,909	4,481,706	41,493	13,591,108
Charges for services	2,274,478	-	-	2,274,478
Fines and forfeits	132,827	-	-	132,827
Contributions	17,332	-	4,684	22,016
Miscellaneous	404,643	497,155	-	901,798
Investment income	1,470,497	-	-	1,470,497
Total revenues	37,938,957	4,978,861	46,177	42,963,995
Expenditures:				
General government	6,789,967	-	4,243	6,794,210
Public safety	17,105,510	-	-	17,105,510
Highway and streets	-	2,305,909	-	2,305,909
Culture and recreation	3,100,004	-	-	3,100,004
Public works	2,658,095	-	-	2,658,095
Community development	1,231,142	-	-	1,231,142
Health and welfare	310,582	-	-	310,582
Capital outlay	4,298,573	8,200,548	2,496,282	14,995,403
Debt service				
Principal retirement	297,123	123,442	-	420,565
Interest and fiscal charges	39,134	12,066	-	51,200
Total expenditures	35,830,130	10,641,965	2,500,525	48,972,620
Excess (deficiency) of revenues over (under) expenditures	2,108,827	(5,663,104)	(2,454,348)	(6,008,625)
Other financing sources (uses)				
Sale of assets	17,901	-	-	17,901
Transfers in	509,000	50,000	2,596,540	3,155,540
Transfers out	(2,646,540)	-	(1,000)	(2,647,540)
Total other financing sources (uses)	(2,119,639)	50,000	2,595,540	525,901
Changes in fund balances	(10,812)	(5,613,104)	141,192	(5,482,724)
Fund balances, beginning of year	21,428,849	12,590,749	4,097,009	38,116,607
Fund balances, end of year	\$ 21,418,037	\$ 6,977,645	\$ 4,238,201	\$ 32,633,883

The accompanying notes are an integral part of the 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 Year Ended June 30, 2025

Changes in fund balances - total governmental funds	\$ (5,482,724)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Expenditures for capitalized assets	\$ 13,777,697	
Less current year depreciation	<u>(2,405,458)</u>	
		11,372,239

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

Financed purchase principal retirement	<u>420,565</u>	
		420,565

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

Current year pension contributions	5,129,672	
Pension/OPEB expense	<u>(4,532,629)</u>	
		597,043

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

Compensated absences		<u>(92,424)</u>
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Change in net position of governmental activities	<u><u>\$ 6,734,696</u></u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Statement of Net Position
Proprietary Funds
For the Year Ended June 30, 2025

	<u>Enterprise Funds</u>
<u>ASSETS</u>	<u>Water</u>
Current Assets:	
Cash and investments	\$ 20,260,215
Restricted cash and cash investments	4,761,697
Accounts receivable	1,002,504
Due from other governments	1,357,011
Leases receivable	651,899
Total current assets	<u>28,033,326</u>
Noncurrent Assets:	
Capital assets not being depreciated	11,845,249
Capital assets, net of accumulated depreciation	46,485,782
OPEB Assets	86,242
Total noncurrent assets	<u>58,417,273</u>
Total Assets	<u>86,450,599</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension and other postemployment benefit plan items	<u>454,199</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	860,996
Accrued payroll and employee benefits	75,221
Other accrued expenses	327,989
Deposits held for others	893,491
Compensated absences payable	285,545
OPEB payable	81,499
Loans payable	1,432,464
Total current liabilities	<u>3,957,205</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	<u>29,579,267</u>
Total noncurrent liabilities	<u>29,579,267</u>
Total liabilities	<u>33,536,472</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension and other postemployment benefit plan items	299,526
Leases	647,306
Total deferred inflows	<u>946,832</u>
<u>NET POSITION</u>	
Net investment in capital assets	30,838,406
Restricted for:	
Pension/OPEB	86,242
Debt Service	4,761,697
Unrestricted	16,735,149
Total net position	<u>\$ 52,421,494</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2025

	<u>Enterprise Funds</u>
Operating revenues:	<u>Water</u>
Charges for services	<u>\$ 9,799,921</u>
Total operating revenues	<u>9,799,921</u>
Operating expenses:	
Cost of sales and services	4,139,116
Depreciation and amortization	<u>2,794,893</u>
Total operating expenses	<u>6,934,009</u>
Operating income (loss)	<u>2,865,912</u>
Non-operating revenues (expenses):	
Impact fees	206,285
Intergovernmental	2,566,796
Miscellaneous	181,810
Investment income	1,080,342
Interest expense and fiscal charges	<u>(655,979)</u>
Total non-operating revenues (expenses):	<u>3,379,254</u>
Income (loss) before transfers and Contributions	6,245,166
Transfers out	<u>(508,000)</u>
Change in net position	5,737,166
Total net position, beginning of year	<u>46,684,328</u>
Total net position, end of year	<u><u>\$ 52,421,494</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

<u>Increase/Decrease in Cash and Cash Equivalents</u>	<u>Proprietary Funds</u>
	<u>Water</u>
Cash flows From operating activities:	
Cash received from customers	\$ 8,492,985
Cash paid to employees for services	(2,857,503)
Cash payments to suppliers for goods and services	(1,659,107)
Net cash provided by/used for operating activities	<u>3,976,375</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(5,738,627)
Principal paid on debt	(1,397,411)
Interest paid on debt	(655,979)
Net cash provided by/used for investing activities	<u>(7,792,017)</u>
Cash flows from noncapital financing activities	
Intergovernmental	2,748,606
Development impact fees	206,285
Leases receivable	31,810
Transfers out	(508,000)
Net cash provided by/ used for noncapital financing activities	<u>2,478,701</u>
Cash Flows From Investing Activities:	
Investment income	1,080,342
Net cash provided by/used for investing activities	<u>1,080,342</u>
Net Increase/decrease in cash and cash equivalents	<u>(256,599)</u>
Cash and cash equivalents, beginning of year	<u>25,278,511</u>
Cash and cash equivalents, end of year	<u>\$ 25,021,912</u>
<u>Reconciliation of Cash and Cash Equivalents to Statement of Net Position</u>	
Cash and investments	\$ 20,260,215
Restricted cash and investments	4,761,697
Total cash and cash equivalents	<u>\$ 25,021,912</u>
<u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u>	
Operating income/loss	\$ 2,865,912
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation and amortization	2,794,893
Net pension/OPEB expense	(1,104,087)
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(1,306,936)
Increase (decrease) in accounts payable	724,184
Increase (decrease) in accrued payroll and related liabilities	12,032
Increase (decrease) in deposits held for others	36,589
Increase (decrease) in compensated absences payable	35,988
Increase (decrease) in other accrued expenses	(49,336)
Increase (decrease) in lease deferred inflows	(32,864)
Total adjustments	<u>1,110,463</u>
Net cash provided by/used for operating activities	<u>\$ 3,976,375</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Payson, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A. Reporting Entity

The Town's major operations include police and fire protection, parks and recreation, transit services, certain social services and general administrative services. In addition, the Town owns and operates an enterprise fund which includes water services. The Town is a municipal entity governed by a separately elected governing body. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Town for financial statement presentation purposes and the Town is not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Town does not have any fiduciary activities.

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Issuances of long-term debt and acquisitions under lease contracts and subscription-based information technology arrangements are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenues arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Town reports the following major governmental funds.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

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

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

The Town reports the following major proprietary funds.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Town’s enterprise funds are charges to customers for water services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

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

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

State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities or duly organized school Towns, improvement Towns in this state, and the State Treasurer’s Local Government Investment Pool. Investments are stated at fair value.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

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

E. Investment Income

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

F. Receivables and Payables

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

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

G. Property Tax Calendar

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

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

I. Restricted Assets

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

J. Capital Assets

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

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

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

Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. Intangible right-to-use assets are amortized over the shorter of the lease/subscription term or the underlying asset's useful life. The estimated useful lives and amortization periods are as follows:

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

K. Deferred Outflows/Inflows of Resources

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

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

L. Compensated Absences

The Town's policy permits employees to accumulate earned but unused vacation and earned but unused sick time. The Town recognizes a liability for compensated absences earned and likely to be used. For governmental funds, amounts of vested or accumulated vacation that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. For proprietary funds, amounts of vested or accumulated vacation are reported as liabilities in the statement of net position and as expenses in the statement of revenues, expenses, and changes in net position.

M. Leases

As lessor, the Town recognizes lease receivables with an initial, individual value of \$50,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate the Town charges the lessee) and the implicit rate cannot be determined, the Town uses an interest rate based on the Applicable Federal Rate as the discount rate to measure lease receivables.

N. Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit (OPEB) liabilities, related deferred outflows of resources and deferred inflows of resources, and related expenses, information about the pension and OPEB plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Long-term Obligations

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

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 1. Summary of Significant Accounting Policies, Continued

P. Interfund Activity

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

Q. Net Position Flow Assumption

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

R. Estimates

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

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 2. Fund Balance Classifications

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

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

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

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

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

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

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

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 2. Fund Balance Classifications, Continued

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

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

Reserve funds in the Water Fund should equal five percent of prior year total operating expenses and have a carry-over balance equal to 90 days of prior year operating expenses.

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

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

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

	<u>General Fund</u>	<u>HURF Fund</u>	<u>Non-Major Governmental Funds</u>
Fund Balances:			
Restricted:			
Highways and streets	\$ -	\$ 6,977,645	\$ -
Court enhancement	-	-	92,848
Capital projects	-	-	4,145,353
Assigned:			
General government	681,442	-	-
Public safety	98,432	-	-
Culture and recreation	696,831	-	-
Unassigned	19,941,332	-	-
Total fund balance	<u>\$ 21,418,037</u>	<u>\$ 6,977,645</u>	<u>\$ 4,238,201</u>

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information - By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget in total by fund for the General Fund, and in total by fund for other funds. The Town Manager may at any time transfer any unencumbered appropriation balance or portion thereof within any given fund. The adopted budget cannot be amended between funds in any way without Town Council approval.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 3. Stewardship, Compliance, and Accountability, Continued

Legal budgets are adopted in accordance with generally accepted accounting principles for the General, Special Revenue, Debt Service, JCEF/FTG Fund, 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.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation for future years, is not employed by the City.

Note 4. Deposits and Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Town's deposits was \$2,204,055 and the bank balance was \$2,358,789. At year end, \$250,000 of the Town's deposits were covered by FDIC, and \$2,108,789 were covered by collateral held by the pledging financial institution in the Town's name.

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

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

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 4. Deposits and Investments, Continued

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, cash and investments as of June 30, 2025 are classified in the accompanying financial statements as follows:

Carrying amount of investments/cash equivalents	\$ 55,919,123
Carrying amount of cash deposits	2,204,055
Less restricted cash	(4,761,697)
Petty cash	1,784
	<u>\$ 53,363,265</u>

As of June 30, 2025, the carrying amount of the Town's deposits and investments are as follows:

	Fair Value	Credit Rating (1)	Weighted Average Maturity (2)
Cash on deposit	\$ 2,204,055	N/A	N/A
Cash on hand	1,784	N/A	N/A
Local Governments Investment Pool 700	55,919,123	AAA	0.26 years
	<u>\$ 58,124,962</u>		

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest Rate Risk is estimated using the weighted average years to maturity.

The state treasurer investment pool is valued using quoted prices by recognized broker dealers that are easily tracked and verifiable (Level 1 inputs).

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will affect the fair value of an investment. In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting the average maturity of investments to less than one year.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. The Town does not have a formal policy with respect to credit risk. The State Treasurer's Local Government Investment Pool 7 was rated AAA by Moody's at year end.

Custodial Credit Risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment policy requires the Town to invest in obligations secured by the federal government; and, therefore, is not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy in regards to concentration of credit risk.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 5. Receivables

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the Town's individual major funds and non-major governmental funds is given in foot note 9.

Note 6. Leases Receivable

The Town acts as a lessor in three agreements to provide land for telecommunication towers under the provisions of contracts classified as leases. The related receivables under the lease agreements have been recorded at the present value of their future minimum lease payments as of the inception date. Lease revenue of \$13,380 and \$32,090 and related interest revenue of \$204 and \$1,662 is recorded as miscellaneous revenue in the General and Water Funds, respectively. As of June 30, 2025, the Town's receivables for lease payments were \$74,227 for governmental activities and \$651,899 for business-type activities. Also, the Town has deferred inflows of resources associated with these leases that will be recognized as revenue over the life of the leases. As of June 30, 2025, the balance of the deferred inflows of resources were \$70,875 and \$647,306 respectively.

Future minimum lease payments to be received under the lease agreements at year end are summarized as follows:

Yea Ending June 30:	Governmental Activities	Business-type Activities
2026	\$ 14,940	\$ 33,951
2027	14,940	34,162
2028	14,940	34,378
2029	14,940	34,594
2030	14,940	34,378
2031-35	-	177,502
2036-40	-	175,656
2041-45	-	117,980
2046-47	-	24,729
Total payments	74,700	667,330
Less interest	(473)	(15,431)
Totals	<u>\$ 74,227</u>	<u>\$ 651,899</u>

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 7. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year:

Governmental Activities:	Balance 06/30/24	Additions	Deletions	Balance 06/30/25
Capital assets, not being depreciated				
Land	\$ 86,056,522	\$ 3,629,027	\$ -	\$ 89,685,549
Construction in progress	6,961,414	9,891,855	(3,335,956)	13,517,313
Total capital assets, not being depreciated	93,017,936	13,520,882	(3,335,956)	103,202,862
Capital assets, being depreciated				
Buildings	10,573,530	31,991	-	10,605,521
Infrastructure	31,996,068	198,560	-	32,194,628
Improvements and other buildings	13,019,818	2,235,559	-	15,255,377
Vehicles, machinery and equipment	14,406,095	1,054,095	(31,397)	15,428,793
Total capital assets being depreciated	69,995,511	3,520,205	(31,397)	73,484,319
Less accumulated depreciation for:				
Buildings	(6,819,323)	(296,051)	-	(7,115,374)
Infrastructure	(24,023,812)	(552,300)	-	(24,576,112)
Improvements and other buildings	(8,395,419)	(475,469)	-	(8,870,888)
Vehicles, machinery and equipment	(10,190,198)	(1,081,638)	23,959	(11,247,877)
Total accumulated depreciation	(49,428,752)	(2,405,458)	23,959	(51,810,251)
Total capital assets, being depreciated, net	20,566,759	1,114,747	(7,438)	21,674,068
Governmental activities capital assets, net	<u>\$ 113,584,695</u>	<u>\$ 14,635,629</u>	<u>\$ (3,343,394)</u>	<u>\$ 124,876,930</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 43,973
Public safety	826,794
Public works	835,506
Culture and recreation	679,192
Community support	19,993
Total depreciation expense - governmental activities	<u>\$ 2,405,458</u>

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 7. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year:

Business Type Activities:	Balance June 30, 2024	Additions	Deletions	Balance June 30, 2025
Capital assets, not being depreciated				
Land	\$ 1,840,494	\$ 1,234,704	\$ -	\$ 3,075,198
Pipeline right to use	3,718,009	-	-	3,718,009
Construction in progress	2,348,071	4,215,738	(1,511,767)	5,052,042
Total capital assets, not being depreciated	7,906,574	5,450,442	(1,511,767)	11,845,249
Capital assets, being depreciated				
Buildings	860,212	689,014	-	1,549,226
Improvements other than buildings	78,146,233	771,213	-	78,917,446
Vehicles, machinery and equipment	3,312,392	339,725	-	3,652,117
Total capital assets being depreciated	82,318,837	1,799,952	-	84,118,789
Less accumulated depreciation for:				
Buildings	(636,025)	(21,604)	-	(657,629)
Improvements other than buildings	(31,849,418)	(2,515,783)	-	(34,365,201)
Vehicles, machinery and equipment	(2,353,336)	(256,840)	-	(2,610,176)
Total accumulated depreciation	(34,838,779)	(2,794,227)	-	(37,633,007)
Total capital assets, being depreciated, net	47,480,058	(994,275)	-	46,485,783
Total capital assets, net	<u>\$ 55,386,632</u>	<u>\$ 4,456,167</u>	<u>\$ (1,511,767)</u>	<u>\$ 58,331,032</u>

Depreciation of \$2,794,227 was charged to water for business-type functions.

Construction Commitments – At year end, the Town had contractual commitments related to various capital projects. At year end the Town had spent \$18.6 million on the projects, which includes \$13.5 million from governmental activities and \$5.1 million from business-type activities, and had estimated remaining contractual commitments of \$65.7 million, which includes \$7.7 million from governmental activities and \$58 from business-type activities.

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 8. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the current fiscal year:

Governmental activities:	Balance June 30, 2024	Additions	Retirements	Balance June 30, 2025	Current Portion
Financed purchased payable	\$ 1,789,231	\$ -	\$ (420,565)	\$ 1,368,666	\$ 330,215
OPEB Liability	16,235,108	-	(721,135)	15,513,973	935,533
Net pension liability	26,892,872	-	(901,872)	25,991,000	-
Compensated absences payable	1,556,396	92,424	-	1,648,820	989,292
Total governmental activity long-term liabilities	46,473,607	92,424	(2,043,572)	44,522,459	2,255,040
Business-type activities:					
Notes payable	28,890,036	-	(1,397,410)	27,492,626	1,432,464
OPEB Liability	2,512,129	-	(1,160,622)	1,351,507	81,499
Net pension liability	2,060,636	174,239	-	2,234,875	-
Compensated absences payable	263,779	35,988	-	299,767	285,545
Total business-type activity long-term liabilities	33,726,580	210,227	(2,558,032)	31,378,775	1,799,508
Total Long-Term Liabilities	\$ 80,200,187	\$ 302,651	\$ (4,601,604)	\$ 75,901,234	\$ 4,054,548

Generally, resources from the General fund are used to liquidate net pension liabilities, OPEB liabilities, and compensated absences for governmental activities.

The Town has acquired land improvements, vehicles and equipment, and energy retrofits under the provisions of contracts classified as financed purchases payable. Revenues from the General Fund and the HURF Fund are used to pay the debt obligations. Amortization of assets recorded under financed purchases payable is included with depreciation expense.

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

Governmental Activities		
Fiscal Period Ending 30-Jun	Principal	Interest
2026	\$ 330,215	\$ 43,064
2027	340,868	31,693
2028	351,899	22,396
2029	60,031	7,804
2030	64,087	8,331
2031-33	221,566	32,041
Total	<u>\$ 1,368,666</u>	<u>\$ 145,329</u>

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 8. Long-Term Liabilities, Continued

The Town has entered into five Water Infrastructure Finance Authority of Arizona (WIFA) loans for improvements to the Town's water system. The Water Fund de-obligated \$2,407,192 of the original WIFA loan of \$6,585,000, leaving a balance of \$3,412,726. Additionally, the Town entered into a \$6,250,000 loan agreement and three additional \$10,000,000 loan agreements with WIFA. The loans are being used to fund Phase II of the CC Cragin Reservoir Project. The loans are being drawn upon as funds are expended with semi-annual interest and annual principal payments due at 2.2 percent to 2.891 percent through fiscal year 2047.

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

Business-Type Activities		
Year Ending June 30,	Principal	Interest
2026	\$ 1,432,464	\$ 638,006
2027	1,468,408	601,606
2028	1,505,265	564,282
2029	1,543,057	526,009
2030	1,580,658	486,781
2031-35	6,328,103	1,928,898
2036-40	5,779,277	1,249,830
2041-45	6,476,580	544,479
2046-47	1,378,814	27,739
Total	<u>\$ 27,492,626</u>	<u>\$ 6,567,630</u>

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

The Town has pledged net revenues from the operation of the Water System to repay \$30.3 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 2047; however, as of June 30, 2025, the Town has drawn down 100 percent of the loans. Annual principal and interest payments on the loans are expected to require less than 50 percent of net revenues. The total principal and interest remaining to be paid on the loans are \$34,060,257. Principal and interest paid for the current year and total net revenues from the operation of the Water System were \$1,397,410, \$655,979, and \$9,799,921, respectively.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 9. Interfund Receivables, Payables, and Transfers

The Town had no interfund receivables and payables for the fiscal year ended June 30, 2025.

Interfund transfers for the fiscal year ended June 30, 2025 are as follows:

Transfers Out	Transfers In			
	General	HURF	Non-major	Total
General Fund	\$ -	\$ 50,000	\$ 2,596,540	\$ 2,646,540
Non-major	1,000	-	-	1,000
Water	508,000	-	-	508,000
Total	<u>\$ 509,000</u>	<u>\$ 50,000</u>	<u>\$ 2,596,540</u>	<u>\$ 3,155,540</u>

The transfer from the General Fund to the Non-Major Governmental Funds was to fund an annual allocation for equipment replacement and to pay special assessments on Town owned property within the Town. The transfer from the General Fund to the HURF Fund was to fund various street rehabilitation projects. The transfer from the Water Fund to the General Fund was to reimburse the General Fund for overhead expenses attributed to the Water Fund in the prior fiscal year.

Note 10. Pensions and Other Postemployment Benefits

The Town contributes to the Arizona State Retirements System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2025, the Town also contributes to an Other Post Employment Benefits (OPEB) Plan established for the Town (Note 11). The Town reported the following aggregate amounts related to pensions and OPEB for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net OPEB asset	\$ 279,618	\$ 86,242	\$ 365,860
Net OPEB liabilities	15,514,341	1,351,507	16,865,848
Net pension liabilities	25,991,000	2,234,875	28,225,875
Deferred outflows of resources	7,416,145	454,199	7,870,344
Deferred inflows of resources	2,641,870	299,526	2,941,396
Pension/OPEB expense	2,283,019	62,653	2,345,671

The ASRS and PSPRS OPEB plans are not further disclosed because of their relative insignificance to the Town's financial statements.

The Town reported \$4,752,380 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Arizona State Retirement System (ASRS)

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

The ASRS OPEB plans are not further disclosed because of their relative insignificance to the Town's financial statements.

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

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

* With actuarially reduced benefits.

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2025, statute required active ASRS members to contribute at the actuarially determined rate of 12.27 percent (12.12 percent for retirement and 0.15 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.27 percent (12.05 percent for retirement, 0.07 percent for health insurance premium benefit, and 0.15 percent for long-term disability) of the active members' annual covered payroll.

The Town's contributions to the pension plan for the year ended June 30, 2025, were \$928,207.

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The Town was required by statute to contribute at the actuarially determined rate of 10.19 percent (10.14 for retirement and 0.05 percent for long-term disability). ACR contributions are included in employer contributions presented above.

The Town's pension plan contributions are paid by the same funds as the employee's salary, with the largest component coming from the General Fund.

Liability – At June 30, 2025, the Town reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB liability.

	Net pension (asset) liability
Pension	\$ 9,480,892

The net asset and net liabilities were measured as of June 30, 2024. The total liability used to calculate the net asset and net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2023, to the measurement date of June 30, 2024.

The Town's proportion of the net asset or net liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2024. The Town's proportion measured as of June 30, 2024, and the change from its proportions measured as of June 30, 2023, were:

	Proportion June 30, 2023	Proportion June 30, 2024	Increase (decrease) from June 30, 2023
Pension	0.056130%	0.059250%	0.003120%

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Expense – For the year ended June 30, 2025, the Town recognized pension and OPEB expense:

	Expense
Pension	\$ 1,202,361

Deferred outflows/inflows of resources – At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 529,215	\$ -
Net difference between projected and actual earnings on pension plan investments	-	605,459
Changes in proportion and differences between contributions and proportionate share of contributions	433,230	-
Contributions subsequent to the measurement date	928,207	-
Total	\$ 1,890,652	\$ 605,459

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30,	Pension
2026	\$ (652)
2027	622,009
2028	(153,262)
2029	(111,109)
2030	-
Thereafter	-

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

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

Actuarial valuation date	June 30, 2023
Actuarial roll forward date	June 30, 2024
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Public Equity	44%	3.50%
Credit	23%	5.90%
Real Estate	17%	5.90%
Private Equity	10%	6.70%
Interest Rate Sensitive	6%	1.50%
Totals	100%	

Discount rate – At June 30, 2024, the discount rate used to measure the ASRS total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Sensitivity of the proportionate share of the net pension (asset) liability to changes in the discount rate – The following table presents the Town's proportionate share of the net pension (asset) liability calculated using the discount rate of 7.0 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

Proportionate share of:	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 14,517,184	\$ 9,480,892	\$ 5,283,582

Contributions payable - The Town's accrued payroll and employee benefits included \$207,562 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2025.

Plan fiduciary net position – Detailed information about the plan's fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan description – Town police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool), which are not further disclosed because of their relative insignificance to the Town's financial statements.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at www.psprs.com.

The PSPRS Tier 3 Risk Pool plan and the PSPRS OPEB plan are not further disclosed because of their relative insignificance to the Town's financial statements.

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

	Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age	25 years of service or 15 years
	15 years of service, age 62	of credited of service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal Retirement	50% less 4.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees covered by benefit terms – At June 30, 2025, the following employees were covered by the agent plans' benefit terms:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Retirees and beneficiaries	25	18
Inactive, non-retired members	11	4
Active members	9	19
Total	<u>45</u>	<u>41</u>

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Contributions – State Statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2024, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Active members - pension	7.65%	7.65%
Town:		
Pension	74.19%	41.13%

The Town's contributions to the plans for the year ended June 30, 2025, were:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Pension Contributions	\$ 2,149,307	\$ 1,572,608

The Town's pension contributions are paid by the same funds as the employee's salary, with the largest component coming from the General Fund.

Liability – At June 30, 2025, the Town reported the following assets and liabilities.

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Net Pension (Asset) Liability	\$ 11,032,879	\$ 7,712,104

The net assets and net liabilities were measured as of June 30, 2024, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2024
Actuarial cost method	Entry Age Normal
Investment rate of return	7.2%
Wage inflation	3.0 – 6.25%
Price inflation	2.5%
Cost-of-living adjustment	1.85%
benefit increase	
Mortality rates	PubS-2010 tables.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2021.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.2 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
U.S. Public Equity	24.00%	3.62%
International Public Equity	16.00%	4.47%
Global Private Equity	27.00%	7.05%
Core Bonds	6.00%	2.44%
Private credit	20.00%	6.24%
Diversifying Strategies	5.00%	3.15%
Cash - Mellon	2.00%	0.89%
Total	100.00%	

Discount Rate –At June 30, 2024, the discount rate used to measure the PSPRS total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Changes in the net pension liability

PSPRS-Police	Pension		
	Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2024	\$ 23,532,424	\$ 11,733,780	\$ 11,798,644
Changes for the year:			
Service cost	211,000	-	211,000
Interest on total pension/OPEB liability	1,659,155	-	1,659,155
Changes of benefit terms	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	501,469	-	501,469
Changes of assumptions	-	-	-
Contributions - employer	-	1,843,404	(1,843,404)
Contributions - employee	-	81,669	(81,669)
Net investment income	-	1,225,016	(1,225,016)
Benefit payments, including refunds of employee contributions	(1,399,206)	(1,399,206)	-
Hall/Parker Settlement	-	-	-
Plan administrative expenses	-	(12,700)	12,700
Tiers 1 & 2 Adjustment	-	-	-
Other changes*	-	-	-
Net changes	972,418	1,738,183	(765,765)
Balances at June 30, 2025	\$ 24,504,842	\$ 13,471,963	\$ 11,032,879

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

PSPRS-Fire	Pension		
	Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2024	\$ 21,331,541	\$ 13,259,322	\$ 8,072,219
Changes for the year:			
Service cost	409,400	-	409,400
Interest on total pension/OPEB liability	1,530,230	-	1,530,230
Changes of benefit terms	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	444,323	-	444,323
Changes of assumptions	-	-	-
Contributions - employer	-	1,224,545	(1,224,545)
Contributions - employee	-	154,607	(154,607)
Net investment income	-	1,374,806	(1,374,806)
Benefit payments, including refunds of employee contributions	(975,489)	(975,489)	-
Hall/Parker Settlement	-	-	-
Plan administrative expenses	-	(9,890)	9,890
Tiers 1 & 2 Adjustment	-	-	-
Other changes*	-	-	-
Net changes	1,408,464	1,768,579	(360,115)
Balances at June 30, 2025	\$ 22,740,005	\$ 15,027,901	\$ 7,712,104

Sensitivity of the Town's net pension (asset) liability to changes in the discount rate – The following table presents the Town's net pension (assets) liabilities calculated using the discount rate of 7.2%, as well as what the Town's net pension (assets) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Net pension (asset) / liability - Police	\$ 14,027,105	\$ 11,032,879	\$ 8,566,708
Net pension (asset) / liability - Fire	10,823,626	7,712,104	5,163,985

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

Plan fiduciary net position – Detailed information about the plans’ fiduciary net position is available in the separately issued PSPRS financial report.

Expense – For the year ended June 30, 2025, the Town recognized the following pension expense:

	<u>PSPRS - Police</u>	<u>PSPRS - Fire</u>
Pension Expense	\$ 1,391,289	\$ 1,403,284

Deferred outflows/inflows of resources – At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police

	<u>Pension</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 250,735	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	157,913
Contributions subsequent to the measurement date	2,164,914	-
Total	<u>\$ 2,415,649</u>	<u>\$ 157,913</u>

PSPRS - Fire

	<u>Pension</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,609,948	\$ 291,162
Changes in assumptions	245,555	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	185,813
Contributions subsequent to the measurement date	1,603,010	-
Total	<u>\$ 3,458,513</u>	<u>\$ 476,975</u>

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TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 10. Pensions and Other Postemployment Benefits, Continued

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as expenses as follows:

Year Ended June 30,	PSPRS - Police	PSPRS - Fire
2026	\$ 88,463	\$ 413,541
2027	155,524	724,431
2028	(78,823)	232,883
2029	(72,342)	7,673
Thereafter	-	-

Note 11. Single-Employer Other Postemployment Benefits

Plan Description - The Town provides postretirement healthcare benefits in accordance with the Town Personnel Rules and Procedures manual. The Town ended the retirement program and the postretirement health care benefit plan for employees hired after January 2010.

The plan is a single-employer defined benefit OPEB plan administered by the Town. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Generally, resources from the General Fund are used to pay for postemployment benefits.

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.

Benefits Provided - The plan provides postretirement insurance (health, dental, vision, and life) benefits for eligible retirees either up to age 65 (if hired on or after May 10, 1997) or through the individual's lifetime (if hired before May 10, 1997). To be eligible for Town-paid benefits, an employee must have acquired 70 points (years of age plus years of service) under the Arizona State Retirement System (ASRS) and be a benefited employee with a minimum of 10 consecutive years of full-time satisfactory service.

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.

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 11. Single-Employer Other Postemployment Benefits, Continued

Contributions - The Town makes average monthly contributions of \$307 for employee only health care benefits plans and \$684 for employee and family health care benefit plans. The Town makes average monthly contributions of \$588 for retiree only postretirement health care benefits plans and \$1,149 for retiree and family postretirement health care benefit plans. The Town's regular insurance providers underwrite the retiree policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. A separate financial report is not issued for the plan.

Employees covered by benefit terms - The following employees were covered as of the effective date of the OPEB valuation:

Inactive employees or beneficiaries	
Currently receiving benefit payments	64
Active employees	31
Total	<u>95</u>

Total OPEB Liability - The Town's total OPEB liability of \$16,562,585 was measured as of June 30, 2025, and was determined by an actuarial valuation as of July 1, 2024.

Actuarial Assumptions and Other Inputs - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2025
Actuarial valuation date	July 1, 2023
Interest rate	3.97%
Inflation rate	2.50%
Projected salary increase	3% per annum
Healthcare cost trend rate:	
Medical and prescription drug	5.25-4.5% for 2025-2069, and 4.00 percent for 2070 and later years; Medicare ages 4.5-4.0 for 2025-2030.
Retiree contribution increase	Consistent with medical/drug trends
ASRS subsidy increases	None
Cost of living adjustments	N/A

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 11. Single-Employer Other Postemployment Benefits, Continued

The discount rate is based on the estimate of expected long-term plan experience. At June 30, 2025, the discount rate used to measure the total OPEB liability was 5.20 percent, which was not the same as the discount rate used as of July 1, 2024.

Mortality rates were based on the 2017 State Retirement of Arizona (SRA) Mortality Table, projected to 2017 and Pub-2010 General Employer Mortality table, projected from 2017.

Changes in the Total OPEB Liability

Total OPEB Liability - beginning of year	\$ 18,747,237
Changes for the year	
Service costs	124,756
Interest	733,256
Difference between expected and actual experience	-
Changes in assumptions and other inputs	(2,230,632)
Benefits Payments	(812,032)
Total OPEB Liability - end of year	<u>\$ 16,562,585</u>

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.20 percent) or 1-percentage-point higher (6.20 percent) than the current discount rate:

	1% Decrease (4.20%)	Discount Rate (5.20%)	1% Increase (6.20%)
Net OPEB liability (asset)	\$ 18,293,488	\$ 16,562,585	\$ 15,125,692

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.5 percent increasing to 5.5 percent) or 1-percentage-point higher (6.5 percent increasing to 7.5 percent) than the current healthcare cost trend rates:

	1% Decrease (4.5% increasing to 5.50%)	Trend Rate (5.5% increasing to 6.50%)	1% Increase (6.5% increasing to 7.50%)
Net OPEB liability (asset)	\$ 14,765,168	\$ 16,562,585	\$ 18,669,541

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 11. Single-Employer Other Postemployment Benefits, Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2025 the Town recognized OPEB expense of (\$1,189,405). At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions or other inputs	<u>-</u>	<u>(918,496)</u>
Totals	<u><u>\$ -</u></u>	<u><u>\$ (918,496)</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:

2025	\$ (918,496)
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Note 12. Risk Management

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

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

TOWN OF PAYSON ARIZONA
Notes to the Financial Statements
June 30, 2025

Note 12. Risk Management, Continued

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

Note 13. Contingent Liabilities and Significant Commitments

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Liability and Related Ratios
June 30, 2025

ASRS - Pension	Reporting Fiscal Year (Measurement Date)									
	2025 (2024)	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Proportion of the net pension liability (asset)	0.059250%	0.056130%	0.050000%	0.050000%	0.050000%	0.050000%	0.050000%	0.060000%	0.050000%	0.050000%
Proportionate share of the net pension liability (asset)	\$ 9,480,892	\$ 9,082,645	\$ 8,802,574	\$ 6,927,174	\$ 9,008,085	\$ 7,671,373	\$ 7,462,762	\$ 8,564,812	\$ 8,433,674	\$ 8,037,320
Covered payroll	\$ 7,881,498	\$ 6,754,958	\$ 5,824,624	\$ 5,390,000	\$ 5,192,245	\$ 5,198,936	\$ 5,067,541	\$ 4,058,451	\$ 4,786,138	\$ 4,377,856
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	120.29%	134.46%	151.13%	128.52%	173.49%	147.56%	147.27%	211.04%	176.21%	183.59%
Plan fiduciary net position as a percentage of the total pension liability	76.93%	75.47%	74.26%	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2025

PSPRS Police - Pension	Reporting Fiscal Year (Measurement Date)									
	2025 (2024)	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Total pension liability										
Service cost	\$ 211,000	\$ 179,885	\$ 240,966	\$ 258,560	\$ 312,239	\$ 338,963	\$ 316,482	\$ 374,449	\$ 254,743	\$ 301,372
Interest on total pension liability	1,659,155	1,593,626	1,576,458	1,514,301	1,477,830	1,430,914	1,406,854	1,296,061	1,284,285	1,242,661
Changes of benefit terms	-	-	-	-	-	-	-	232,566	101,288	-
Difference between expected and actual experience of the total net pension liability	501,469	487,440	(236,244)	351,682	263,848	137,473	(328,554)	285,778	(495,099)	(95,248)
Changes of assumptions	-	-	332,537	-	-	634,180	-	552,116	638,612	-
Benefit payments, including refunds of employee contributions	(1,399,206)	(1,364,686)	(1,263,827)	(1,247,115)	(1,754,159)	(1,460,306)	(1,040,455)	(922,060)	(924,315)	(866,131)
Net change in total pension liability	972,418	896,265	649,890	877,428	299,758	1,081,224	354,327	1,818,910	859,514	582,654
Total pension liability - beginning	23,532,424	22,636,159	21,986,269	21,108,841	20,809,083	19,727,859	19,373,532	17,554,622	16,695,108	16,112,454
Total pension liability - ending (a)	\$ 24,504,842	\$ 23,532,424	\$ 22,636,159	\$ 21,986,269	\$ 21,108,841	\$ 20,809,083	\$ 19,727,859	\$ 19,373,532	\$ 17,554,622	\$ 16,695,108
Plan fiduciary net position										
Contributions - employer	\$ 1,843,404	\$ 1,739,020	\$ 2,151,642	\$ 1,277,847	\$ 1,861,806	\$ 1,773,134	\$ 1,275,688	\$ 987,639	\$ 802,434	\$ 633,668
Contributions - employee	81,669	91,494	109,336	119,896	152,112	147,529	154,232	181,989	174,830	195,231
Net investment income	1,225,016	803,005	(413,047)	2,149,501	93,708	368,590	406,880	621,085	30,541	189,110
Benefit payments, including refunds of employee contributions	(1,399,206)	(1,364,686)	(1,263,827)	(1,247,115)	(1,754,159)	(1,460,306)	(1,040,455)	(922,060)	(924,315)	(866,131)
Hall/Parker Settlement	-	-	-	-	-	-	-	-	-	-
Administrative Expense	(12,700)	(9,827)	(7,450)	(10,157)	(7,642)	(7,403)	(6,893)	(5,896)	(4,795)	(4,995)
Tiers 1 & 2 Adjustment	-	-	-	-	-	-	-	-	-	-
Other (net transfer)	-	-	-	-	(120,519)	(17,373)	(215,981)	902	(222,673)	(38,050)
Net change in plan fiduciary net position	1,738,183	1,259,006	576,654	2,289,972	225,306	804,171	573,471	863,659	(143,978)	108,833
Plan fiduciary net position - beginning	11,733,780	10,474,774	9,898,120	7,608,148	7,382,842	6,578,671	6,005,200	5,141,541	5,285,519	5,176,686
Plan fiduciary net position - ending (b)	\$ 13,471,963	\$ 11,733,780	\$ 10,474,774	\$ 9,898,120	\$ 7,608,148	\$ 7,382,842	\$ 6,578,671	\$ 6,005,200	\$ 5,141,541	\$ 5,285,519
Net pension liability - ending (a) - (b)	\$ 11,032,879	\$ 11,798,644	\$ 12,161,385	\$ 12,088,149	\$ 13,500,693	\$ 13,426,241	\$ 13,149,188	\$ 13,368,332	\$ 12,413,081	\$ 11,409,589
Plan fiduciary net position as a percentage of the total pension liability	54.98%	49.86%	46.27%	45.02%	36.04%	35.48%	33.35%	31.00%	29.29%	31.66%
Covered payroll	\$ 1,988,420	\$ 2,031,621	\$ 2,617,454	\$ 1,895,941	\$ 1,656,612	\$ 1,600,783	\$ 1,849,803	\$ 1,695,771	\$ 1,554,175	\$ 1,449,122
Net pension liability as a percentage of covered payroll	554.86%	580.75%	464.63%	637.58%	814.96%	838.73%	710.84%	788.33%	798.69%	787.34%

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2025

PSPRS Fire - Pension	Reporting Fiscal Year (Measurement Date)									
	2025 (2024)	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Total pension liability										
Service cost	\$ 409,400	\$ 420,883	\$ 422,992	\$ 427,358	\$ 436,438	\$ 440,572	\$ 405,387	\$ 413,527	\$ 337,547	\$ 341,750
Interest on total pension liability	1,530,230	1,382,598	1,353,377	1,237,684	1,099,213	1,053,464	973,964	884,493	790,075	712,513
Changes of benefit terms	-	-	-	-	-	-	-	123,146	699,413	-
Difference between expected and actual experience of the total net pension liability	444,323	1,178,826	(622,867)	670,755	1,060,950	(294,114)	144,065	55,791	40,079	446,557
Changes of assumptions	-	-	324,237	-	-	260,962	-	593,077	435,046	-
Benefit payments, including refunds of employee contributions	(975,489)	(865,263)	(759,326)	(733,872)	(647,428)	(622,659)	(751,282)	(643,770)	(579,355)	(441,967)
Net change in total pension liability	1,408,464	2,117,044	718,413	1,601,925	1,949,173	838,225	772,134	1,426,264	1,722,805	1,058,853
Total pension liability - beginning	21,331,541	19,214,497	18,496,084	16,894,159	14,944,986	14,106,761	13,334,627	11,908,363	10,185,558	9,126,705
Total pension liability - ending (a)	<u>\$ 22,740,005</u>	<u>\$ 21,331,541</u>	<u>\$ 19,214,497</u>	<u>\$ 18,496,084</u>	<u>\$ 16,894,159</u>	<u>\$ 14,944,986</u>	<u>\$ 14,106,761</u>	<u>\$ 13,334,627</u>	<u>\$ 11,908,363</u>	<u>\$ 10,185,558</u>
Plan fiduciary net position										
Contributions - employer	\$ 1,224,545	\$ 1,118,883	\$ 1,244,906	\$ 896,764	\$ 1,158,617	\$ 821,363	\$ 763,548	\$ 512,294	\$ 460,449	\$ 353,376
Contributions - employee	154,607	163,827	179,664	186,224	184,431	176,173	178,210	452,138	232,627	214,441
Net investment income	1,374,806	926,029	(480,027)	2,530,477	108,988	406,436	469,030	707,125	34,274	201,717
Benefit payments, including refunds of employee contributions	(975,489)	(865,263)	(759,326)	(733,872)	(647,428)	(622,659)	(751,282)	(643,770)	(579,355)	(441,967)
Administrative Expense	(9,890)	(7,823)	(8,652)	(11,795)	(8,886)	(9,301)	(7,839)	(6,657)	(5,332)	(5,309)
Tiers 1 & 2 Adjustment	-	(68)	-	-	-	-	-	-	-	-
Other (net transfer)	-	14	-	-	(50,022)	(11,254)	(239,994)	49,762	(99,566)	142,513
Net change in plan fiduciary net position	1,768,579	1,335,599	176,565	2,867,798	745,700	760,758	411,673	1,070,892	43,097	464,771
Plan fiduciary net position - beginning	13,259,322	11,923,723	11,747,158	8,879,360	8,133,660	7,372,902	6,961,229	5,890,337	5,847,240	5,382,469
Plan fiduciary net position - ending (b)	<u>\$ 15,027,901</u>	<u>\$ 13,259,322</u>	<u>\$ 11,923,723</u>	<u>\$ 11,747,158</u>	<u>\$ 8,879,360</u>	<u>\$ 8,133,660</u>	<u>\$ 7,372,902</u>	<u>\$ 6,961,229</u>	<u>\$ 5,890,337</u>	<u>\$ 5,847,240</u>
Net pension liability - ending (a) - (b)	<u>\$ 7,712,104</u>	<u>\$ 8,072,219</u>	<u>\$ 7,290,774</u>	<u>\$ 6,748,926</u>	<u>\$ 8,014,799</u>	<u>\$ 6,811,326</u>	<u>\$ 6,733,859</u>	<u>\$ 6,373,398</u>	<u>\$ 6,018,026</u>	<u>\$ 4,338,318</u>
Plan fiduciary net position as a percentage of the total pension liability	66.09%	62.16%	62.06%	63.51%	52.56%	54.42%	52.27%	52.20%	49.46%	57.41%
Covered payroll	\$ 2,159,505	\$ 1,858,074	\$ 1,884,533	\$ 1,906,208	\$ 1,966,439	\$ 1,930,290	\$ 1,910,402	\$ 1,743,890	\$ 1,927,627	\$ 1,829,211
Net pension liability as a percentage of covered payroll	357.12%	434.44%	386.87%	354.05%	407.58%	352.87%	352.48%	365.47%	312.20%	237.17%

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Measurement Date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB liability								
Service costs	\$ 124,756	\$ 123,896	\$ 131,778	\$ 213,400	\$ 282,933	\$ 225,260	\$ 270,668	\$ 299,220
Interests	733,256	722,641	753,976	511,659	657,366	744,467	741,396	678,416
Differences between expected and actual experiences	-	(991,644)	-	(730,731)	-	(1,070,490)	-	-
Change in assumptions or other inputs	(2,230,632)	(472,840)	(457,857)	(7,964,449)	2,440,284	4,995,031	1,551,890	(1,565,719)
Benefit Payments	(812,032)	(921,284)	(877,241)	(824,746)	(791,707)	(703,844)	(581,113)	(631,130)
Net change in total OPEB liability	(2,184,652)	(1,539,231)	(449,344)	(8,794,867)	2,588,876	4,190,424	1,982,841	(1,219,213)
Total OPEB liability - beginning	18,747,237	20,286,468	20,735,812	29,530,679	26,941,803	22,751,379	20,768,538	21,987,751
Total OPEB liability - ending	<u>\$ 16,562,585</u>	<u>\$ 18,747,237</u>	<u>\$ 20,286,468</u>	<u>\$ 20,735,812</u>	<u>\$ 29,530,679</u>	<u>\$ 26,941,803</u>	<u>\$ 22,751,379</u>	<u>\$ 20,768,538</u>
Covered Payroll	\$ 18,127,452	\$ 15,375,014	\$ 13,070,201	\$ 11,825,191	\$ 10,767,760	\$ 10,126,797	\$ 3,824,353	\$ 8,251,469
Total OPEB liability as a percentage of covered payroll	91.37%	121.93%	155.21%	175.35%	274.25%	266.04%	594.91%	251.70%

Note: In accordance with GASB 75, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Schedule of Pension Contributions
June 30, 2025

ASRS - Pension

	Reporting Fiscal Year									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 928,207	\$ 996,540	\$ 805,191	\$ 699,537	\$ 627,935	\$ 594,512	\$ 581,241	\$ 552,362	\$ 437,501	\$ 519,296
Contributions in relation to the contractually required contribution	(928,207)	(996,540)	(805,191)	(699,537)	(627,935)	(594,512)	(581,241)	(552,362)	(437,501)	(519,296)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 7,998,290	\$ 7,881,498	\$ 6,754,958	\$ 5,824,624	\$ 5,390,000	\$ 5,192,245	\$ 5,198,936	\$ 5,067,541	\$ 4,058,451	\$ 4,786,138
Contributions as a percentage of covered payroll	11.61%	12.64%	11.92%	12.01%	11.65%	11.45%	11.18%	10.90%	10.78%	10.85%

PSPRS Police-Pensions

	Reporting Fiscal Year									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 1,727,474	\$ 1,672,431	\$ 1,390,238	\$ 1,324,645	\$ 1,333,036	\$ 1,194,583	\$ 1,146,321	\$ 1,071,096	\$ 1,063,079	\$ 879,197
Contributions in relation to the actuarially determined contribution	\$ (2,177,474)	\$ (2,122,431)	\$ (1,831,912)	\$ (1,767,043)	\$ (1,775,732)	\$ (1,194,583)	\$ (1,596,321)	\$ (1,439,702)	\$ (1,063,079)	\$ (879,197)
Contribution deficiency (excess)	<u>\$ (450,000)</u>	<u>\$ (450,000)</u>	<u>\$ (441,674)</u>	<u>\$ (442,398)</u>	<u>\$ (442,696)</u>	<u>\$ -</u>	<u>\$ (450,000)</u>	<u>\$ (368,606)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,244,561	\$ 1,988,420	\$ 2,031,621	\$ 2,617,454	\$ 1,895,941	\$ 1,656,612	\$ 1,600,783	\$ 1,849,803	\$ 1,695,771	\$ 1,554,175
Contributions as a percentage of covered payroll	97.01%	84.11%	68.43%	50.61%	70.31%	72.11%	71.61%	57.90%	62.69%	56.57%

PSPRS Fire - Pensions

	Reporting Fiscal Year									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 1,479,753	\$ 1,224,545	\$ 1,118,883	\$ 1,244,906	\$ 896,764	\$ 1,158,617	\$ 821,363	\$ 763,548	\$ 512,294	\$ 460,449
Contributions in relation to the actuarially determined contribution	\$ (1,629,753)	\$ (1,240,234)	\$ (1,203,550)	\$ (1,198,206)	\$ (930,320)	\$ (1,002,622)	\$ (647,588)	\$ (763,548)	\$ (512,294)	\$ (460,449)
Contribution deficiency (excess)	<u>\$ (150,000)</u>	<u>\$ (15,689)</u>	<u>\$ (84,667)</u>	<u>\$ 46,700</u>	<u>\$ (33,556)</u>	<u>\$ 155,995</u>	<u>\$ 173,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,031,171	\$ 2,159,505	\$ 1,858,074	\$ 1,884,533	\$ 1,906,208	\$ 1,966,439	\$ 1,930,290	\$ 1,910,402	\$ 1,743,890	\$ 1,927,627
Contributions as a percentage of covered payroll	53.77%	56.70%	60.22%	66.06%	47.04%	58.92%	42.55%	39.97%	29.38%	23.89%

TOWN OF PAYSON, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2025

Note 1. Factors that Affect Trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2019 for members who were retired as of the law's effective date. These changes increased the PSPRS required contributions beginning in fiscal year 2020 to cover members who retired or will retire after the law's effective date.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

- **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the Town, except for those accounted for in another fund.
- **HURF Fund** – The Highway User Revenue Fund (HURF) accounts for the Town's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of town roads, streets and bridges and the payment of the principal and interest on highway and street bonds.

TOWN OF PAYSON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		Variance with Final Budget
	<u>Original and Final</u>	<u>Actual</u>	
REVENUES			
Taxes:	\$ 25,228,624	\$ 24,015,438	\$ (1,213,186)
Licenses and permits	1,357,741	555,833	(801,908)
Intergovernmental	9,211,240	9,067,909	(143,331)
Charges for services	728,807	2,274,478	1,545,671
Fines and forfeits	185,000	132,827	(52,173)
Contributions	1,100	17,332	16,232
Miscellaneous	631,068	404,643	(226,425)
Investment income	1,450,000	1,470,497	20,497
Total revenues	<u>38,793,580</u>	<u>37,938,957</u>	<u>(854,623)</u>
EXPENDITURES			
General government:			
Town Council	62,942	121,553	(58,611)
Town Clerk	339,624	290,049	49,575
Administration	2,354,666	1,569,878	784,788
Financial Services	830,738	827,418	3,320
Human Resources	529,876	464,527	65,349
Computer Information Systems	2,441,033	1,888,194	552,839
Elections	34,000	47,631	(13,631)
Attorney	802,838	439,481	363,357
Courts	322,588	312,142	10,446
Town Manager	612,238	829,094	(216,856)
Public safety:			
Police Department	10,674,500	9,469,590	1,204,910
Fire Department	8,324,992	7,635,920	689,072
Culture and recreation			
Library	629,404	664,017	(34,613)
Recreation	1,401,814	1,478,905	(77,091)
Aquatics	45,266	47,755	(2,489)
Tourism	492,009	519,068	(27,059)
Trails	1,532	1,616	(84)
Event Center	368,384	388,643	(20,259)
Public works			
Airport	191,660	332,536	(140,876)
Park Operations	1,131,214	1,962,686	(831,472)
Town Engineer	209,146	362,873	(153,727)
Community development			
Planning and Zoning	1,659,366	1,231,142	428,224

(Continued)

TOWN OF PAYSON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		Variance with
	<u>Original and Final</u>	<u>Actual</u>	<u>Final Budget</u>
Health and welfare			
Health and Welfare	157,500	142,000	15,500
Animal Control	201,092	168,582	32,510
Capital outlay	4,374,046	4,298,573	75,473
Debt Service			
Principal	-	297,123	(297,123)
Interest and fiscal charges	-	39,134	(39,134)
Total expenditures	<u>38,192,468</u>	<u>35,830,130</u>	<u>2,362,338</u>
Excess (deficiency) of revenues over expenditures	<u>601,112</u>	<u>2,108,827</u>	<u>1,507,715</u>
OTHER FINANCING SOURCES (USES)			
Sale of assets	70,000	17,901	(52,099)
Transfers out	(10,386,543)	(2,646,540)	7,740,003
Transfers in	2,436,076	509,000	(1,927,076)
Total other financing sources and (uses)	<u>(7,880,467)</u>	<u>(2,119,639)</u>	<u>5,760,828</u>
Changes in fund balances	(7,279,355)	(10,812)	7,268,543
Fund balances, beginning of year	21,428,849	21,428,849	-
Fund balances, end of year	<u>\$ 14,149,494</u>	<u>\$ 21,418,037</u>	<u>\$ 7,268,543</u>

TOWN OF PAYSON, ARIZONA
HURF FUND
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		Variance with
	<u>Original and Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues:			
Intergovernmental revenue	\$ 9,915,443	\$ 4,481,706	\$ (5,433,737)
Miscellaneous	672,640	497,155	(175,485)
Total revenues	<u>10,588,083</u>	<u>4,978,861</u>	<u>(5,609,222)</u>
Expenditures:			
Highways and streets	4,536,474	2,305,909	2,230,565
Capital outlay	17,257,274	8,200,548	9,056,726
Debt service -			
Principal retirement	-	123,442	(123,442)
Interest and fiscal charges	-	12,066	(12,066)
Total expenditures	<u>21,793,748</u>	<u>10,641,965</u>	<u>11,151,783</u>
Excess (deficiency) of revenues over (under) expenditures	(11,205,665)	(5,663,104)	5,542,561
Other financing sources (uses)			
Transfers in	4,000,000	50,000	(3,950,000)
Total other financing sources (uses)	<u>4,000,000</u>	<u>50,000</u>	<u>(3,950,000)</u>
Changes in fund balances	(7,205,665)	(5,613,104)	1,592,561
Fund balance, beginning of year	<u>12,590,749</u>	<u>12,590,749</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,385,084</u>	<u>\$ 6,977,645</u>	<u>\$ 1,592,561</u>

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SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS
AND BUDGETARY COMPARISON SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

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

Capital Projects 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
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2025

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>JCEF/FTG</u>	<u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 93,970	\$ 4,330,208	\$ 4,424,178
Intergovernmental receivable	-	41,493	41,493
Total assets	<u><u>\$ 93,970</u></u>	<u><u>\$ 4,371,701</u></u>	<u><u>\$ 4,465,671</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Accounts payable	\$ 1,122	\$ 226,348	\$ 227,470
Total liabilities	<u>1,122</u>	<u>226,348</u>	<u>227,470</u>
 Fund balances			
Restricted	92,848	4,145,353	4,238,201
Total fund balances	<u>92,848</u>	<u>4,145,353</u>	<u>4,238,201</u>
 Total liabilities and fund balances	<u><u>\$ 93,970</u></u>	<u><u>\$ 4,371,701</u></u>	<u><u>\$ 4,465,671</u></u>

TOWN OF PAYSON, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2025

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>JCEF/FTG</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues			
Intergovernmental	\$ -	\$ 41,493	\$ 41,493
Contributions	4,684	-	4,684
Total revenues	<u>4,684</u>	<u>41,493</u>	<u>46,177</u>
Expenditures			
General government	4,243	-	4,243
Capital outlay	-	2,496,282	2,496,282
Total expenditures	<u>4,243</u>	<u>2,496,282</u>	<u>2,500,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>441</u>	<u>(2,454,789)</u>	<u>(2,454,348)</u>
Other financing sources (uses):			
Transfers out	-	(1,000)	(1,000)
Transfers in	-	2,596,540	2,596,540
Total other financing sources (uses):	<u>-</u>	<u>2,595,540</u>	<u>2,595,540</u>
Changes in fund balances	441	140,751	141,192
Fund balances, beginning of year	<u>92,407</u>	<u>4,004,602</u>	<u>4,097,009</u>
Fund balances, end of year	<u>\$ 92,848</u>	<u>\$ 4,145,353</u>	<u>\$ 4,238,201</u>

TOWN OF PAYSON, ARIZONA
JUDICIAL COLLECTION ENHANCEMENT FUND
(JCEF)/MUNICIPAL FILL THE GAP (FTG)
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		
	<u>Original and Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Contributions	\$ 5,400	\$ 4,684	\$ (716)
Total revenues	<u>5,400</u>	<u>4,684</u>	<u>(716)</u>
Expenditures			
General government	<u>5,400</u>	<u>4,243</u>	<u>1,157</u>
Total expenditures	<u>5,400</u>	<u>4,243</u>	<u>1,157</u>
Changes in fund balances	-	441	441
Fund balance, beginning of year	<u>92,407</u>	<u>92,407</u>	<u>-</u>
Fund balance, end of year	<u>\$ 92,407</u>	<u>\$ 92,848</u>	<u>\$ 441</u>

TOWN OF PAYSON, ARIZONA
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		
	<u>Original and Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental revenue	\$ 6,600,000	\$ 41,493	\$ (6,558,507)
Total revenues	<u>6,600,000</u>	<u>41,493</u>	<u>(6,558,507)</u>
Expenditures:			
Capital outlay	<u>12,138,467</u>	<u>2,496,282</u>	<u>9,642,185</u>
Total expenditures	<u>12,138,467</u>	<u>2,496,282</u>	<u>9,642,185</u>
Excess (deficiency) of revenues over (under) expenditures	(5,538,467)	(2,454,789)	3,083,678
Other financing sources (uses):			
Transfers out	-	(1,000)	(1,000)
Transfers in	<u>4,458,467</u>	<u>2,596,540</u>	<u>(1,861,927)</u>
Total other financing Sources (Uses)	<u>4,458,467</u>	<u>2,595,540</u>	<u>(1,862,927)</u>
Changes in fund balances	(1,080,000)	140,751	1,220,751
Fund balance, beginning of year	<u>4,004,602</u>	<u>4,004,602</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 2,924,602</u>	<u>\$ 4,145,353</u>	<u>\$ 1,220,751</u>

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STATISTICAL SECTION

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

Contents	Page
Financial Trends	81
<i>These schedules contain information on financial trends to help the reader understand how the Town's financial position and financial activities have changed over time.</i>	
Revenue Capacity	92
<i>These schedules contain information to help the reader assess the factors affecting the Town's ability to generate revenue.</i>	
Debt Capacity	100
<i>These schedules present information to help the reader evaluate the Town's current levels of outstanding debt as well as assess the Town's ability to make debt payments and/or issue additional debt in the future.</i>	
Demographic and Economic Information.....	105
<i>These schedules present various demographic and economic indicators to help the reader understand the environment in which the Town's financial activities take place and to help make comparisons with other cities.</i>	
Operating Information	107
<i>These schedules contain information about the Town's operations and various resources to help the reader draw conclusions as to how the Town's financial information relates to the services provided by the Town.</i>	

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

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023 *</u>	<u>2022</u>	<u>2021</u>
Governmental activities:					
Net investment in capital assets	\$ 123,508,264	\$ 111,795,465	\$ 105,963,186	\$ 105,190,615	\$ 104,652,894
Restricted	11,495,464	16,687,758	11,271,445	4,524,900	2,765,894
Unrestricted	<u>(16,961,849)</u>	<u>(17,176,040)</u>	<u>(19,576,726)</u>	<u>(25,476,856)</u>	<u>(32,973,567)</u>
Total governmental activities net position	<u><u>\$ 118,041,879</u></u>	<u><u>\$ 111,307,183</u></u>	<u><u>\$ 97,657,905</u></u>	<u><u>\$ 84,238,659</u></u>	<u><u>\$ 74,445,221</u></u>
Business-type activities:					
Net investment in capital assets	\$ 30,838,406	\$ 26,497,261	\$ 25,301,033	\$ 25,366,967	\$ 26,172,042
Restricted	4,847,939	3,254,367	3,067,724	2,454,753	2,359,960
Unrestricted	<u>16,735,149</u>	<u>16,932,700</u>	<u>16,386,210</u>	<u>17,138,642</u>	<u>15,945,205</u>
Total business-type activities net position	<u><u>\$ 52,421,494</u></u>	<u><u>\$ 46,684,328</u></u>	<u><u>\$ 44,754,967</u></u>	<u><u>\$ 44,960,362</u></u>	<u><u>\$ 44,477,207</u></u>
Primary government					
Net investment in capital assets	\$ 154,346,670	\$ 138,292,726	\$ 131,264,219	\$ 130,557,582	\$ 130,824,936
Restricted	16,343,403	19,942,125	14,339,169	6,979,653	5,125,854
Unrestricted	<u>(226,700)</u>	<u>(243,340)</u>	<u>(3,190,516)</u>	<u>(8,338,214)</u>	<u>(17,028,362)</u>
Total net position	<u><u>\$ 170,463,373</u></u>	<u><u>\$ 157,991,511</u></u>	<u><u>\$ 142,412,872</u></u>	<u><u>\$ 129,199,021</u></u>	<u><u>\$ 118,922,428</u></u>

* As restated

(Continued)

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

	Fiscal Year Ended June 30				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Governmental activities:					
Net investment in capital assets	\$ 105,017,568	\$ 105,189,097	\$ 105,433,973	\$ 104,878,853	\$ 105,017,442
Restricted	2,292,293	1,822,557	1,577,183	1,464,390	1,659,351
Unrestricted	<u>(37,576,228)</u>	<u>(37,815,247)</u>	<u>(37,735,957)</u>	<u>(27,648,896)</u>	<u>(25,664,068)</u>
Total net position	<u><u>\$ 69,733,633</u></u>	<u><u>\$ 69,196,407</u></u>	<u><u>\$ 69,275,199</u></u>	<u><u>\$ 78,694,347</u></u>	<u><u>\$ 81,012,725</u></u>
Business-type activities:					
Net investment in capital assets	\$ 27,338,921	\$ 26,536,052	\$ 24,554,572	\$ 24,261,745	\$ 20,771,062
Restricted	2,170,152	1,923,932	1,640,104	1,356,276	977,431
Unrestricted	<u>13,924,121</u>	<u>11,361,593</u>	<u>9,191,750</u>	<u>5,903,591</u>	<u>6,136,104</u>
Total net position	<u><u>\$ 43,433,194</u></u>	<u><u>\$ 39,821,577</u></u>	<u><u>\$ 35,386,426</u></u>	<u><u>\$ 31,521,612</u></u>	<u><u>\$ 27,884,597</u></u>
Primary government					
Net investment in capital assets	\$ 132,356,489	\$ 131,725,149	\$ 129,988,545	\$ 129,140,598	\$ 125,788,504
Restricted	4,462,445	3,746,489	3,217,287	2,820,666	2,636,782
Unrestricted	<u>(23,652,107)</u>	<u>(26,453,654)</u>	<u>(28,544,207)</u>	<u>(21,745,305)</u>	<u>(19,527,964)</u>
Total net position	<u><u>\$ 113,166,827</u></u>	<u><u>\$ 109,017,984</u></u>	<u><u>\$ 104,661,625</u></u>	<u><u>\$ 110,215,959</u></u>	<u><u>\$ 108,897,322</u></u>

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

(Concluded)

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u> *	<u>2022</u>	<u>2021</u>
Expenses					
Governmental activities:					
General government	\$ 6,831,732	\$ 8,920,135	\$ 4,032,109	\$ 3,720,263	\$ 5,830,685
Public safety	17,495,496	11,523,641	11,983,658	12,635,637	12,717,158
Highways and streets	3,540,540	1,328,835	2,041,117	2,535,954	3,374,049
Culture and recreation	4,974,065	2,687,554	2,213,962	2,093,240	2,050,331
Public works	2,305,907	2,271,939	2,183,904	1,210,503	1,066,578
Community development	1,238,239	1,289,394	819,938	985,870	859,257
Health and welfare	310,582	284,190	199,800	189,833	226,078
Interest on long-term debt	51,200	77,509	165,995	250,589	38,102
Total governmental activities	<u>36,747,761</u>	<u>28,383,197</u>	<u>23,640,483</u>	<u>23,621,889</u>	<u>26,162,238</u>
Business-type activities:					
Water	6,934,009	7,685,225	8,539,459	6,920,828	6,678,035
Interest on long-term debt	655,979	691,031	725,219	758,560	783,489
Total business-type activities	<u>7,589,988</u>	<u>8,376,256</u>	<u>9,264,678</u>	<u>7,679,388</u>	<u>7,461,524</u>
Total expenses	<u>44,337,749</u>	<u>36,759,453</u>	<u>32,905,161</u>	<u>31,301,277</u>	<u>33,623,762</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	1,791,730	1,004,558	1,479,312	1,655,799	1,366,959
Public safety	1,440,376	1,375,298	585,345	588,010	533,275
Highways and streets	497,155	138,626	21,989	69,697	
Culture and recreation	198,914	162,016	125,549	131,649	187,854
Public works	668,726	558,917	118,216	108,884	124,592
Community development					
Health and welfare	65,649	94,737			
Interest on long-term debt					4,481
Operating grants and contributions	2,574,629	2,561,277	5,925,755	5,063,969	3,763,997
Capital grants and contributions	440,095	2,060,827	441,884	1,099,318	1,165,044
Total governmental activities	<u>7,677,274</u>	<u>7,956,256</u>	<u>8,698,050</u>	<u>8,717,326</u>	<u>7,146,202</u>
Business-type activities:					
Charges for services					
Water	9,799,921	9,290,314	8,363,133	8,174,248	8,234,852
Operating grants and contributions	181,810	250,203	380,769	492,970	343,972
Capital grants and contributions	2,773,081	186,643			
Total business-type activities	<u>12,754,812</u>	<u>9,727,160</u>	<u>8,743,902</u>	<u>8,667,218</u>	<u>8,578,824</u>
Total program revenues	<u>20,432,086</u>	<u>17,683,416</u>	<u>17,441,952</u>	<u>17,384,544</u>	<u>15,725,026</u>
Net (Expense)/Revenue	<u>\$ (23,905,663)</u>	<u>\$ (19,076,037)</u>	<u>\$ (15,463,209)</u>	<u>\$ (13,916,733)</u>	<u>\$ (17,898,736)</u>

* As restated

(Continued)

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

	Fiscal Year Ended June 30				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expenses					
Governmental activities:					
General government	\$ 4,771,564	\$ 4,660,538	\$ 3,544,946	\$ 3,347,609	\$ 3,774,712
Public safety	12,031,611	12,376,917	10,611,302	11,681,331	8,831,717
Highways and streets	3,018,881	2,641,170	2,332,547	2,276,694	2,509,734
Culture and recreation	2,102,813	2,051,059	1,754,116	1,670,876	1,588,679
Public works	930,024	922,350	842,171	678,175	669,206
Community development	824,344	879,012	891,579	860,471	929,499
Health and welfare	195,917	239,173	224,744	256,726	241,307
Interest on long-term debt	55,715	46,277	112,966	146,614	87,709
Total governmental activities	<u>23,930,869</u>	<u>23,816,496</u>	<u>20,314,371</u>	<u>20,918,496</u>	<u>18,632,563</u>
Business-type activities:					
Water	3,793,164	4,506,675	4,002,804	4,143,509	4,691,712
	781,215		247,567		
Total business-type activities	<u>4,574,379</u>	<u>4,506,675</u>	<u>4,250,371</u>	<u>4,143,509</u>	<u>4,691,712</u>
Total expenses	<u>28,505,248</u>	<u>28,323,171</u>	<u>24,564,742</u>	<u>25,062,005</u>	<u>23,324,275</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	1,156,919	809,992	941,162	1,017,922	826,574
Public safety	519,474	526,160	500,689	462,516	350,901
Highways and streets			5,075		
Culture and recreation	177,440	295,601	302,099	261,263	95,528
Public works	115,852	129,041	110,246	115,880	205,146
Community development					284,393
Health and welfare					23,565
	7,245	9,914			
Operating grants and contributions	1,353,220	1,848,782	1,447,046	1,528,706	2,517,832
Capital grants and contributions	484,568	1,152,182	978,567	514,358	771,135
Total governmental activities	<u>3,814,718</u>	<u>4,771,672</u>	<u>4,284,884</u>	<u>3,900,645</u>	<u>5,075,074</u>
Business-type activities:					
Charges for services					
Water	8,103,705	7,563,336	7,338,335	6,160,157	5,744,974
Operating grants and contributions	215,318	251,109	478,361	342,629	22,654
Capital grants and contributions		791,175	1,000,000	1,000,000	1,000,000
Total business-type activities	<u>8,319,023</u>	<u>8,605,620</u>	<u>8,816,696</u>	<u>7,502,786</u>	<u>6,767,628</u>
Total program revenues	<u>12,133,741</u>	<u>13,377,292</u>	<u>13,101,580</u>	<u>11,403,431</u>	<u>11,842,702</u>
Net (Expense)/Revenue	<u>\$ (16,371,507)</u>	<u>\$ (14,945,879)</u>	<u>\$ (11,463,162)</u>	<u>\$ (13,658,574)</u>	<u>\$ (11,481,573)</u>

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

(Concluded)

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u> *	<u>2022</u>	<u>2021</u>
Net Revenue/(Expense)	\$ (19,076,037)	\$ (19,076,037)	\$ (15,463,209)	\$ (13,916,733)	\$ (17,898,736)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	22,343,544	19,280,372	16,577,578	15,242,182	14,200,923
Property taxes	1,006,302	956,104	707,891	701,132	684,699
Auto lieu taxes	1,447,487	1,342,106	1,335,263	1,252,477	1,311,677
Franchise taxes	665,592	689,946	428,838	407,290	405,155
Unrestricted state shared revenue	8,353,298	9,271,238	7,716,820	6,519,359	6,142,422
Special assessments					
Investment income	1,470,497	1,849,895	1,047,388	34,935	5,272
Gain (loss) on disposal of assets	10,463	(44,441)			
Transfers	<u>508,000</u>	<u>730,999</u>	<u>547,900</u>	<u>540,626</u>	<u>81,956</u>
Total governmental activities	<u>35,805,183</u>	<u>34,076,219</u>	<u>28,361,678</u>	<u>24,698,001</u>	<u>22,832,104</u>
General Revenues:					
Business-type activities:					
Investment income	1,080,342	1,264,718	863,281	35,951	8,669
Gain of disposal of capital assets		44,738			
Other					
Transfers	<u>(508,000)</u>	<u>(730,999)</u>	<u>(547,900)</u>	<u>(540,626)</u>	<u>(81,956)</u>
Total business-type activities	<u>572,342</u>	<u>578,457</u>	<u>315,381</u>	<u>(504,675)</u>	<u>(73,287)</u>
Changes in Net Position					
Governmental activities	6,734,696	13,649,278	13,419,245	9,793,438	3,816,068
Business-type activities	<u>5,737,166</u>	<u>1,929,361</u>	<u>(205,395)</u>	<u>483,155</u>	<u>1,044,013</u>
Total primary government	<u>\$ 12,471,862</u>	<u>\$ 15,578,639</u>	<u>\$ 13,213,850</u>	<u>\$ 10,276,593</u>	<u>\$ 4,860,081</u>

* As restated

(Continued)

(Continued)

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

	Fiscal Year Ended June 30				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net Revenue/(Expense)	\$ (16,371,507)	\$ (14,945,879)	\$ (11,463,162)	\$ (13,658,574)	\$ (11,481,573)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	12,353,226	11,260,010	10,502,097	7,623,686	7,269,401
Property taxes	680,714	911,742	891,162	858,759	830,980
Auto lieu taxes	1,087,532	1,065,940	1,040,567	967,213	
Franchise taxes	402,915	402,237	382,228	383,495	380,413
Unrestricted state shared revenue	5,646,915	5,166,060	5,044,821	4,908,761	4,203,566
Special assessments			12,490	14,872	
Investment income	101,775	138,043	40,501	9,987	5,325
Gain of disposal of capital assets					
Transfers	<u>380,300</u>	<u>22,000</u>	<u>88,700</u>	<u>(67,300)</u>	<u>(130,761)</u>
Total governmental activities	<u>20,653,377</u>	<u>18,966,032</u>	<u>18,002,566</u>	<u>14,699,473</u>	<u>12,558,924</u>
General Revenues:					
Business-type activities:					
Investment income	247,273	358,206	166,248	56,443	22,736
Gain of disposal of capital assets					
Transfers	<u>(380,300)</u>	<u>(22,000)</u>	<u>(88,700)</u>	<u>67,300</u>	<u>130,761</u>
Total business-type activities	<u>(133,027)</u>	<u>336,206</u>	<u>77,548</u>	<u>123,743</u>	<u>153,497</u>
Changes in Net Position					
Governmental activities	537,226	(78,792)	1,973,079	(2,318,378)	(998,565)
Business-type activities	3,611,617	4,435,151	4,643,873	3,483,020	2,229,413
Total primary government	<u>\$ 4,148,843</u>	<u>\$ 4,356,359</u>	<u>\$ 6,616,952</u>	<u>\$ 1,164,642</u>	<u>\$ 1,230,848</u>

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

(Concluded)

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
General Fund:					
Nondisposable		\$ 119,222	\$ 175,085	\$ 7,004	\$ 5,512
Restricted					
Assigned	1,476,705	1,258,327	1,258,327	979,790	654,930
Unassigned	19,941,332	20,051,300	19,655,861	19,146,267	13,101,416
Total General Fund	<u>\$ 21,418,037</u>	<u>\$ 21,428,849</u>	<u>\$ 21,089,273</u>	<u>\$ 20,133,061</u>	<u>\$ 13,761,858</u>
All Other Governmental Funds:					
Restricted	11,215,846	16,687,758	11,271,445	4,524,900	2,456,599
Total all other governmental funds	<u>\$ 11,215,846</u>	<u>\$ 16,687,758</u>	<u>\$ 11,271,445</u>	<u>\$ 4,524,900</u>	<u>\$ 2,456,599</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Fund:					
Nondisposable			\$ 7,500		
Restricted					75,362
Assigned	385,946	422,821	369,839	468,569	353,015
Unassigned	7,081,909	4,899,516	3,931,700	2,196,178	1,615,870
Total General Fund	<u>\$ 7,467,855</u>	<u>\$ 5,322,337</u>	<u>\$ 4,309,039</u>	<u>\$ 2,664,747</u>	<u>\$ 2,044,247</u>
All Other Governmental Funds:					
Restricted	1,930,996	1,412,725	1,118,816	960,955	1,038,954
Assigned					154,549
Total all other governmental funds	<u>\$ 1,930,996</u>	<u>\$ 1,412,725</u>	<u>\$ 1,118,816</u>	<u>\$ 960,955</u>	<u>\$ 1,193,503</u>

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

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

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Taxes	\$ 24,015,438	\$ 20,926,422	\$ 17,714,307	\$ 16,350,603	\$ 15,290,777
Licenses and permits	555,833	537,824	442,694	668,577	465,158
Intergovernmental	13,591,108	16,022,164	15,402,587	12,863,723	12,386,251
Special assessments				56,869	56,483
Charges for services	2,274,478	1,446,063	1,270,649	1,409,489	1,170,444
Fines and forfeits	132,827	160,190	207,449	210,569	184,392
Contributions	22,016	14,976	17,135	62,089	7,711
Miscellaneous	901,798	388,383	409,619	576,232	381,864
Other					
Investment income	1,470,497	1,849,895	1,047,388	34,935	5,272
Total revenues	<u>\$ 42,963,995</u>	<u>\$ 41,345,917</u>	<u>\$ 36,511,828</u>	<u>\$ 32,233,086</u>	<u>\$ 29,948,352</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Taxes	\$ 13,436,853	\$ 12,573,989	\$ 11,775,487	\$ 8,874,039	\$ 8,509,235
Licenses and permits	421,011	402,179	459,508	386,332	379,990
Intergovernmental	8,556,660	8,941,178	8,507,289	7,855,689	6,904,183
Special assessments	55,780	58,449	57,558	56,472	
Charges for services	1,050,828	1,200,133	1,181,346	1,074,452	926,170
Fines and forfeits	163,871	154,065	142,392	121,684	171,665
Contributions	12,294	5,876	3,712	8,991	
Miscellaneous	337,258	290,327	76,025	329,471	
Other					459,140
Investment income	101,775	138,043	40,501	9,987	
Total revenues	<u>\$ 24,136,330</u>	<u>\$ 23,764,239</u>	<u>\$ 22,243,818</u>	<u>\$ 18,717,117</u>	<u>\$ 17,350,383</u>

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

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Expenditures:					
Current -					
General government and community development	\$ 8,025,352	\$ 11,321,044	\$ 6,347,725	\$ 5,360,294	\$ 4,994,829
Public safety	17,105,510	14,773,085	13,515,838	12,290,325	11,415,538
Highways and streets and public works	4,964,004	2,271,939	4,140,494	3,076,636	3,373,330
Culture and recreation and health and welfare	3,410,586	2,742,027	2,256,388	1,660,271	1,626,866
Capital outlay	14,995,403	4,707,845	2,492,172	1,107,800	3,878,616
Debt service -					
Principal retirement	420,565	448,784	438,359	588,293	230,844
Interest on long-term debt	51,200	77,509	165,995	250,589	38,102
Total expenditures	<u>\$ 48,972,620</u>	<u>\$ 36,342,233</u>	<u>\$ 29,356,971</u>	<u>\$ 24,334,208</u>	<u>\$ 25,558,125</u>
Expenditures for capitalized assets	\$ 14,974,666	\$ 7,663,927	\$ 3,903,512	\$ 1,040,871	\$ 3,639,432
Debt service as a percentage of noncapital expenditures	1%	2%	2%	4%	1%

(Continued)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expenditures:					
Current -					
General government and community development	\$ 4,611,240	\$ 4,648,971	\$ 4,218,407	\$ 3,922,369	\$ 4,366,414
Public safety	10,715,771	10,257,862	9,320,464	8,313,730	7,667,705
Highways and streets and public works	2,975,678	2,516,241	2,355,801	2,298,450	3,115,287
Culture and recreation and health and welfare	1,599,477	1,581,460	1,478,215	1,365,200	1,346,421
Capital outlay	1,636,590	3,605,100	2,367,754	1,546,504	1,005,626
Debt service -					
Principal retirement	255,287	544,654	669,258	691,795	686,839
Interest on long-term debt	58,798	53,777	120,466	154,114	95,209
Total expenditures	<u>\$ 21,852,841</u>	<u>\$ 23,208,065</u>	<u>\$ 20,530,365</u>	<u>\$ 18,292,162</u>	<u>\$ 18,283,501</u>
Expenditures for capitalized assets	\$ 1,455,278	\$ 1,788,056	\$ 1,676,336	\$ 1,045,812	\$ 2,022,702
Debt service as a percentage of noncapital expenditures	2%	3%	4%	5%	5%

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

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

(Concluded)

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

	Fiscal Year Ended June 30				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Excess (deficiency) of revenues over expenditures	\$ (6,008,625)	\$ 5,003,684	\$ 7,154,857	\$ 7,898,878	\$ 4,390,227
Other financing sources (uses):					
Lease agreements					2,347,423
Capital asset sales	17,901	21,206			
Transfers in	3,155,540	6,575,383	6,410,000	1,978,150	347,686
Transfers out	(2,647,540)	(5,844,384)	(5,862,100)	(1,437,524)	(265,730)
Total other financing sources (uses)	<u>525,901</u>	<u>752,205</u>	<u>547,900</u>	<u>540,626</u>	<u>2,429,379</u>
Changes in fund balances	<u>\$ (5,482,724)</u>	<u>\$ 5,755,889</u>	<u>\$ 7,702,757</u>	<u>\$ 8,439,504</u>	<u>\$ 6,819,606</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Excess (deficiency) of revenues over expenditures	\$ 2,283,489	\$ 556,174	\$ 1,713,453	\$ 424,955	\$ (933,118)
Other financing sources (uses):					
Lease agreements		729,033			1,079,421
Transfers in	1,231,676	653,260	638,184	289,398	253,497
Transfers out	(851,376)	(631,260)	(549,484)	(356,698)	(270,797)
Total other financing sources (uses)	<u>380,300</u>	<u>751,033</u>	<u>88,700</u>	<u>(67,300)</u>	<u>1,062,121</u>
Changes in fund balances	<u>\$ 2,663,789</u>	<u>\$ 1,307,207</u>	<u>\$ 1,802,153</u>	<u>\$ 357,655</u>	<u>\$ 129,003</u>

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

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

<u>Year</u>	<u>Property</u>	<u>Sales & Use</u>	<u>Bed Tax</u>	<u>Franchise</u>	<u>Library District</u>	<u>Total</u>
2025	\$ 1,006,302	\$ 21,450,175	\$ 618,069	\$ 652,098	\$ 275,300	\$ 24,001,944
2024	956,104	18,393,916	623,056	689,946	263,400	20,926,422
2023	707,891	15,718,051	608,627	428,838	250,900	17,714,307
2022	701,132	14,403,570	599,612	407,290	239,000	16,350,604
2021	684,699	13,408,152	557,771	405,155	235,000	15,290,777
2020	681,714	11,637,823	358,630	402,915	235,000	13,316,082
2019	681,342	10,504,229	318,105	396,961	230,400	12,131,037
2018	660,762	10,159,686	342,411	382,228	230,400	11,775,487
2017	636,458	7,287,050	336,636	383,495	230,400	8,874,039
2016	629,021	6,950,587	318,814	380,413	230,400	8,509,235

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Retail trade	\$ 13,544,631	\$ 10,874,220	\$ 10,190,511	\$ 9,064,757	\$ 8,590,456
Construction	1,055,914	903,181	742,488	873,963	601,653
Restaurants and bars	2,491,749	-	-		
Communications and utilities	1,751,291	1,134,782	1,234,873	1,448,192	1,356,061
Transportation and warehousing	-	31,104	29,200	26,080	26,862
Services	84,197	275,481	270,789	388,049	496,584
Manufacturing	-	232,878	227,433	183,263	137,365
Real estate, rental and leasing	751,328	497,979	403,253	448,606	391,602
Finance and insurance	-	32,358	33,336	14,404	11,292
Accommodations	1,125,339	2,328,515	2,531,696	2,235,140	2,085,261
Wholesale trade	1,353,762	31,338	28,565	141,938	104,968
Arts and entertainment	114,746	79,714	101,501	138,566	123,943
Other	1,261	38,550	39,740	40,224	39,877
Total	<u><u>\$ 22,274,217</u></u>	<u><u>\$ 16,460,100</u></u>	<u><u>\$ 15,833,385</u></u>	<u><u>\$ 15,003,182</u></u>	<u><u>\$ 13,965,924</u></u>

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retail trade	\$ 7,429,269	\$ 6,621,908	\$ 6,156,233	\$ 4,315,161	\$ 4,148,337
Construction	495,342	629,740	645,996	425,025	375,179
Restaurants and bars					714,826
Communications and utilities	1,337,123	1,398,248	1,223,324	849,829	750,932
Transportation and warehousing	24,339	20,936	20,486	13,812	
Services	329,512	254,234	233,584	169,473	187,661
Manufacturing	142,942	126,644	127,352	93,927	130,623
Real estate, rental and leasing	377,901	348,992	344,614	294,786	365,046
Finance and insurance	20,066	10,083	8,921	7,996	9,537
Accommodations	1,749,468	1,659,483	1,580,013	1,191,243	419,972
Wholesale trade	99,196	85,214	64,977	41,123	46,621
Arts and entertainment	84,858	94,436	85,120	58,919	56,827
Other	28,207	10,092	11,477	164,657	63,840
Total	<u><u>\$ 12,118,223</u></u>	<u><u>\$ 11,260,010</u></u>	<u><u>\$ 10,502,097</u></u>	<u><u>\$ 7,625,951</u></u>	<u><u>\$ 7,269,401</u></u>

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

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

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

Overlapping Rates			
Fiscal Year Ended June 30	Town of Payson	Gila County	State of Arizona
2025	3.88	1.00	5.60
2024	3.88	1.00	5.60
2023	2.88	1.00	5.60
2022	2.88	1.00	5.60
2021	2.88	1.00	5.60
2020	2.88	1.00	5.60
2019	2.88	1.00	5.60
2018	3.00	1.00	5.60
2017	2.12	1.00	5.60
2016	2.12	1.00	5.60

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

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

Fiscal Year	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
2025	251,401,631	0.2992	2,456,513,915	10.234%
2024	239,916,897	0.2992	2,304,150,209	10.412%
2023	241,860,385	0.3205	2,186,101,956	11.064%
2022	210,480,294	0.3328	1,980,614,856	10.627%
2021	249,994,035	0.3594	2,366,059,565	10.566%
2020	202,319,188	0.3442	1,895,144,144	10.676%
2019	192,004,890	0.3731	1,795,709,881	10.692%
2018	175,925,301	0.3807	1,621,275,698	10.851%
2017	197,624,914	0.3839	1,824,468,250	10.832%
2016	167,943,002	0.3877	1,501,899,998	11.182%

Source: Gila County Assessor's Office.

**TOWN OF PAYSON, ARIZONA
NET SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
JUNE 30, 2025**

Description	Total Taxable Assessed Value	Exempt Amount	Net Secondary Assessed Valuation	As a % of the Town's Total Net Secondary Assessed Valuation
Mining, Utilities, Telecommunications	8,756,283	(35.00)	8,756,248	3.47%
Commercial and Industry	27,415,912	(98,279)	27,317,633	10.82%
Vacant Land and Agriculture Real Property	27,152,077	(14,746,083)	12,405,994	4.92%
Agricultural and Personal Property				
Owner Occupied Residential Property	125,974,335	(858,684)	125,115,651	49.57%
Leased or Rented Residential Property	79,020,262	(234,091)	78,786,171	31.22%
Improvements on Government Property	5,677	-	5,677	0.00%

Source: Gila County Assessor's Office.

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

Fiscal Year	Direct Rates			Overlapping Rates					Rate Total
	Town of Payson Primary	Town of Payson Secondary	Total Direct Rate	N. Gila Co Sanitary District	Library District Secondary	Fire District Assistance Secondary	School Equalization Primary	Gila County Primary	
2025	0.2992	0.0000	0.2992	1.8000	0.2425	0.1000	0.0000	4.1900	6.6317
2024	0.2992	0.0000	0.2992	1.8000	0.2425	0.1000	0.0000	4.1900	6.6317
2023	0.3205	0.0000	0.3205	1.8000	0.2425	0.1000	0.0000	4.1900	6.6530
2022	0.3328	0.0000	0.3328	1.2500	0.2425	0.1000	0.4263	4.1900	6.5416
2021	0.3594	0.0000	0.3594	1.0000	0.2425	0.1000	0.4426	4.1900	6.3345
2020	0.3442	0.0000	0.3442	1.0000	0.2425	0.1000	0.4426	4.1900	6.3193
2019	0.3731	0.0000	0.3731	0.8500	0.2425	0.1000	0.4741	4.1900	6.2297
2018	0.3807	0.0000	0.3807	0.6000	0.2425	0.1000	0.4875	4.1900	6.0007
2017	0.3839	0.0000	0.3839	0.6000	0.2425	0.1000	0.5010	4.1900	6.0174
2016	0.3877	0.0000	0.3877	0.8759	0.2425	0.1000	0.5054	4.1900	6.3015

Source: GilaCountyaz.gov

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

Taxpayer	2025			2016		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Retail Trust III--Wal-Mart	\$ 1,303,627	1	18.89%	1,300,253	3	10.09%
Payson Village SPE LLC	1,184,783	2	17.17%			
Rim Country Mall SPE LLC	772,741	3	11.20%	621,152	9	4.82%
Sawmill Crossing LLC	600,577	4	8.70%	790,278	7	6.13%
Forest Hills, LLC	558,174	5	8.09%			
Rim Club ARCIS LLC (formerly Black Buffalo)	517,871	6	7.50%	891,897	4	6.92%
Pathfinder Holdings, LLC	501,315	7	7.26%			
CSL, LLC (Majestic Rim Retirement)	494,859	8	7.17%			
Payson Investment LLC	492,244	9	7.13%			
ACI Real Estate SPE 160 LLC (Safeway)	476,035	10	6.90%			
Arizona Public Service				5,006,230	1	38.86%
Payson Village Center I LLC				889,315	6	6.90%
Home Depot USA Inc				890,265	5	6.91%
Mogollon Health Alliance				1,855,927	2	14.41%
Centurylink / Qwest				636,538	8	4.94%
Total	<u>\$ 6,902,226</u>		<u>100.00%</u>	<u>\$ 12,881,855</u>		<u>100.00%</u>

Source: Gila County Assessor's Office

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
		Amount	Percentage of Levy		Amount	Percentage of Levy		
2025	\$ 717,831	\$ 717,789	99.99%	13,213	\$ 717,789	99.99%	\$ 5,087	0.01
2024	\$ 713,200	\$ 688,448	96.53%	4,498	\$ 688,448	96.53%	\$ 5,087	0.01
2023	706,668	697,717	98.73%	5,087	697,717	98.73%	\$ 9,757	0.01
2022	700,481	693,813	99.05%		693,813	99.05%	6,668	0.95
2021	696,383	680,103	97.66%	7,319	680,103	97.66%	16,280	2.34
2020	696,383	680,714	97.75%	4,596	685,310	98.41%	11,073	1.59
2019	680,904	675,009	99.13%	5,813	680,822	99.99%		
2018	669,748	660,762	98.66%	6,333	667,670	99.69%	2,078	1.34
2017	662,534	630,218	95.12%	6,908	634,188	95.72%	28,346	0.28
2016	643,281	632,844	98.38%	3,970	637,120	99.04%	6,161	0.96

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

Note: The Town of Payson's fiscal year does not correspond with the Gila County Assessor's Office tax collection period. This timing issue along with a lack of detailed payment information from the Assessor creates the appearance of over collection in some fiscal years and an inability to reflect which period collections in subsequent years pertains to.

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

Fiscal Year Ended June 30	Governmental Activities						Business-type Activities			Total Outstanding Debt		
	General Obligation and Other Bonds	Certificates of Participation	Excise Tax Revenue Bonds	Special Assessment Bonds	Financed Purchases	Total	Revenue Bonds	Notes Payable	Financed Purchases	Total Debt	Percentage of Personal Income	Per Capita
2025					\$ 1,368,666	\$ 1,368,666		\$ 27,492,626		\$ 28,861,292	3.85 %	\$ 1,714
2024					1,789,231	1,789,231		28,890,036		30,679,267	5.02	1,842
2023					2,330,811	2,330,811		30,253,260		32,584,071	5.57	1,973
2022					2,769,170	2,769,170		31,583,143		34,352,313	6.75	2,101
2021				\$ 80,000	3,277,463	3,357,463		32,880,510	\$ 140,945	36,378,918	7.81	2,315
2020				155,000	1,085,884	1,240,884		34,146,163	234,909	35,621,956	7.92	2,267
2019	\$ 3,083			225,000	1,271,171	1,499,254		33,056,918	328,873	34,885,045	8.46	2,248
2018	335,583			295,000	691,792	1,322,375		29,911,638	422,838	31,656,851	7.68	2,040
2017	663,083		\$ 125,000	360,000	851,050	1,999,133		17,888,658		19,887,791	5.56	1,305
2016	975,583		245,000	420,000	1,057,845	2,698,428		13,379,355		16,077,783	4.41	1,048

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

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

Fiscal Year	General Obligation Bonds	Total Assessed Valuation	Percentage of Actual Taxable Value of Property	Population	Per Capita
2025		2,456,513,915		16,852	
2024		2,304,150,209		16,843	
2023		2,186,101,956		16,653	
2022		1,980,614,856		16,516	
2021		2,366,059,565		16,351	
2020		1,895,144,144		15,813	
2019	3,038	1,795,709,881	0.00%	15,710	22
2018	335,583	1,621,275,698	0.02%	15,520	22
2017	335,583	1,824,468,250	0.05%	15,476	63
2016	975,583	1,601,676,229	0.06%	15,345	64

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

**TOWN OF PAYSON, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2023**

<u>Overlapping Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Proportion Applicable to the Town (a)</u>	
		<u>Approximate Percent</u>	<u>Net Debt Amount</u>
Gila County	69,900,000	0.40%	\$ 282,224 (19.36 sq miles / 4795 sq miles)
Gila Community College	-		
Payson Unified School District #10	13,843,959		\$ -
Total Overlapping General Obligation Bonded Debt			<u>\$ 282,224</u>
<u>Direct Debt</u>			
Town of Payson	1,368,666	100.00%	\$ 1,368,666
Net Direct and Overlapping General Obligation Bonded Debt			<u>\$ 1,650,890</u>

(a) Proportion applicable to the Town is computed on the ratio of secondary assessed valuation for the overlapping entity to the amount of such valuation, which is within the Town in 2023/24

Source: The various jurisdictions.

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

Total Legal Debt Margin Calculation for Fiscal Year 2023:

Net full cash assessed valuation	\$ 252,387,374
Debt limit (6%)	15,143,242
Debt applicable to limit	
Legal debt margin	<u>\$ 15,143,242</u>

Total Legal Debt Margin Calculation for Fiscal Year 2023:

Net full cash assessed valuation	\$ 252,387,374
Debt limit (20%)	50,477,475
Debt applicable to limit	
Legal debt margin	<u>\$ 50,477,475</u>

	Fiscal Year Ended June 30									
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total 20% debt limit	\$ 50,477,475	\$ 47,983,379	\$ 44,139,576	\$ 42,096,059	\$ 49,998,807	\$ 40,463,838	\$ 38,400,978	\$ 35,185,060	\$ 39,524,893	\$ 33,588,600
Total net debt applicable to 20% limit										
Legal 20% debt margin	<u>\$ 50,477,475</u>	<u>\$ 47,983,379</u>	<u>\$ 44,139,576</u>	<u>\$ 42,096,059</u>	<u>\$ 49,998,807</u>	<u>\$ 40,463,838</u>	<u>\$ 38,400,978</u>	<u>\$ 35,185,060</u>	<u>\$ 39,524,893</u>	<u>\$ 33,588,600</u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total 6% debt limit	\$ 15,143,242	\$ 14,395,014	\$ 13,241,873	\$ 12,628,818	\$ 14,999,642	\$ 12,139,151	\$ 11,520,293	\$ 10,555,318	\$ 11,857,495	\$ 10,076,580
Total net debt applicable to 6% limit							3,083	335,583	663,083	975,583
Legal 6% debt margin	<u>\$ 15,143,242</u>	<u>\$ 14,395,014</u>	<u>\$ 13,241,873</u>	<u>\$ 12,628,818</u>	<u>\$ 14,999,642</u>	<u>\$ 12,139,151</u>	<u>\$ 11,517,210</u>	<u>\$ 10,219,735</u>	<u>\$ 11,194,412</u>	<u>\$ 9,100,997</u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0%	0%	0%	0%	0%	3%	5%	9%	13%	15%

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

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

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

Fiscal Year	Water Revenue Bonds and Notes Payable						Special Assessment Bonds			
	Utility Service	Less: Operating	Net Available	Interest +			Special Assessment			
	Charges (1)	Expenses (2)	Revenue	Principal	Fees	Coverage	Collections	Principal	Interest	Coverage
2025	\$ 9,566,700	\$ 5,197,045	\$ 4,369,655	\$ 1,742,926	\$ 327,990	2.11	\$ -	\$ -	\$ -	
2024	9,103,285	5,134,528	3,968,756	1,363,224	345,516	2.32	-	-	-	
2023	8,428,966	4,637,543	3,791,423	1,000,615	362,609	2.78	-	-	-	
2022	8,461,660	4,177,760	4,283,900	1,297,366	379,280	2.56	56,869	80,000	2,200	0.69
2021	8,421,560	4,147,604	4,273,956	1,265,654	395,538	2.57	56,483	75,000	6,463	0.69
2020	8,350,848	3,961,115	4,389,733	1,234,725	391,885	2.70	55,780	70,000	10,450	0.69
2019	8,722,717	3,483,262	5,239,455	1,204,559	387,063	3.29	58,449	70,000	14,301	0.69
2018	7,525,359	3,641,489	3,883,870	1,175,142	327,596	2.58	57,558	65,000	18,013	0.69
2017	6,219,047	2,672,195	3,546,852	680,396	204,758	4.01	56,472	60,000	21,450	0.69
2016	5,462,166	3,597,231	1,864,935	421,705	272,287	2.69	58,762	60,000	24,750	0.69

Source: Town of Payson.

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

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

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

Calendar Year	Population		Median Household Income		Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2025	16,852	\$	64,462	\$	41,336	58.9	2,283	4.0%
2024	16,843		62,615		44,479	59.0	2,318	7.0%
2023	16,653		60,095		36,705	59.8	2,339	4.9%
2022	16,516		58,109		35,446	59.1	2,220	4.2%
2021	16,351		51,280		31,109	60.0	2,368	6.7%
2020	15,713		50,049		29,636	58.4	2,253	6.3%
2019	15,710		46,602		28,627	58.4	2,456	5.7%
2018	15,520		45,593		26,562	57.1	2,413	8.1%
2017	15,476		42,856		23,461	56.9	2,445	8.2%
2016	15,345		42,987		23,784	55.5	2,420	3.9%

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

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

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

2025			2016	
Employer	Employees	Percentage of Total Employment	Employees	Percentage of Total Employment
Payson Unified School District	327	13.74	299	12.97 %
Walmart	280	11.76	300	13.02
Banner Payson / PRMC	300	12.61	245	10.63
Mazatzal Casino & Hotel	300	12.61	300	13.02
Gila County	225	9.45	170	7.38
Town of Payson	234	9.83	168	7.29
United States Postal Service	158	6.64	-	-
Safeway Supermarket	129	5.42	124	5.38
Payson Care Center/Life Care Center	125	5.25	156	6.77
Home Depot	121	5.08	117	5.08
Rim Country Health	110	4.62	156	6.77
US Forest Service	106	4.45	80	3.47
Basha's Supermarket			71	3.08
The Golf Club at Chaparral Pines			59	2.56
The Rim Golf Club			60	2.60
Total	2,415	101.46	2,305	100.00 %
Total Employment	2,415		2,305	

* Data not available

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

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

	Full Time Equivalent Employees as of June 30									
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Function/Program</u>										
General Government										
Town Manager	2	3	3	3	4	4	4	3	4	4
Information Technology	3	3	3	4						
Town Clerks	4	2	2	2	2	2	3	2	3	3
Central Services	2	1	1	1	1	1	1	1	1	1.0
Finance	5	6	2	5	5.0	5.0	7.0	4.5	6	7
Community Development	18	15	15	12	9.5	8	9	10	12	12
Legal					2.5	2.0	5.0	4.5	4.5	4.5
Human Resources	3	3	3	3	2.5	2	3	2	3	3
Police Department	52	46	46	54	51.0	51.0	52.0	39.5	58	57
Fire Department	39	37	37	36	35.0	35.0	35.0	32.5	32	32
Airport	2	2	2	2	2	2	2	3	2	2.0
Public Works	23	17	17	17	17	17	19	17	19	24
Library	9	7	7	7	7.0	7.0	7.0	5.5	8	8
Parks and Recreation	51	14	14	16	16	16	15	8	12	6.0
Water	23	21	21	21	21	21	20	20	19	19
 Total	 234	 176.0	 172.0	 180.5	 175.5	 173.0	 182.0	 152.5	 183.0	 182.0

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

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

Fiscal Year Ending June 30

Function/Program	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Building Permits										
Permits Issued	547	485	149	1029	784	102	95	114	95	77
Value of Buildings in \$	30,481,744	43,198,099	30,632,502	49,567,058	36,805,563	30,413,934	33,613,815	34,099,208	25,465,398	23,089,085
Police										
Average Response Time (Priority 1 Calls Only)	3:41	3:41	3:47	5:22	5:45	5:38	5:10	5:10	4:37	4:51
Number of Officers	25	27	27	26	32	31	28	28	27	27
Total Calls	12,257	13,703	24,398	17,933	35,075	29,080	19,976	14,537	19,917	21,224
Calls per Sworn Officer	490	508	904	690	1,096	938	713	519	738	786
Officers per 1000 of Population	1.316	1.688	2	1	1.938	1.896	1.782	1.804	1.740	1.745
Total of Index Crimes	303	392	527	453	502	566	573	639	813	555
Index Crimes per Capita	0.016	0.023	0.031	0	0.030	0.035	0.037	0.041	0.053	0.036
Number of Drug Arrests	24	104	275	187	347	468	292	289	214	236
Drug Arrests per Capita	0.001	0.006	0.016	0.011	0.021	0.029	0.019	0.019	0.014	0.015
Fire										
Average Response Time	6:05	5:06	5:06	1:26	4:55	4:48	5:02	5:48	5:19	5:42
Total Calls	2,557	2,236	2,236	2,236	3,733	4,025	3,892	3,158	3,566	3,290
Calls per Capita	0.1320	0.1315	0.134	0.134	0.223	0.244	0.238	0.227	0.227	0.213
Fire Personnel per 1000 of Pop.	2.265	1.434	1.434	1.43	2.040	2.240	2.141	2.213	0.790	2.062
Fire Safety Inspections	368	396	236	396	481	481	347	304	297	324
Water										
Number of Water Taps	9,123	9,081	7,728	9,027	8,946	8,892	8,532	8,457	8,365	8,186
Average daily consumption (thousands of gallons)	1,650.0	1,679.8	1,502.3	43,746.4	1,627.5	1,824.5	1,754.2	1,541.6	1,661.2	1,552.0
Peak daily consumption (thousands of gallons)	4,125.1	4,199.5	2,055.1	75,273.2	4,068.7	4,561.2	4,385.5	3,854.2	4,153.2	3,881.0
Elections										
Number of Registered Voters	12,648	12,394	12,394	11,347	11,995	10,838	10,091	9,315	10,062	9,433
Number Voting in Last Election	11,003	9,177	9,209	10,146	10,146	6,343	7,799	4,677	4,672	4,361
% of Participation of Voters	86.99%	74.04%	74.30%	89.42%	84.59%	58.53%	77.29%	50.21%	46.43%	46.23%
Based on a population of:	16,852	16,742	16,852	16,516	16,351	15,813	15,710	15,520	15,476	15,345
Source: Town of Payson.										

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Area - Square Miles	20.46	20.46	20.46	20.46	20.46	20.46	20.46	20.46	20.46	20.46
Police										
Number of Employees (sworn)	29	25	26	32	31	28	28	27	27	27
Patrol Vehicles	35	26	29	29	26	25	25	18	27	20
Fire										
Number of Firefighters	30	34	34	37	35	35	36	31	31	31
Number of Fire Stations	3	3	3	3	3	3	3	3	3	3
Number of Municipal Employees (excludes sworn Police & Firefighters)	148.0	123.0	123.0	111.5	112.0	112.0	113.0	95	125	124
Public Works										
Streets (<i>miles</i>)	112	112	112	112	112	112	112	112	111	111
Number of Water Taps	9,123	9,081	7,728	8,946	8,892	8,532	8,457	8,365	8,186	8,158
Parks and recreation										
Acreage	209	169	169	169	169	169	169	169	169	169
Playgrounds	4	3	3	3	3	3	3	3	3	3
Swimming Pools	0	0	0	0	1	1	1	1	1	1

Source: Town of Payson.

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OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Town Council
Payson, Arizona

We have audited, 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, the 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 as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Payson, Arizona's basic financial statements, and have issued our report thereon dated February 28, 2026.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Payson, Arizona's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Payson, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town Payson, Arizona's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in a separate schedule of findings and recommendations that we consider to be a significant deficiency. Refer to 2025-001 Records Retention and Access, 2025-002 Capital Asset Records, and 2024-001 Year-End Accounting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Payson, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Squire & Company, PC
Mesa, Arizona
February 28, 2026



Independent Auditors' Report on State Legal Compliance

The Honorable Mayor and
Town Council
Payson, Arizona

We have audited the basic financial statements of the Town of Payson, Arizona for the year ended June 30, 2025, and have issued our report thereon dated February 28, 2026. Our audit also included test work on the Town of Payson's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Payson is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The Town of Payson has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the Town of Payson pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The Town of Payson complied, in all material respects, with the requirements identified above for the year ended June 30, 2025.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

Squire & Company, PC

Squire & Company, PC
Mesa, Arizona
February 28, 2026

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SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS

DEFINITIONS OF CERTAIN TERMS

In addition to the terms defined elsewhere herein, the following terms shall, for all purposes of the Trust Agreement and the Purchase Agreement have the following meanings:

“Additional Projects Fund” means the fund of that name established pursuant to the Trust Agreement.

“Annual Debt Service” means the amount to be paid in any fiscal year of the Town with respect to the Parity Obligations for payment of principal and interest requirements.

“Costs of Issuance Fund” means the fund of that name established pursuant to the Trust Agreement.

“Defeasance Obligations” means, to the extent permitted by law (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), or (3) evidences of ownership of proportionate interests in future interest and payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, or any combination thereof.

“Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the Town or the Trustee relating to the sale and execution and delivery of the Purchase Agreement, this Trust Agreement and the Obligations, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee, financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Obligations and charges and fees in connection with the foregoing.

“Depository Trustee” means any bank or trust company, which may include the Trustee or its affiliates, designated by the Town, with a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or State authority.

“Event of Default” means an event of default under the Purchase Agreement as described under the subheading “THE PURCHASE AGREEMENT – Remedies Upon Default.”

“Insolvency Proceeding” means any proceeding by or against the Town under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law.

“Maximum Annual Debt Service” means the greatest Annual Debt Service in any fiscal year of the Town.

“Outstanding” refers to Obligations issued in accordance with this Trust Agreement, excluding: (i) Obligations which have been exchanged or replaced, or delivered to the Trustee for credit against a mandatory redemption installment; (ii) Obligations which have been paid; (iii) Obligations which have become due and for the payment of which moneys have been duly provided to the Trustee; and (iv) Obligations for which there have been irrevocably set aside with a Depository Trustee sufficient moneys or obligations permitted by the Purchase Agreement bearing interest at such rates and with such maturities as will provide sufficient funds to pay the principal of and premium, if any, and interest on such Obligations, provided, however, that if any such Obligations are to be redeemed prior to maturity, the Town shall have taken all action necessary to redeem such Obligations and notice of

such redemption shall have been duly mailed in accordance with the proceedings under which such Obligations were issued or irrevocable instructions so to mail shall have been given to the Trustee.

“Owner” or any similar term, when used with respect to an Obligation means the person in whose name such Obligation shall be registered.

“Parity Obligations” means the Purchase Agreement and any Additional Revenue Obligations.

“Payment Fund” means the fund of that name established pursuant to the Trust Agreement.

“Permitted Investments” means securities and other investments described in the Trust Agreement.

“Town Representative” means the Mayor, the Town Manager, the Deputy Town Manager of the Town or any other person authorized by the Town Manager or the Mayor and Council to act on behalf of the Town with respect to this Trust Agreement.

THE TRUST AGREEMENT

The following, in addition to the information under the headings “INTRODUCTORY STATEMENT” and “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS,” is a summary of certain provisions of the Trust Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

Costs of Issuance Fund. The Trustee will pay the Delivery Costs from the Costs of Issuance Fund. On the earlier of _____, 2027, or when all Delivery Costs have been paid, the Trustee will transfer any amounts remaining in the Costs of Issuance Fund to the Payment Fund.

Additional Projects Fund. The Trustee will pay amounts for the Additional Projects from the Additional Projects Fund as directed by the Town. The Trustee will transfer any amounts remaining in the Additional Projects Fund on the final Interest Payment Date to the Payment Fund; provided, however, that if at such time the amount in the Additional Projects Fund exceeds the payment to be made to the Owners on the final Interest Payment Date, such excess shall be paid over to the Town on the final Interest Payment Date.

Payment Fund. The Payment Fund will also be established by the Trustee. The moneys in the Payment Fund will be applied by the Trustee solely to pay principal of and premium, if any, and interest with respect to on the Obligations.

Separate Funds. Moneys and investments properly paid into and held in the funds established under the Trust Agreement will not be subject to the claims of the owners of the Additional Revenue Obligations, and the Owners of the Obligations shall have no claim or lien upon any moneys or investments properly paid into and held in the funds and accounts established under the proceedings for the Additional Revenue Obligations.

Protection of Lien. The Trustee and the Town will agree not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien of the Trust Agreement and that no obligations the payment of which is secured by a superior or equal claim on or interest in property or revenues pledged will be issued or delivered by either except in lieu of, or upon transfer of registration or exchange of, any Obligation.

Investments Authorized; Allocation of Earnings. Upon written order of the Town, moneys held by the Trustee will be invested and re-invested in Permitted Investments having the highest yield reasonably obtainable. The Trustee may purchase from, or sell to, itself or any affiliate, as principal or agent, investments and may invest in funds to which the Trustee or any of its affiliates provide services as an investment advisor. The Trustee may act as purchaser or agent in the making or disposing of any investment.

Any income, profit or loss on such investments will be deposited in or charged to the respective funds from which such investments were made, and any interest on any deposit of funds will be deposited in the fund from which

such deposit was made, except as otherwise provided. At the direction of the Town, any such income, profit or interest will be disbursed in accordance with the written instruction of the Town if necessary to pay any rebate due with respect to the Obligations pursuant to the Internal Revenue Code.

Appointment of the Trustee. The Town will maintain as the Trustee a bank or trust company with a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or State authority so long as any of the Obligations are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority, then the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Liability of the Trustee; Standard of Care. Except with respect to its authority and power generally and authorization to execute the Trust Agreement, the recitals of facts, covenants and agreements in the Trust Agreement and the Obligations will be taken as statements, covenants and agreements of the Town, and the Trustee will assume no responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Trust Agreement or the Obligations or will incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Obligations assigned to or imposed upon it. Prior to the occurrence of an Event of Default, or after the timely cure of an Event of Default, the Trustee will perform only such duties as are specifically set forth in this Trust Agreement. After the occurrence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it, and use the same degree of care and skill in such exercise, as a prudent indenture trustee would exercise under the circumstances in the conduct of the its own.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible as described hereinabove, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Protection and Rights of the Trustee. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such document, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be bound to recognize any person as an Owner of any Obligation or to take any action at the request thereof unless such Obligation will be deposited with the Trustee and satisfactory evidence of the ownership of such Obligation will be furnished to the Trustee. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it in good faith.

Whenever in the administration of its duties under the Trust Agreement, the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be specifically prescribed) will be deemed to be conclusively proved and established by the certificate of the appropriate representative of the Town and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may become the Owner of the Obligations with the same rights it would have if it were not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the Town with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Obligations, whether or not such committee shall represent the Owners of the majority in principal amount of the Obligations then Outstanding.

The Trustee will not be answerable for the exercise of any discretion or power under the Trust Agreement or for anything whatever in connection with the funds established thereunder, except only for its own willful misconduct or negligence.

No provision in the Trust Agreement will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

The Trustee will not be required to take notice or be deemed to have notice of an Event of Default, except for nonpayment of amounts due under the Trust Agreement or the Purchase Agreement, unless the Trustee has actual notice thereof or is specifically notified in writing of such default by the Town or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding.

The Town will from time to time, as agreed upon between the Town and the Trustee, pay to the Trustee reasonable compensation for its services, including an hourly rate based fee after an Event of Default and will reimburse the Trustee for all its advances and expenditures, including but not limited to advances to, and reasonable fees and expenses of, independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties.

Removal of the Trustee. The Trustee may be removed by the Town (if not in default) or by the Owners of a majority in aggregate principal amount of the Obligations.

The Trustee may also resign effective upon the appointment of a successor Trustee by the Town.

Amendments Permitted. The Trust Agreement and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement which will become effective upon the written consent of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, exclusive of certain disqualified Obligations. No such modification or amendment will (1) extend or have the effect of extending the fixed maturity of any Obligation or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon redemption thereof, without the express consent of the Owner of such Obligation, or (2) reduce or have the effect of reducing the percentage of Obligations required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement or the Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement, without the consent of any Owners, but only (1) to provide for additions or modifications to the Project, (2) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved in the Trustee (for its own behalf) or the Town, (3) to secure additional revenues or provide additional security or reserves for payment of the Obligations, (4) to comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder, (5) to provide for the appointment of a successor trustee pursuant to the terms hereof, (6) to preserve the exclusion of the interest on the Obligations from gross income for purposes of federal or State income taxes and to preserve the power of the Town to continue to issue bonds or other obligations the interest on which is likewise exempt from federal and State income taxes, (7) to cure, correct or supplement any ambiguous or defective provision in the Trust Agreement and Purchase Agreement, (8) to facilitate the incurrence of the Additional Revenue Obligations, (9) with respect to rating matter, or (10) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Obligations. Any such supplemental or amending agreement will become effective upon execution and delivery by the parties thereto.

Procedure for Amendment With Written Consent of Obligation Owners. A copy of the proposed supplemental or amending agreement, together with a consent request, must be mailed to each Owner of an Obligation, but failure to mail copies of such supplemental or amending agreement and request does not affect the validity of the supplemental or amending agreement when assented to by a majority in principal amount of the Obligations then Outstanding (exclusive of Obligations then disqualified). The supplemental or amending agreement will not become effective until the required Owners have consented and the Trustee has mailed notice to the Owners of the Obligations stating in substance that such supplemental or amending agreement has been consented to by the Owners of the required percentage of Obligations and will become effective (but failure to mail copies of said notice shall not affect the validity of such supplemental or amending agreement or consents thereto).

Disqualified Obligations. Obligations owned or held by or for the account of the Town or by any person directly or indirectly controlled by, or under direct or indirect common control with the Town (except any Obligations held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Obligations provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided therein.

No Liability of the Town for the Trustee Performance. The Town will have no obligation or liability to any of the other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Remedies Upon Default; No Acceleration. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, or upon request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding and receiving indemnity satisfactory to it shall, exercise one or more of the remedies granted pursuant to the Purchase Agreement; provided, however, that notwithstanding anything in the Trust Agreement or in the Purchase Agreement to the contrary, there will be no right under any circumstances to accelerate the maturities of the Obligations or otherwise to declare any of the Payments not then past due or in default to be immediately due and payable.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken pursuant to the provisions of the Trust Agreement or the Purchase Agreement shall be applied by the Trustee in the order following, in the case of the Obligations, upon presentation of the several Obligations, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee and then of the Obligation Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel and any outstanding fees and expenses of the Trustee, and

Second, to the payment of the whole amount then owing and unpaid with respect to the Obligations and, in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Obligations, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Obligations by a suit in equity or action at law for the specific performance of any covenant or agreement contained in the Trust Agreement.

Power of the Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Obligations, with respect to the continuance, or disposal of such action; provided, however, that the Trustee will not discontinue, or otherwise dispose of any litigation, without the consent of a majority in aggregate principal amount of the Obligations Outstanding.

Limitation on Obligation Owners' Right to Sue. No Owner of any Obligation will have the right to institute any action, for any remedy, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Obligations then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity; and (d) the Trustee shall have not complied with such request for a period of sixty (60) days.

No one or more Owners of Obligations will have any right in any manner whatever by their action to enforce any right under the Trust Agreement, except in the manner therein provided, and all proceedings with respect to an Event of Default will be pursued in the manner therein provided and for the equal benefit of all Owners of the Outstanding Obligations.

The right of any Owner of any Obligation to receive payment of said Owner's proportionate interest in the Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner.

Defeasance. If and when all Outstanding Obligations shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest and redemption premium, if any, with respect to all Obligations Outstanding, as and when the same become due and payable;

(b) by depositing with a Depository Trustee, in trust for such purpose, at or before maturity, money which, together with the amounts then on deposit in the Payment Fund is fully sufficient to pay or cause to be paid all Obligations Outstanding, including all principal, interest and redemption premium; or

(c) by depositing with a Depository Trustee, in trust for such purpose, any Defeasance Obligations which are non-callable in such amount as shall be certified to the Trustee and the Town by a national firm of certified public accountants acceptable to the Trustee and the Town, as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit in the Payment Fund together with the interest to accrue thereon, to pay and discharge or cause to be paid and discharged all Obligations (including all principal, premium and interest) at their respective maturity dates or prior redemption;

notwithstanding that any Obligations shall not have been surrendered for payment, all obligations of the Trustee and the Town with respect to all Outstanding Obligations will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from funds deposited pursuant to paragraphs (b) or (c) above and paid to the Trustee by the Depository Trustee, to the Owners of the Obligations not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) or (c), the Obligations will continue to represent direct and proportionate interests of the Owners thereof in such funds.

If any Obligation or portion thereof will not mature within sixty (60) days of the deposit referred to in paragraphs (b) or (c) above, the Trustee shall give notice of such deposit by first class mail to the Owners.

No Payment or Obligation may be so provided for based on redemption prior to maturity unless the Trustee has mailed irrevocable notice of redemption for such Obligations or the Town has given the Trustee irrevocable instructions to redeem such Obligations.

Bond Insurer's Control Rights. Any supplement or amendment permitted by the Trust Agreement or the Purchase Agreement that materially adversely affects the rights and interests of the Bond Insurer or requires the consent of the Owners of the Obligations shall be subject to the prior written consent of the Bond Insurer. The Bond Insurer shall be deemed to be the Owner of all of the Obligations for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners insured by it are entitled to take pursuant to the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Trust Agreement and each Obligation, the Trustee and each Owner appoint the Bond Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any Insolvency Proceeding direct all matters relating to such Insolvency Proceeding, including, without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding, (B) the direction of any appeal of any order relating to such claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Owner delegate and assign to the Bond Insurer, to the fullest extent permitted by law, the rights of the Trustee and each Owner in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. The Bond Insurer is recognized as and will be deemed to be a third party beneficiary to the Trust Agreement and the Purchase Agreement.

THE PURCHASE AGREEMENT

The following, in addition to the information under the headings “INTRODUCTORY STATEMENT” and “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS,” is a summary of certain provisions of the Purchase Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

Payments. The obligation of the Town to make the Payments will be limited to amounts from Excise Tax Revenues and State Shared Revenues. The Town will receive a credit against amounts due with respect to the Payments equal to any amounts held and available in the Payment Fund.

The obligation of the Town to make the Payments from the sources described and to perform and observe the other agreements contained in the Purchase Agreement will be absolute and unconditional and will not be subject to any defense or any right of set-off, abatement, counterclaim, or recoupment arising out of any breach of the Trustee of any obligation to the Town or otherwise, or out of indebtedness or liability at any time owing to the Town by the Trustee. Until such time as all of the Payments shall have been fully paid or provided for, the Town (i) will not suspend or discontinue the Payments, (ii) will perform and observe all other agreements contained in the Purchase Agreement, and (iii) will not terminate the Purchase Agreement for any cause.

Providing for Payment. The Town may provide for the payment of any of the Payments in any one or more of the following ways:

(a) by paying such Payment as and when the same becomes due and payable at its scheduled due date or on a date on which it can be prepaid;

(b) by depositing the with a Depository Trustee, in trust for such purposes, money which, together with the amounts then on deposit with the Trustee and available for such Payment is fully sufficient to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid; or

(c) by depositing with a Depository Trustee, in trust for such purpose, any Defeasance Obligations which are non-callable, in such amount as shall be certified by a national firm of certified public accountants acceptable to the Town as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit with the Trustee and available for such Payment, to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid.

Upon any partial payment of a Payment resulting in a partial payment of redemption of Obligations, each installment of interest which shall thereafter be payable as a part of the subsequent Payments shall be reduced, taking into account the interest rate or rates on the Obligations remaining outstanding after the partial payment or redemption of Obligations from the proceeds of such payment so that the interest remaining payable as a part of the subsequent Payments shall be sufficient to pay the interest on such outstanding Obligations when due.

Default; Remedies Upon Default.

(a) (i) Upon (A) the nonpayment of the whole or any part of any of the amounts due pursuant to the Purchase Agreement (including the Payments) at the time when the same are to be paid as provided in the Purchase Agreement or the Trust Agreement, (B) the violation by the Town of any other covenant or provision of the Purchase Agreement or the Trust Agreement, (C) the occurrence of an event of default with respect to any Additional Revenue Obligations, or (D) the insolvency or bankruptcy of the Town as the same may be defined under any law of the United States of America or the State of Arizona, or any voluntary or involuntary action of the Town or others to take advantage of, or to impose, as the case may be, any law for the relief of debtors or creditors, including a petition for reorganization, and

(ii) if such default has not been cured (A) in the case of nonpayment of such amounts as required under the Purchase Agreement or the Trust Agreement on the due date, or the nonpayment of the payments on their due dates with respect to any Additional Revenue Obligations, (B) in the case of the breach of any other covenant or provision of the Trust Agreement or the Purchase Agreement not cured within sixty (60) days after notice in writing from the Trustee specifying such default; and (C) in the case of any default under any Additional Revenue Obligations, after any notice and passage of time provided for under the proceedings under which such obligations were issued then,

(iii) subject to the limitations of the Trust Agreement, the Trustee may take whatever action at law or in equity, including the remedy of specific performance, may appear necessary or desirable to collect such amounts payable by the Town under the Trust Agreement or the Purchase Agreement then due (but not the Payments and such other amounts accruing), or to enforce performance and observance of any pledge, obligation, agreement, or covenant of the Town under the Trust Agreement or the Purchase Agreement and with respect to Excise Tax Revenues and State Shared Revenues, without notice and without giving any bond or surety to the Town or anyone claiming under the Town, have a receiver appointed of the amounts of Excise Tax Revenues and State Shared Revenues which are pledged to the payment of amounts due thereunder, with such powers as the court making such appointment shall confer (and the Town will irrevocably consent to such appointment); provided, however, that under no circumstances may the Payments be accelerated.

The obligations of the Town under the Purchase Agreement, including, without limitation, its obligation to pay the Payments, will survive any action brought, and the Town will continue to pay the Payments and perform all other obligations provided in the Purchase Agreement; provided, however, that the Town will be credited with any amount received by the Trustee.

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APPENDIX E

PROPOSED FORM OF APPROVING LEGAL OPINION

[Closing Date]

U.S. Bank Trust Company, National Association
Phoenix, Arizona

Re: Pledged Revenue Obligations, Taxable Series 2026 Evidencing Proportionate Interests of the Owners Thereof in Purchase Payments to be Made by the Town of Payson, Arizona to U.S. Bank Trust Company, National Association, as Trustee, Dated the Date Hereof

We have examined the transcript of proceedings (the “Transcript”) relating to the execution and delivery by U.S. Bank Trust Company, National Association (the “Trustee”), of the Pledged Revenue Obligations, Taxable Series 2026 (the “Obligations”), pursuant to a First Trust Agreement, dated as of October 1, 2026* (the “Trust Agreement”), between the Trustee and the Town of Payson, Arizona (the “Town”). Each of the Obligations is an undivided, participating, proportionate interest in certain payments to be made by the Town pursuant to a First Purchase Agreement, dated as of October 1, 2026* (the “Purchase Agreement”), between the Trustee and the Town to finance certain projects for the Town. In addition, we have examined such other proceedings, proofs, instruments, certificates and other documents as well as such other materials and such matters of law as we have deemed necessary or appropriate for the purposes of the opinions rendered herein below.

In such an examination, we have examined originals (or copies certified or otherwise identified to our satisfaction) of the foregoing and have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as copies and the accuracy of the statements contained in such documents. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid documents contained in the Transcript. We have also relied upon the opinions of the Town Attorney delivered even date herewith as to the matters provided therein.

Based upon such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Obligations, the Trust Agreement and the Purchase Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof and the rights thereunder are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally; except to the extent that the enforceability thereof and the rights thereunder may be limited by the application of general principles of equity and, as to the Trust Agreement, except to the extent that the enforceability of the indemnification provisions thereof may be affected by applicable securities laws.

2. The obligations of the Town pursuant to the Purchase Agreement with respect to payment of principal and interest with respect to the Obligations are solely from the revenues and other moneys pledged and assigned pursuant to the Trust Agreement to secure such payments. Those revenues and other moneys include payments required to be made by the Town pursuant to the Purchase Agreement, and the obligation of the Town to make those payments is secured by a limited pledge of “Excise Tax Revenues” and “State Shared Revenues” as

* *Subject to change.*

described in, and provided by, the Purchase Agreement. Such payments are not secured by an obligation or pledge of any moneys raised by taxation other than the specified taxes; the Obligations do not represent or constitute a debt or pledge of the general credit of the Town and the Purchase Agreement, including the obligation of the Town to make the payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the Town.

3. We express no opinion regarding the excludability of the portion of each payment made by the Town pursuant to the Purchase Agreement, denominated as and comprising interest with respect to the Obligations and received by the beneficial owners of the Obligations, from gross income for federal or State of Arizona income tax purposes.

Our opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$21,210,000*
TOWN OF PAYSON, ARIZONA
PLEDGED REVENUE OBLIGATIONS, TAXABLE SERIES 2026

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this “Undertaking”) is executed and delivered by the Town of Payson, Arizona (the “Town”), in connection with the execution and delivery of \$21,210,000* aggregate principal amount of Pledged Revenue Obligations, Taxable Series 2026 (the “Obligations”). The Obligations are being executed and delivered pursuant to a First Trust Agreement, dated as of October 1, 2026* (the “Trust Agreement”), by and between the Town and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”). The Town covenants and agrees as follows:

1. Definitions. In addition to those defined hereinabove, the terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires:

“*Annual Financial Information*” means the financial information and operating data set forth in Exhibit I.

“*Annual Financial Information Disclosure*” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

“*Audited Financial Statements*” means the audited financial statements of the Town prepared pursuant to the standards and as described in Exhibit I.

“*Commission*” means the Securities and Exchange Commission.

“*Dissemination Agent*” means any agent designated as such in writing by the Town and which has filed with the Town a written acceptance of such designation, and such agent’s successors and assigns.

“*EMMA*” means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Final Official Statement*” means the Final Official Statement relating to the Obligations, dated _____, 2026.

“*Financial Obligation*” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

* *Subject to change.*

“GAAP” means generally accepted accounting principles, as applied to governmental units as modified by the laws of the State.

“Listed Event” means the occurrence of events set forth in Exhibit II.

“Listed Events Disclosure” means dissemination of disclosure concerning a Listed Event as set forth in Section 5.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriter” means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Obligations.

“Purchase Agreement” means the First Purchase Agreement, dated as of October 1, 2026*, by and between the Town and the Trustee.

“Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act.

“State” means the State of Arizona.

2. Purpose of this Undertaking. This Undertaking is executed and delivered by the Town as of the date set forth below, for the benefit of the beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the requirements of the Rule. The Town represents that it will be the only obligated person with respect to the Obligations at the time the Obligations are delivered to the Participating Underwriter and that no other person is expected to become so committed at any time after such delivery of the Obligations.

3. CUSIP Number. The CUSIP Numbers of the Obligations are as follows:

CUSIP No. (Base)	Maturity Date (July 15)
_____	_____

4. Annual Financial Information Disclosure. Subject to Section 8 of this Undertaking, the Town shall disseminate its Annual Financial Information and its Audited Financial Statements, if any (in the form and by the dates set forth in Exhibit I), through EMMA.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Town will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

* *Subject to change.*

If any amendment is made to this Undertaking, the Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Listed Events Disclosure. Subject to Section 8 of this Undertaking, the Town shall disseminate in a timely manner, but in not more than ten (10) business days after the occurrence of the event, its Listed Events Disclosure through EMMA. Whether events subject to the standard “material” would be material shall be determined under applicable federal securities laws.

6. Consequences of Failure of the Town to Provide Information. The Town shall give notice in a timely manner through EMMA of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Town to comply with any provision of this Undertaking, the beneficial owner of any Obligation may seek mandamus or specific performance by court order, to cause the Town to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the Purchase Agreement or the Trust Agreement, and the sole remedy available to such owners of the Obligations under this Undertaking in the event of any failure of the Town to comply with this Undertaking shall be an action to compel performance.

7. Amendments; Waiver. Notwithstanding any other provision of this Undertaking, the Town by certified resolution or ordinance authorizing such amendment or waiver, may amend this Undertaking, and any provision of this Undertaking may be waived only if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Town, or type of business conducted;

(b) This Undertaking, as amended or affected by such waiver, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Obligations, as determined by parties unaffiliated with the Town (such as the Trustee) or by approving vote of the owners of the Obligations pursuant to the Trust Agreement at the time of the amendment.

The Annual Financial Information containing amended operating data or financial information resulting from such amendment or waiver, if any, shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided. If an amendment or waiver is made specifying GAAP to be followed in preparing financial statements and such changes are material, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles in the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Town to meet its obligations. To the extent reasonably feasible, such comparison also shall be quantitative. If the accounting principles of the Town change or the fiscal year of the Town changes, the Town shall file a notice of such change in the same manner as for a notice of Listed Event.

8. Termination of Undertaking. This Undertaking shall be terminated hereunder if the Town shall no longer have liability for any obligation on or relating to repayment of the Obligations under the Trust Agreement.

9. Dissemination Agent. The Town may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

10. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Town from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Town chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Town shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information Disclosure or Listed Events Disclosure.

11. Beneficiaries. This Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the Town, the Dissemination Agent, if any, and the beneficial owners of the Obligations, and shall create no rights in any other person or entity.

12. Recordkeeping. The Town shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

13. Assignment. The Town shall not transfer obligations under the Purchase Agreement unless the transferee agrees to assume all obligations of the Town under this Undertaking or to execute an undertaking meeting the requirements of the Rule.

14. Governing Law. This Undertaking shall be governed by the laws of the State.

[Signature page follows.]

Dated: [Closing Date]

TOWN OF PAYSON, ARIZONA

By.....
Mayor

ATTEST:

.....
Town Clerk

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“Annual Financial Information” means financial information and operating data of the type contained in the Final Official Statement in TABLE 5 (actual results for most recently completed fiscal year only).

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted through EMMA or filed with the Commission. If the information included by reference is contained in a final official statement, the final official statement must be available from the MSRB. The Town shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by February 1 of each year, commencing February 1, 2027. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements within 30 days after availability to the Town.

Audited Financial Statements will be prepared according to GAAP.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the Town will disseminate a notice of such change as required by Section 4, including changes in fiscal year or GAAP.

EXHIBIT II

EVENTS FOR WHICH LISTED EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations, in each case, with respect to the tax status of the security, or other material events affecting the tax status of the security.
7. Modifications to the rights of security holders, if material.
8. Bond calls, if material, or tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the securities, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar events of the Town, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town.
13. The consummation of a merger, consolidation or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
15. Incurrence of a Financial Obligation of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Town, any of which affect security holders, if material.
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Town, any of which reflect financial difficulties.

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BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Obligation will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Securities Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”) and together with the Direct Participants, the “Participants”). DTC has Standard & Poor’s rating of: “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee

holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest on the Obligations and the redemption price of any Obligation will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Obligations and the redemption price of any Obligations will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to the Town or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By _____
Authorized Officer

1633 Broadway, New York, N.Y. 10019

(212) 974-0100

Form 500 (8/24)

