

**TOWN OF PINETOP-LAKESIDE, ARIZONA**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2013**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

**Prepared by:**

**Department of Finance and Administration**

**TOWN OF PINETOP-LAKESIDE**

**Table of Contents**

<b>Introductory Section:</b>	<u>Page</u>
Letter of Transmittal.....	i
List of Principal Officials.....	v
Organizational Chart.....	vi
GFOA Certificate of Achievement.....	viii
 <b>Financial Section:</b>	
 Report of Certified Public Accountants.....	1
 Management’s Discussion and Analysis.....	5
 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Budget-and-Actual.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Highway User Fund – Budget-and-Actual.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances – Recreation & Tourism Fund – Budget-and-Actual.....	25
Notes to Financial Statements.....	26
Required Supplemental Information – Public Safety Retirement System.....	48
Supplementary Information – Budgetary Comparison Major Funds.....	49
Supplementary Information - Combining Statements and Individual Fund Budget and Actual Schedules – Nonmajor Governmental Funds.....	51

**Statistical Section:**

Net Position by Component.....	57
Changes in Net Position .....	58
Fund Balances of Governmental Funds .....	60
Changes in Fund Balance of Governmental Funds .....	61
General Government Tax Revenues by Source.....	62
Local Sales Tax Revenue by Industry .....	63
Ratios of Outstanding Debt by Type .....	64
Direct and Overlapping Governmental Debt.....	65
Pledged-Revenue Coverage.....	66
Debt Limitations and Computation of Legal Debt Margin .....	67
Demographic and Economic Statistics .....	68
Full Time Equivalent Employees by Function .....	69
Construction/Building Permit Activity.....	70
Capital Asset Statistics by Function .....	71
Operating Indicators by Function.....	72

**Other Communications from Independent Auditors:**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters .....	75
Report on Compliance with State Laws and Regulations .....	77



November 26, 2013

To the Honorable Mayor, Members of the Town Council and Citizens of the Town of Pinetop-Lakeside:

State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

HintonBurdick, CPA's and Advisors, have issued an unqualified ("clean") opinion on the Town of Pinetop-Lakeside's financial statements for the year ended June 30, 2013. 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 it.

### ***Profile of the Town***

The Town of Pinetop-Lakeside, incorporated in 1984, is located in the eastern part of the state of Arizona. It currently occupies 11.3 square miles and serves a population of 4,282. The Town of Pinetop-Lakeside is empowered to levy a property tax on real property located within its boundaries, but no Town property tax has been levied in the Town's history. It also is empowered by state statute to extend its corporate limits by annexation.

The Town of Pinetop-Lakeside has operated under the mayor-council form of government since 1984. Policy-making and legislative authority are vested in the governing council (Council) consisting of the mayor and six other members, all of whom are elected at large. Council members serve four-year terms, with three or four members elected every two years. The Mayor is selected by the Council members from among themselves and serves a two-year term. The Council appoints the Town of Pinetop-Lakeside's manager, who in turn appoints its department heads.

The Town of Pinetop-Lakeside provides a full range of services, including police protection; snow removal; traffic control; building inspections; licenses and permits; maintenance of streets and other infrastructure; recreational and cultural activities; library services; transit services. The Town also has a controlling interest in the Pinetop-Lakeside Community Facilities District. Additional information on this legally separate entity can be found in the notes to the financial statements.

The Council is required to adopt an initial budget for the fiscal year no later than August 15 for the fiscal year beginning on July 1. This annual budget serves as the foundation for the Town of Pinetop-Lakeside's

financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the Town Manager. Any other budget amendments, such as transfers between funds, require Council action.

### ***Local economy***

The Town of Pinetop-Lakeside is a rural area depending heavily on the tourist trade. Major industries located within the Town's boundaries or in close proximity include a hospital, manufacturing, retail stores, several medical and legal practices, financial institutions and insurance companies. The Blue Ridge Unified School District also has a significant economic presence, employing teachers, professionals, and support staff.

Because of its location in a region with a narrow economic base, unemployment had been relatively stable until the effect of the current recession was felt. During the past four years, the unemployment rate has risen to a current high of 14.2%. Although unemployment rates have risen nationwide over the last three years, the Town of Pinetop-Lakeside continues to experience unemployment rates higher than national averages. Additional increases may occur in the near future. However, based on economic forecasts, a leveling off and subsequent decline in unemployment rates are anticipated in calendar year 2013.

Median household incomes within the Town of Pinetop-Lakeside are slightly higher than for the state as a whole, and higher than the rest of Navajo County. According to the year 2010 census, the town's median family income was \$52,123; the county's was \$34,547, while the state's was \$51,477. The Town's population recently increased from 3,582 in 2000 to 4,282 on the Census of 2010 – 20% growth over 10 years. Due to the softening of the housing market nationwide in 2009, home construction in Pinetop-Lakeside has been nearly at a standstill since that time. As construction ground to a halt, several families left the area looking for work. At the end of 2007, the median price of a single family home in the vicinity of the Town of Pinetop-Lakeside was \$219,000. By June, 2012, the median price had dropped to \$126,000.

In spite of these economic factors, the Town of Pinetop-Lakeside has maintained a credit rating of "A+" from Standard & Poor's Investor Service since 2010.

During the past ten years, the Town's expenditures related to public safety have increased not only in amount, but also as a percentage of total expenditures in governmental funds (currently 44.7 percent, reflecting a ten-year increase of 6.6 percent). During this same ten-year period, charges for services related to governmental funds have decreased not only in amount, but also as a percentage of total revenues in governmental funds (currently 0.98%, reflecting a ten-year decrease of 0.8%).

### ***Long-term financial planning and major initiatives***

Unrestricted fund balance in the general fund at year end was -\$251,021. This amount was far below the policy guidelines set by the Council for budgetary and planning purposes (i.e., three months of general fund revenues, approximately \$1,130,000). The year-end amount is below the minimum target set by the policy guidelines because of a \$415,541 deficiency of revenues under expenditures during the year ended June 30, 2013. This was the sixth year of revenue shortfalls in spite of drastic cost-cutting measures.

The Town of Pinetop-Lakeside maintains a five-year Capital Improvement Program which serves as its planning document to ensure that its facilities, equipment, and infrastructure are well maintained and operating in peak condition. Under the guidance of the Town Council, this process gives the Town of Pinetop-Lakeside the ability to plan for its capital needs and allocate short- and long-term resources appropriately. As part of this process, the Town identifies and quantifies the operational costs associated with its capital projects and budgets resources accordingly.

The Town of Pinetop-Lakeside maintains a vehicle replacement policy which serves as its fleet replacement guide over a ten-year period. The fiscal year 2013-2014 Capital Improvement Program anticipates \$1,482,700 in capital projects including \$46,800 – the third in a series of three capital lease payments for Police cars acquired in FY2012 - in rolling stock replacement. Included in this \$1,482,700 is \$1,191,260 in infrastructure improvements. Because of fiscal constraints, the Town's 2013-14 machinery, equipment and vehicles program amounts to only \$208,460 for various pieces of equipment. Most, if not all, of the capital improvements are grant funded, and will only be done if grants are awarded.

### ***Relevant financial policies***

The Town of Pinetop-Lakeside has adopted a comprehensive set of financial policies. During the current year, two of these policies were particularly relevant. The Town of Pinetop-Lakeside has a policy that requires the adoption of a balanced annual operating budget (i.e., estimated revenues equal to or in excess of appropriations). As a result of the continued economic downturn, however, estimated revenues were less than appropriations (\$4,467,371 v. \$4,822,480). In such cases, the policy allows for the appropriation of fund balance to close the gap. The amount necessary for this purpose was \$33,140 in the final adopted budget.

### ***Awards and Acknowledgements***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Pinetop-Lakeside for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the second time that the Town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Town had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2013. To qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device. This was the six consecutive year that the Town has achieved this award for budget preparation.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance Department. We wish to thank all Town department heads for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor and the Council for their unflinching support for maintaining the highest standards of professionalism in the management of the Town of Pinetop-Lakeside's finances.

Respectfully submitted,



J. Kent Brooksby CPA, CGMA Finance Director

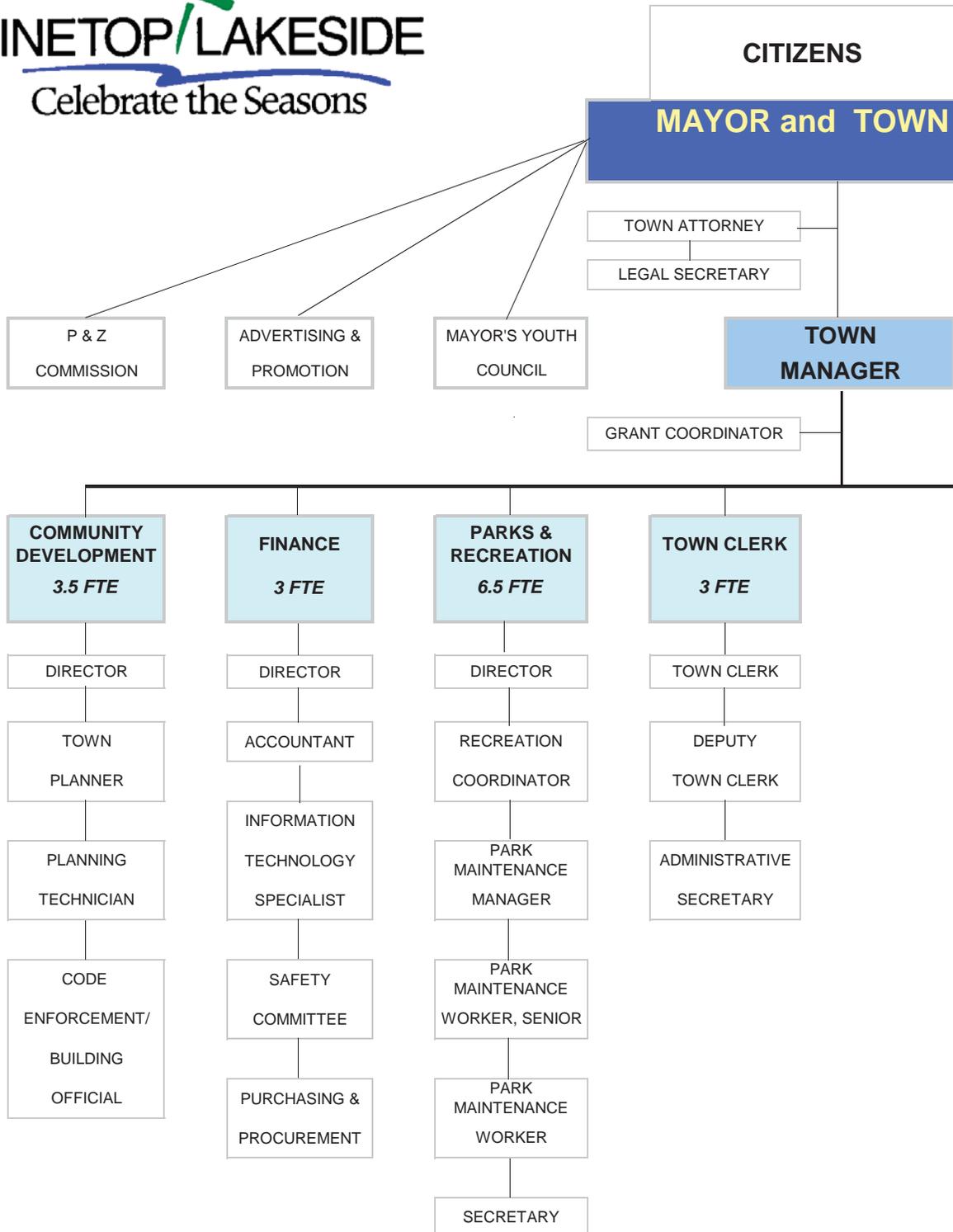
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**Town of Pinetop-Lakeside  
List of Officials**

<b>Position</b>	<b>Name</b>
<b>Mayor</b>	Roger Williams
<b>Vice-Mayor</b>	Dara Vanesian
<b>Council</b>	Leslee Wessel
<b>Council</b>	Stephanie Irwin
<b>Council</b>	Shannon Rivera
<b>Council</b>	Tamara Hayes
<b>Council</b>	Patrick Place
<b>Attorney</b>	W. Kent Foree
<b>Manager</b>	Vacant
<b>Town Clerk</b>	LuAnne Frost
<b>Finance Director</b>	J. Kent Brooksby
<b>Community Development Director</b>	Paul Esparza
<b>Library Director</b>	Jeff Collins
<b>Parks &amp; Recreation Director</b>	John Vuolo
<b>Public Works Director</b>	Andy Romance
<b>Police Chief</b>	Ron Wheeler

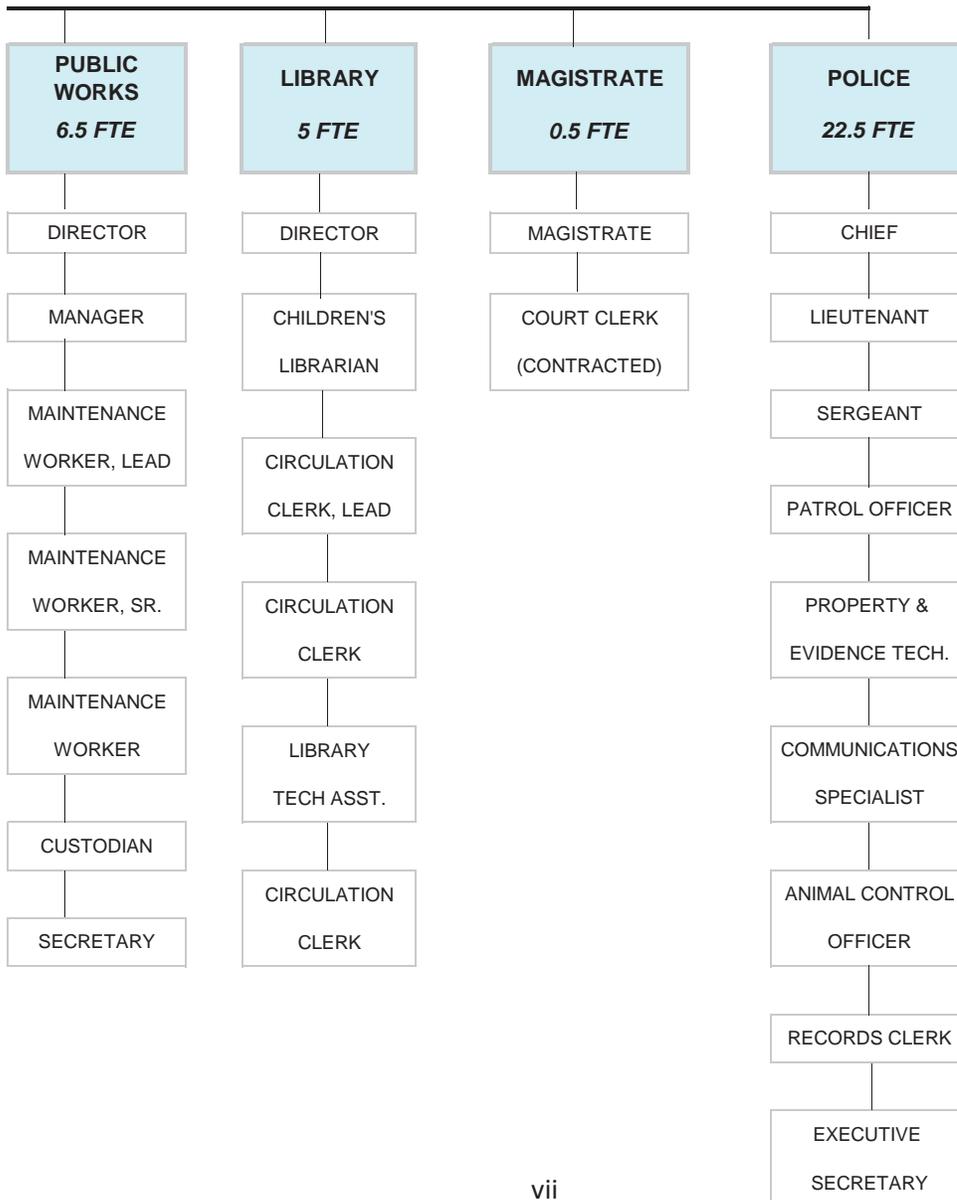
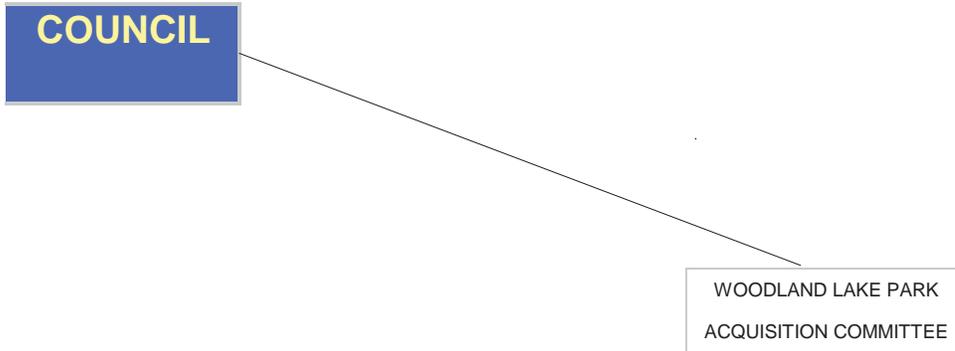


# ORGANIZATION



*Order of positions not representative of supervisory responsibility*

# CHART





Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Town of Pinetop-Lakeside  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

## **FINANCIAL SECTION**

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MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

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## Independent Auditors' Report

The Honorable Mayor and  
Town Council  
Pinetop-Lakeside, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Highway Users Revenue Fund, and the Recreation and Tourism Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pinetop-Lakeside, Arizona's basic financial statements. The introductory section, combining statements and non-major fund budgetary comparison schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Town of Pinetop-Lakeside, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 of Pinetop-Lakeside, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC  
Flagstaff, Arizona  
November 4, 2013

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**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year-Ended June 30, 2013**

Our discussion and analysis of the Town of Pinetop-Lakeside's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 14.

**FINANCIAL HIGHLIGHTS**

- The Town's net position decreased by \$158,405 as a result of this year's operations.
- During the year, the Town had expenses that were \$158,405 more than the \$5,673,132 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$5,831,536 with no new programs added this year.
- At the end of the current fiscal year, the Town of Pinetop-Lakeside's governmental funds reported combined ending fund balances of \$529,627, a decrease of \$323,091.
- The general fund reported a decline of \$415,536.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis provided here are intended to serve as an introduction to The Town's basic financial statements. The Town of Pinetop-Lakeside's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Pinetop-Lakeside's finances, in a manner similar to a private-sector business. The *statement of net position* presents financial information on all of the Town of Pinetop-Lakeside'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 of Pinetop-Lakeside is improving or deteriorating.

The *statement of activities* presents information showing how the Town of Pinetop-Lakeside'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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Pinetop-Lakeside that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Pinetop-Lakeside include general government, public safety, public works/streets, culture and recreation, and economic development. The Town does not operate any business-type activities.

The government-wide financial statements can be found on pages 14-15 of this report.

**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 of Pinetop-Lakeside, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Pinetop-Lakeside can be divided into one category: governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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*.

The Town of Pinetop-Lakeside maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the highway users revenue fund, the recreation and tourism fund, and the development impact fee fund, which are considered to be major funds. Data from the other two governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The Town of Pinetop-Lakeside adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-25 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-45 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Pinetop-Lakeside's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on page 48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the budgetary comparison schedule for the major capital projects fund. These combining and individual fund statements and schedules can be found on pages 49-55 of this report.

## The Town as a Whole

The Town's combined net position decreased from \$6,489,145 to \$6,330,740. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities.

**Table 1**  
**Net Position**

	Governmental activities	
	<u>6/30/2013</u>	<u>6/30/2012</u>
Current and other assets	\$ 1,094,429	\$ 1,236,194
Capital assets	6,751,683	6,981,235
Total assets	<u>7,846,112</u>	<u>8,217,429</u>
Long-term liabilities outstanding	744,380	930,125
Other liabilities	770,992	798,159
Total liabilities	<u>1,515,372</u>	<u>1,728,284</u>
Net position:		
Net investment in capital assets	6,005,581	5,880,494
Restricted	788,771	667,609
Unrestricted	(463,612)	(58,958)
Total net position	<u>\$ 6,330,740</u>	<u>\$ 6,489,145</u>

**Table 2**  
**Changes in Net Position**

	Governmental activities	
	6/30/2013	6/30/2012
Revenues:		
Program revenues:		
Charges for services	\$ 358,206	\$ 420,171
Operating grants and contributions	688,041	738,207
Capital grants and contributions	293,116	751,168
General revenues:		
Sales taxes	3,286,485	3,373,567
State shared revenues	998,642	909,148
Other taxes	48,550	50,930
Other general revenues	91	5,382
Total revenues	<u>5,673,131</u>	<u>6,248,573</u>
Expenses:		
General government	1,240,409	1,235,522
Public safety	2,239,765	2,091,653
Public works/streets	790,877	1,143,070
Culture and recreation	1,132,279	995,126
Economic development	403,912	394,438
Interest on long-term debt	24,294	38,793
Total expenses	<u>5,831,536</u>	<u>5,898,602</u>
Increase (Decrease) in net position	(158,405)	349,971
Net position, beginning	<u>6,489,145</u>	<u>6,139,174</u>
Net position, ending	<u>\$ 6,330,740</u>	<u>\$ 6,489,145</u>

Our analysis below separately considers the operations of government activities.

### **Governmental Activities**

The cost of all governmental activities this year was \$5,831,536. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through Town sales taxes and other revenues was \$4,333,768 because some of the cost was paid by those who directly benefited from the programs (\$358,206) or by other governments and organizations that subsidized certain programs with grants and contributions (\$981,157). Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, decreased in Fiscal Year 2013. The Town paid for the remaining "public benefit" portion of governmental activities with \$3,286,485 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest. Sales tax collections were lower than budgeted due to the continued recession.

**Table 3** presents the cost of each of the Town’s largest programs – police, public works, and parks and recreation – as well as each program’s net cost (total cost less revenues generated by the activities). The net per capita cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions, based on the Town’s official population of 4,282. It is important to remember that the Town of Pinetop-Lakeside has no property tax, so it is dependent primarily on local sales taxes for revenues. This being the case, “the taxpayers” includes all visitors who shop in our Town.

**Table 3  
Governmental Activities**

	<b>Total Cost of Services 2013</b>	<b>Net Per Capita Cost of Services 2013</b>
Public Safety	\$ 2,239,765	\$523
Public Works/Streets	790,877	185
Parks and Recreation	1,132,279	264
All Others	<u>1,668,615</u>	390
Totals	<u>\$ 5,831,563</u>	

**The Town’s Funds**

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$529,627 which is lower than last year’s total \$852,718.

- In the General Fund, local sales tax collections were far below estimates for the year, while the cost of basic goods and materials, such as gasoline, continued to climb. Construction sales tax collections alone were \$100k below estimates. If not for transfers from the General Fund to the Parks and Acquisition and Development funds, the General Fund would have ended the year with a surplus. The primary reason for those interfund transfers was the debt service included in both funds.
- In the Highway Users Revenue Fund (HURF), the FY 2013 budget allowed for the use of \$388,320 in existing fund balance for street maintenance and rehabilitation. At the end of the year, none of the fund balance had been utilized. Thus, HURF fund balance increased. In January 2013 the Director of Public Works retired and a new Director hired. A snowy winter and wetter-and-cooler-than-normal summer delayed many anticipated road projects. These projects are anticipated to be completed in fiscal year 2014.
- Development Impact fee fund balance decreased in accordance with Town Council direction. Recent changes in Arizona law regarding impact fees made the collection of future impact fees uncertain, so the Town Council directed staff to utilize existing fund balance as much as possible in FY 2013. The FY 2013 budget allocated \$109,045 in existing fund balance to this purpose, of which only \$5,185 was utilized. So, even though fund balance decreased, this decrease was expected and authorized. The directive to utilize as much impact fee fund balance as possible continues into FY 2014.
- All other changes in fund balance were immaterial.
- In January 2003, an additional 2 percent tax on restaurant and bar sales went into effect, with the proceeds of this new tax dedicated to the construction and maintenance of new recreational amenities, especially youth facilities. The revenues from this tax are used to fund the debt service

and operations of the Mountain Meadow Recreation Complex and Woodland Lake Park. This tax was due to “sunset” in December 2013, but the Town Council has voted to temporarily extend the tax until June, 2016.

- Each year, the State provides the Town with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the Town’s roads. Historically, the Town receives about 85% of what the State promises. This year, these revenues totaled \$470,571.

**General Fund Budgetary Highlights**

The General Fund’s revenues of \$ 4,051,835 were \$737,505 less than budgeted revenues of \$4,789,340. The General Fund’s expenditures, including transfers, of \$4,467,371 were \$355,109 less than budgeted expenditures, including transfers, of \$4,822,480. The continuing recession drove economic activity even further down, especially in the area of construction, which had a negative impact on tax revenues. Rising costs drove the cost of operations up, compounding the problem of decreasing revenues.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of Fiscal Year 2013, the Town had \$6,751,683 (net of depreciation) invested in a broad range of capital assets, including buildings, park facilities, police equipment, roads, and other assets (See Table 4 below). This amount represents a net decrease of \$229,552 or 3.3 percent over last year.

**Table 4  
Capital Assets at Year-End**

	<b>Governmental Activities 2013</b>	<b>Governmental Activities 2012</b>
Land	\$1,104,564	\$1,044,564
Construction in Progress	-	31,256
Buildings and Improvements	2,731,608	2,926,268
Infrastructure	1,811,910	1,660,779
Equipment	<u>1,103,601</u>	<u>1,318,368</u>
Total	<u>\$6,751,683</u>	<u>\$6,981,235</u>

The Town’s fiscal year 2014 capital budget calls for it to spend \$1,482,700 for capital and infrastructure projects. Most of this is contingent on grant financing; if the grants are awarded, the projects will go forward. Recent changes in Arizona’s development impact fee laws led the Town Council to ask that as much as possible of existing impact fee funds be expended in fiscal year 2014. More detailed information about the Town’s capital assets is presented in Note 6 to the financial statements.

## Debt

At year-end, the Town had \$1,005,886 in bonds and notes outstanding versus \$1,337,655 last year – a decrease of 27 percent, as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**

	<b>Governmental Activities 2013</b>	<b>Governmental Activities 2012</b>
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 185,000	\$ 540,000
Other long-term obligations	<u>820,886</u>	<u>837,655</u>
Totals	<u>\$1,005,886</u>	<u>\$1,377,655</u>

Other obligations include accrued vacation and sick leave. More detailed information is presented in Notes 7 and 8 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's elected and appointed officials considered many factors when setting the fiscal year 2014 budget. One of those factors is the economy. Arizona continues to feel the effects of the Great Recession because Arizona's economy has been driven by construction for the last few decades. As of this writing, construction has begun to slightly increase in the Town of Pinetop-Lakeside, and sales taxes in general are up significantly from last year. In keeping with Town policy, projected revenues are kept roughly even with the prior year's actual receipts, modified for inflation. Economic uncertainty is driving the Town's economic decision making. Employees received an average 3% cost of living adjustment in October, 2013. Those in lower-paid positions saw as much as 10%, while some higher wage earners received no COLA.

If our estimates are accurate and realized, the Town's budgetary General Fund balance is expected to increase modestly by the close of FY 2014.

## 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 show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Director's Office at 1360 N. Niels Hansen Lane, Lakeside, Arizona 85929, or call 928-368-8696.

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**BASIC FINANCIAL STATEMENTS**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Net Position**  
**June 30, 2013**

	<b>Governmental Activities</b>	<b>Total</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 235,124	\$ 235,124
Investments	432,147	432,147
Receivables (net of allowance)	391,101	391,101
Prepays	21,651	21,651
Other assets	14,406	14,406
Capital assets (net of accumulated depreciation):		
Land	1,104,564	1,104,564
Buildings and improvements	814,653	814,653
Other improvements	1,916,955	1,916,955
Furniture, machinery & equipment	527,913	527,913
Vehicles	575,688	575,688
Infrastructure	1,811,910	1,811,910
Total assets	<u>7,846,112</u>	<u>7,846,112</u>
<b>Liabilities</b>		
Accounts payable and other current liabilities	322,090	322,090
Unearned revenue	187,396	187,396
Noncurrent liabilities:		
Due within one year	261,506	261,506
Due in more than one year	744,380	744,380
Total liabilities	<u>1,515,372</u>	<u>1,515,372</u>
<b>Net Position</b>		
Net investment in capital assets	6,005,581	6,005,581
Restricted for:		
Capital projects	256,474	256,474
Public works/Streets	532,297	532,297
Unrestricted	(463,612)	(463,612)
Total net position	<u>\$ 6,330,740</u>	<u>\$ 6,330,740</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants &amp;</u> <u>Contributions</u>	<u>Capital</u> <u>Grants &amp;</u> <u>Contributions</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
General government	\$ 1,240,409	\$ 234,243	\$ 19,398	\$ 34,437	\$ (952,331)
Public safety	2,239,765	91,322	155,056	4,376	(1,989,011)
Public works/Streets	790,877	-	470,581	219,238	(101,058)
Culture and recreation	1,132,279	23,237	43,006	11,458	(1,054,578)
Economic development	403,912	9,404	-	23,607	(370,901)
Interest on long-term debt	24,294	-	-	-	(24,294)
<b>Total governmental activities</b>	<b>5,831,536</b>	<b>358,206</b>	<b>688,041</b>	<b>293,116</b>	<b>(4,492,173)</b>
General Revenues:					
Taxes:					
					3,286,485
					48,550
					350,490
					210,755
					437,397
					91
					<u>4,333,768</u>
					(158,405)
					<u>6,489,145</u>
					<u>\$ 6,330,740</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**

**Balance Sheet  
Governmental Funds  
June 30, 2013**

<b>Assets</b>	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Development Impact Fee Fund
Cash and Cash Equivalents	\$ -	\$ 169,184	\$ 7,244	\$ 41,683
Investments	217,356	-	-	214,791
Prepays	21,651	-	-	-
Receivables:				
Taxes	278,242	-	-	-
Intergovernmental	6,437	55,177	5,210	-
Due from Other Funds	-	478,306	-	-
Notes and Other Assets	14,406	-	-	-
<b>Total Assets</b>	<b>\$ 538,092</b>	<b>\$ 702,667</b>	<b>\$ 12,454</b>	<b>\$ 256,474</b>
<b>Liabilities</b>				
Accounts Payable	\$ 108,673	\$ 13,959	\$ 16,873	\$ -
Accrued Wages and Benefits	41,184	5,390	3,718	-
Accrued Liabilities	39,727	-	-	-
Customer Deposits	94,497	-	-	-
Compensated Absences	53,385	-	-	-
Unearned Revenue	20	151,021	-	-
Due to Other Funds	451,626	-	-	-
<b>Total Liabilities</b>	<b>789,112</b>	<b>170,370</b>	<b>20,591</b>	<b>-</b>
<b>Fund Balances</b>				
Nonspendable:				
Prepays	21,651	-	-	-
Restricted for:				
Highways and streets	-	532,297	-	138,748
Community and economic development	-	-	-	65,573
Other purposes	-	-	-	52,153
Assigned to:				
Community and economic development	-	-	-	-
Unassigned	(272,671)	-	(8,137)	-
<b>Total fund balances (deficits)</b>	<b>(251,020)</b>	<b>532,297</b>	<b>(8,137)</b>	<b>256,474</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 538,092</b>	<b>\$ 702,667</b>	<b>\$ 12,454</b>	<b>\$ 256,474</b>

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

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Non-major Funds	Total Governmental Funds
\$ 17,013	\$ 235,124
-	432,147
-	21,651
-	278,242
46,035	112,859
-	478,306
-	14,406
<u>\$ 63,048</u>	<u>\$ 1,572,735</u>

\$ -	\$ 139,505
-	50,292
-	39,727
-	94,497
-	53,385
36,355	187,396
26,680	478,306
<u>63,035</u>	<u>1,043,108</u>

-	21,651
-	671,045
-	65,573
-	52,153
13	13
<u>-</u>	<u>(280,808)</u>
<u>13</u>	<u>529,627</u>
<u>\$ 63,048</u>	<u>\$ 1,572,735</u>

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**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2013**

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Total fund balances - governmental funds	\$	529,627
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	\$	10,820,770
Accumulated depreciation		(4,069,087)
		6,751,683
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$	(185,000)
Leases payable		(561,102)
Compensated absences		(197,630)
Landfill closure payable		(6,838)
		(950,570)
Total net position - governmental activities	\$	6,330,740

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2013**

<b>REVENUES</b>	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Development Impact Fee Fund
Taxes	\$ 2,834,625	\$ -	\$ 451,860	\$ -
Franchise taxes	48,550	-	-	-
Intergovernmental revenue	807,285	681,336	-	-
Licenses, permits and fees	126,153	-	-	-
Charges for services	115,326	-	4,480	-
Fines and forfeitures	53,239	-	-	-
Interest	6	-	2	-
Lease income	17,820	-	-	-
Impact fees	-	-	-	19,553
Miscellaneous	48,831	-	150	-
Total Revenues	<u>4,051,835</u>	<u>681,336</u>	<u>456,492</u>	<u>19,553</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,114,897	-	-	-
Public safety	2,012,510	-	-	-
Public works/streets	55,335	554,989	-	-
Tourism and recreation	429,258	-	512,229	-
Community and economic development	317,736	-	-	-
Capital outlay	-	-	-	5,729
Debt Service:				
Principal	-	-	175,000	19,009
Interest	-	-	7,875	-
Total Expenditures	<u>3,929,736</u>	<u>554,989</u>	<u>695,104</u>	<u>24,738</u>
Excess of Revenues				
Over (Under) Expenditures	<u>122,099</u>	<u>126,347</u>	<u>(238,612)</u>	<u>(5,185)</u>
<b>Other Financing Sources (Uses):</b>				
Debt issuance	-	-	-	-
Transfers in	-	-	209,882	-
Transfers out	(537,635)	-	-	-
Total Other Financing Sources (Uses)	<u>(537,635)</u>	<u>-</u>	<u>209,882</u>	<u>-</u>
Net change in fund balances	(415,536)	126,347	(28,730)	(5,185)
Fund Balances, Beginning of Year	<u>164,516</u>	<u>405,950</u>	<u>20,593</u>	<u>261,659</u>
Fund Balances (deficits), End of Year	<u>\$ (251,020)</u>	<u>\$ 532,297</u>	<u>\$ (8,137)</u>	<u>\$ 256,474</u>

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

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Non-major Funds	Total Governmental Funds
\$ -	\$ 3,286,485
-	48,550
463,833	1,952,454
-	126,153
-	119,806
-	53,239
83	91
-	17,820
-	19,553
-	48,981
463,916	5,673,132
34,437	1,149,334
155,057	2,167,567
212,248	822,572
38,484	979,971
89,066	406,802
125,945	131,674
180,000	374,009
16,419	24,294
851,656	6,056,223
(387,740)	(383,091)
60,000	60,000
327,753	537,635
-	(537,635)
387,753	60,000
13	(323,091)
-	852,718
\$ 13	\$ 529,627

**TOWN OF PINETOP-LAKESIDE, 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, 2013**

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

Net change in fund balances - total governmental funds		\$ (323,091)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay		\$ 346,596
Depreciation expense		<u>(576,148)</u>
		(229,552)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		414,965
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.		(60,000)
Compensated absences 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.		39,273
Change in net position of governmental activities		<u><u>\$ (158,405)</u></u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund - Budget and Actual**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		(Negative)
<b>REVENUES</b>				
Taxes:				
Taxes	\$ 3,538,500	\$ 3,538,500	\$ 2,834,625	\$ (703,875)
Franchise tax	45,000	45,000	48,550	3,550
Intergovernmental Revenue	807,420	807,420	807,285	(135)
Licenses and permits	114,500	114,500	126,153	11,653
Charges for services	126,900	126,900	115,326	(11,574)
Fines and Forfeitures	98,000	98,000	53,239	(44,761)
Interest	2,000	2,000	6	(1,994)
Lease income	17,820	17,820	17,820	-
Miscellaneous	39,200	39,200	48,831	9,631
<b>Total Revenues</b>	<b>4,789,340</b>	<b>4,789,340</b>	<b>4,051,835</b>	<b>(737,505)</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Administration	850,080	850,080	638,411	211,669
Finance	276,220	276,220	264,871	11,349
Legal	224,940	224,940	211,615	13,325
Public Safety:				
Police	1,938,260	1,938,260	1,872,299	65,961
Animal control	79,330	79,330	79,809	(479)
Magistrate	62,120	62,120	60,402	1,718
Public Works/Streets	56,920	56,920	55,335	1,585
Tourism and recreation	438,910	438,910	429,258	9,652
Community & economic development	336,650	336,650	317,736	18,914
<b>Total Expenditures</b>	<b>4,263,430</b>	<b>4,263,430</b>	<b>3,929,736</b>	<b>333,694</b>
Excess of Revenues Over (Under) Expenditures	525,910	525,910	122,099	(403,811)
Other Financing Sources (Uses):				
Transfers out	(559,050)	(559,050)	(537,635)	21,415
<b>Total Other Financing     Sources (Uses)</b>	<b>(559,050)</b>	<b>(559,050)</b>	<b>(537,635)</b>	<b>21,415</b>
Net change in fund balance	(33,140)	(33,140)	(415,536)	(382,396)
Fund Balance, Beginning of Year	164,516	164,516	164,516	-
Fund Balance (deficit), End of Year	<u>\$ 131,376</u>	<u>\$ 131,376</u>	<u>\$ (251,020)</u>	<u>\$ (382,396)</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Highway User Revenue Special Revenue Fund**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	<u>\$ 605,510</u>	<u>\$ 605,510</u>	<u>\$ 681,336</u>	<u>\$ 75,826</u>
Total Revenue	<u>605,510</u>	<u>605,510</u>	<u>681,336</u>	<u>75,826</u>
<b>EXPENDITURES:</b>				
Current:				
Public Works:				
Administration	8,050	8,050	3,953	4,097
Street maintenance	676,880	676,880	510,890	165,990
Street rehabilitation	263,000	263,000	1,796	261,204
Maintenance yard	25,900	25,900	30,893	(4,993)
Utilities	10,000	10,000	7,457	2,543
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total Expenditures	<u>993,830</u>	<u>993,830</u>	<u>554,989</u>	<u>438,841</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(388,320)</u>	<u>(388,320)</u>	<u>126,347</u>	<u>514,667</u>
Fund Balance, Beginning of Year	<u>405,950</u>	<u>405,950</u>	<u>405,950</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 17,630</u></u>	<u><u>\$ 17,630</u></u>	<u><u>\$ 532,297</u></u>	<u><u>\$ 514,667</u></u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Recreation & Tourism Special Revenue Fund**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 436,000	\$ 436,000	\$ 451,860	\$ 15,860
Charges for services	4,400	4,400	4,480	80
Investment earnings	10	10	2	(8)
Miscellaneous	-	-	150	150
Total Revenue	<u>440,410</u>	<u>440,410</u>	<u>456,492</u>	<u>16,082</u>
<b>EXPENDITURES:</b>				
Current:				
Tourism and recreation	553,830	553,830	512,229	41,601
Debt Service:				
Principal	175,000	175,000	175,000	-
Interest	<u>7,875</u>	<u>7,875</u>	<u>7,875</u>	<u>-</u>
Total Expenditures	<u>736,705</u>	<u>736,705</u>	<u>695,104</u>	<u>41,601</u>
Excess of Revenues Over (Under) Expenditures	<u>(296,295)</u>	<u>(296,295)</u>	<u>(238,612)</u>	<u>57,683</u>
Other Financing Sources (Uses):				
Transfers in	<u>276,295</u>	<u>276,295</u>	<u>209,882</u>	<u>(66,413)</u>
Total Other Financing Sources (Uses):	<u>276,295</u>	<u>276,295</u>	<u>209,882</u>	<u>(66,413)</u>
Net change in fund balance	(20,000)	(20,000)	(28,730)	(8,730)
Fund Balance, Beginning of Year	<u>20,593</u>	<u>20,593</u>	<u>20,593</u>	<u>-</u>
Fund Balance (deficit), End of Year	<u>\$ 593</u>	<u>\$ 593</u>	<u>\$ (8,137)</u>	<u>\$ (8,730)</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies**

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**Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**Reporting entity**

The Town of Pinetop-Lakeside, Arizona (the Town) is a municipal corporation governed by a council elected at large, and the council appoints the mayor from among the elected council. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. There are no discretely presented component units and one blended component unit.

**Blended component unit.** The Pinetop-Lakeside Municipal Property Corporation (MPC) is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects for the Town. The MPC has been included (blended) as part of the reporting entity within the Recreation & Tourism Special Revenue fund in this financial report. All related receivables and payables between the Town and the MPC have been eliminated.

**Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its blended component unit. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The Town does not have any enterprise or fiduciary funds.

The Town reports the following major governmental funds:

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

The **Highway User Revenue Special Revenue fund** is used to account for the Town's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

The **Recreation & Tourism Special Revenue fund** is used to account for revenues derived from specific taxes, grant or other restricted revenue sources. Town ordinances or Federal and state statutes specify the use and limitation of each revenue source.

The **Development Impact Fee Capital Project fund** is used to account for Library, Parks, Police, Street, and General Government impact fees restricted and earmarked for development of the respective capital improvements.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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**Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Taxes, sales taxes, state shared revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

*Deposits and investments*

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, obligations of the U. S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The fair value of each share in the Local Government Investment pool is equal to \$1.

*Prepaid items*

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

*Inventories*

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

*Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In accordance with GASB 34, the Town has opted not to retroactively report infrastructure assets.

Land and construction in progress are not depreciated. The other property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	10 to 40 years
Machinery and equipment	5 to 10 years
Vehicles	5 to 10 years
Streets and sidewalks	20 to 40 years

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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*Unearned revenue*

Unearned revenues arise when potential revenue is received by the Town from various granting agencies before it has a legal claim to them or when grant monies are received prior to the incurrence of qualifying expenditures, i.e., contract and grant receipts received in excess of expenditures incurred are recognized as unearned revenue. In subsequent periods, when the revenue recognition criteria is met, or when the Town has a legal claim to the resources, the liability or unearned revenue is removed from the balance sheet and the revenue is recognized.

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has no items that qualify for reporting in this category.

*Net position flow assumption*

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund balance flow assumptions*

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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***Fund balance policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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 committed. The Town Manager is authorized to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and expenditures/expenses**

***Program revenues***

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

***Compensated Absences***

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Town does not have a policy to pay any amounts when employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide financial statement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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**Use of estimates**

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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**Note 2.           Reconciliation of Government-Wide and Fund Financial Statements**

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The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 19.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 22.

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**Note 3.           Stewardship, Compliance, and Accountability**

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Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

**Budgets and Budgetary Accounting**

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 3. Stewardship, Compliance, and Accountability, Continued**

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3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provides the Town with a final expenditure limit for the coming fiscal year.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue 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 carry-over 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. The Town's budget includes \$273,600 for contingencies.

**Expenditures over Appropriations**

The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports on pages 23-25, 50, and 54-55 present all of the funds which incurred an excess of expenditures/ expenses over appropriations for the year ended June 30, 2013, if any.

**Encumbrances**

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, is not employed by the Town.

**Taxes**

Normally, property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. However, the Town has not adopted any property tax levies.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 4. Deposits and Investments**

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2013, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$194,181. As of June 30, 2013, the Town's bank balance of \$238,293 was fully insured or collateralized.

**Investments**

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investments in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P-1" by Moody's investors or "A-1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2013 the government had the following investments, ratings, and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Government			
Agencies (FHLMC, FNMA)	\$ 424,159	AAA	1-5
Money Market Mutual Fund	7,987	N/A	less than 1
Arizona Local Government			
Investment Pool	<u>39,894</u>	(1)	20 days
Total Fair Value	<u>\$ 472,040</u>		

(1) The Town's investment in the State Treasurer's Investment Pool #5 was rated AAAF/S+1 from Standard and Poor's and Investment Pool #7 was rated AA+.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 4. Deposits and Investments, Continued**

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**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35-323) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services. A summary of the Town's investments and investment ratings are provided in the schedule on the previous page.

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**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 5. Interfund Receivables, Payables and Transfers**

Interfund receivables or payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2013, interfund receivables and payables are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 451,626
Special Revenue Funds:		
HURF Fund	478,306	-
Grant Fund	-	26,680
	\$ 478,306	\$ 478,306

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2013, interfund transfers are as follows:

	Transfers In		
	Acquisition & Development	Recreation and Tourism	Total
<u>Transfers Out:</u>			
General Fund	\$ 327,753	\$ 209,882	\$ 537,635
	\$ 327,753	\$ 209,882	\$ 537,635

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in certain funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The transfer from the General Fund moved unassigned funds to the Recreation and Tourism Fund and to the Acquisition and Development Fund.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 6. Capital Assets**

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

<b>Primary Government</b>	<b>Balance</b>		<b>**</b>		<b>Balance</b>
<b>Governmental Activities:</b>	<b>6/30/2012</b>	<b>Additions</b>	<b>Adjustments</b>	<b>Retirements</b>	<b>6/30/2013</b>
Capital Assets not being Depreciated:					
Land	\$ 1,044,564	\$ 60,000	\$ -	\$ -	\$ 1,104,564
Construction in progress	31,256	-	-	(31,256)	-
Total capital assets not being depreciated	<u>1,075,820</u>	<u>60,000</u>	<u>-</u>	<u>(31,256)</u>	<u>1,104,564</u>
Capital Assets being depreciated:					
Buildings & Improvements	1,478,973	-	-	-	1,478,973
Improvements other than buildings	3,035,751	-	-	-	3,035,751
Machinery & Equipment	1,443,130	18,001	-	(5,147)	1,455,984
Vehicles	1,439,128	15,201	44,995	(119,900)	1,379,424
Infrastructure	2,081,424	284,650	-	-	2,366,074
Total capital assets being depreciated	<u>9,478,406</u>	<u>317,852</u>	<u>44,995</u>	<u>(125,047)</u>	<u>9,716,206</u>
Less Accumulated Depreciation for:					
Buildings & Improvements	(631,665)	(32,655)	-	-	(664,320)
Improvements other than buildings	(956,791)	(162,005)	-	-	(1,118,796)
Machinery & Equipment	(794,189)	(139,029)	-	5,147	(928,071)
Vehicles	(769,701)	(108,940)	(44,995)	119,900	(803,736)
Infrastructure	(420,645)	(133,519)	-	-	(554,164)
Total accumulated depreciation	<u>(3,572,991)</u>	<u>(576,148)</u>	<u>(44,995)</u>	<u>125,047</u>	<u>(4,069,087)</u>
Total Capital Assets being depreciated, net	<u>5,905,415</u>	<u>(258,296)</u>	<u>-</u>	<u>-</u>	<u>5,647,119</u>
Governmental activities capital assets, net	<u>\$ 6,981,235</u>	<u>\$ (198,296)</u>	<u>\$ -</u>	<u>\$ (31,256)</u>	<u>\$ 6,751,683</u>

\*\* During the year, the Town discovered they still have two vehicles which were disposed on their asset listing in prior years. The vehicles had been fully depreciated and were put back on the asset listing as fully depreciated.

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

<b>Governmental Activities:</b>	
General government	\$ 54,210
Public safety	120,803
Public works/streets	238,496
Culture & recreation	162,639
Economic development	-
Total depreciation expense - governmental activities	<u>\$ 576,148</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 7. Long-Term Debt**

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The following is a summary of changes in long-term obligations during the year:

<b>Governmental Activities:</b>	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2013</b>	<b>Current Portion</b>
Accrued compensated absences	\$ 269,750	\$ 16,043	\$ 32,847	\$ 252,946	\$ 55,316
Landfill monitoring costs	7,164	-	326	6,838	326
Total other long-term debt	<u>276,914</u>	<u>16,043</u>	<u>33,173</u>	<u>259,784</u>	<u>55,642</u>
<b>Revenue Bonds:</b>					
Municipal facilities series 1999	<u>365,000</u>	<u>-</u>	<u>180,000</u>	<u>185,000</u>	<u>185,000</u>
<b>Loans Payable:</b>					
GADA ball field loan	<u>175,000</u>	<u>-</u>	<u>175,000</u>	<u>-</u>	<u>-</u>
<b>Capital Leases:</b>					
Zions Bank building lease	473,386	60,000	16,850	516,536	17,239
Key Government Finance vehicle lease	<u>87,355</u>	<u>-</u>	<u>42,789</u>	<u>44,566</u>	<u>3,625</u>
Total capital leases	<u>560,741</u>	<u>60,000</u>	<u>59,639</u>	<u>561,102</u>	<u>20,864</u>
 Total general long-term debt	 <u>\$ 1,377,655</u>	 <u>\$ 76,043</u>	 <u>\$ 447,812</u>	 <u>\$ 1,005,886</u>	 <u>\$ 261,506</u>

The Municipal facilities Series, 1999 revenue bond payment date is on July 1 of each year. It is the Town's policy to provide payment for these obligations on or before June 30 of each year. Thus, these early debt service payments have been recognized as expenditures and related reductions in liabilities. The Town plans to continue using the "early recognition" option in accordance with governmental accounting standards in all future years.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 7. Long-Term Debt, Continued**

A description of other long-term liabilities are as follows:

The compensated absences represent the portion of employee vacation leave that will not be liquidated with current assets of the governmental fund types. Each governmental funds' liability for compensated absences is liquidated by the respective fund.

Due to requirements placed on Navajo County Lone Pine Landfill by Federal and State regulatory agencies (e.g. EPA and ADEQ) in 1995, the landfill was closed and must be monitored for thirty years. Landfill monitoring costs are the Town's share of total estimated costs of closing and monitoring the Lone Pine Landfill. The remaining post-closure costs have been estimated based on engineering studies and will be revised each year based on inflation/deflation and/or technology changes.

The following is a listing of bonds outstanding as of June 30, 2013:

**Revenue Bonds:**

Municipal Facilities Revenue Bonds, Series 1999 due in annual principal and interest installments, bearing interest at 3.25% to 4.5%, maturing July 1, 2014.	\$ 185,000
Less current portion	<u>(185,000)</u>
Total Revenue Bonds net of current portion	<u><u>\$ -</u></u>

Revenue Bonds debt service maturities are as follows:

Year Ended	Principal	Interest	Total
<u>June 30,</u> 2013	<u>\$ 185,000</u>	<u>\$ 4,162</u>	<u>\$ 189,162</u>
Total	<u><u>\$ 185,000</u></u>	<u><u>\$ 4,162</u></u>	<u><u>\$ 189,162</u></u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 8. Capital Leases Payable**

The Town entered into 2 lease agreements, which are considered capital leases in accordance with Generally Accepted Accounting Principles. The leases are reported the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with the interest of 4.15% and 3.46-3.98%, together with the present value of the net minimum lease payments:

June 30,	General Long-Term Debt
2014	\$ 80,047
2015	33,632
2016	33,632
2017	33,632
2018	33,632
2019-2023	168,160
2024-2028	168,160
2029-2032	120,515
Total remaining lease payments	671,410
Less amount representing interest	(110,308)
Present value of net remaining minimum lease payments	\$ 561,102

A summary of assets acquired through capital leases follows:

<b>Governmental Activities</b>	Cost	Accumulated Depreciation
Land	\$ 100,000	\$ -
Buildings & Improvements	380,000	(13,458)
Vehicles	133,770	(21,180)
Total	\$ 513,770	\$ (34,638)

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 9.           Municipal Facilities Revenue Bonds, Series 1999**

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On April 15, 1999 the Town entered into a ground lease and a lease agreement with the Town of Pinetop-Lakeside Municipal Property Corporation (MPC); and a trust agreement with Bank One, Arizona, and the MPC. In conjunction with the above agreements, the MPC issued \$2,120,000 Municipal Facilities Revenue Bonds, Series 1999 to refund \$1,515,000 principal amount of Certificates of Participation, Series 1993 and to finance the costs of improvements to the Town's public library. The cost of the refunding was \$149,461; however, the Town obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of almost \$41,500.

The lease agreement requires the Town to make payment to the Trustee, on behalf of the MPC, in amounts equal to the annual debt service on the bonds. The Town is ultimately responsible for the payments on the bonds through the payments on the lease described above.

As mentioned in Note 1, the MPC is included as part of the reporting entity within the Town's financial report. The financial transactions of the MPC have been combined with the Recreation & Tourism Special Revenue Fund and, as such, certain transactions between the MPC and the Town have been eliminated. The accompanying basic financial statements include the bonds and related assets. All lease payments are recoded as principal and interest on the bonds.

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**Note 10.           Retirement and Pension Plans**

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**Arizona State Retirement System (ASRS)**

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 10. Retirement and Pension Plans, Continued**

**Funding Policy** – The Arizona State Legislature establishes and may amend active plan members’ and the Town’s contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent for retirement, and 0.24 percent for long-term disability) of the members’ annual covered payroll and the Town was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

The Town’s contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$ 142,704	\$ 9,345	\$ 3,960
2012	150,336	9,596	3,656
2013	173,575	11,007	4,064

**Public Safety Personnel Retirement System (PSPRS)**

**Plan Description** – The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

**Funding Policy** – For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 26.34 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.43 percent of covered payroll.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 10. Retirement and Pension Plans, Continued**

**Actuarial Methods and Assumptions** – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (health insurance subsidies and long-term disability), and the actuarial assumptions used to establish the contribution requirements are as follows:

The contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations using the entry age normal method. The actuarial assumptions included (a) 8.25 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 8.0 percent per year. The assumptions did not include cost-of-living adjustments and healthcare cost trend rates are not applicable. The actuarial value of assets are determined using techniques that smooth the effects of short-term volatility in the market value of investments and spreads differences between actual and assumed investment return over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at June 30, 2013, was 23 years for underfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made.

**Annual Pension/OPEB Cost** – During the year ended June 30, 2013, the Town’s annual pension cost of \$218,198 and the annual OPEB cost of \$10,023 was equal to the Town’s required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2011	\$ 143,192	100%	-
	2012	150,729	100%	-
	2013	218,198	100%	-
Health Insurance	2011	\$ 10,607	100%	-
	2012	10,785	100%	-
	2013	10,023	100%	-

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 10. Retirement and Pension Plans, Continued**

**Funded Status and Funding Progress** – The funded status of the plan as of June 30, 2013 is as follows:

	Retirement	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 4,750,486	\$ 134,778
Actuarial value of plan assets	1,847,587	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,902,899</u>	<u>\$ 134,778</u>
Funded ratio (actuarial value of plan assets/AAL)	38.9%	0.0%
Covered payroll (active plan members)	\$ 601,562	\$ 601,562
UAAL as a percentage of covered payroll	482.6%	22.4%

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

**Note 11. 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's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$5,000,000 per occurrence on a claims made basis.

The Arizona Municipal Risk Retention Pool is structured such that members' 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 member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town continues to carry commercial insurance for other risks of loss, including workers, compensation and employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years. The Town is insured by SCF of Arizona for potential worker related accidents.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 12. Contingencies**

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The Town is involved with various matters of litigation from year to year. It is the opinion of Town officials that these cases will either be handled by the Town's insurance coverage or that they will not have a material affect on the Town's financial condition.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town does not anticipate any such amounts.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Funding Progress**  
**June 30, 2013**

**Public Safety Personnel Retirement System – Police**

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2008 through June 30, 2013, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
<b>Valuation Date June 30,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	
2008	2,116,088	3,257,110	1,141,022	65.0%	662,392	172.3%
2009 *	2,062,467	3,614,765	1,552,298	57.1%	652,721	237.8%
2010 *	2,118,960	3,836,022	1,717,062	55.2%	601,878	285.3%
2011 *	2,055,888	4,429,303	2,373,415	46.4%	635,758	373.3%
2012 *	1,809,163	4,586,868	2,777,705	39.4%	542,880	511.7%
2013 *	1,847,587	4,750,486	2,902,899	38.9%	601,562	482.6%

**Post-retirement health insurance subsidy measurements under GASB Statement No. 45**

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
<b>Valuation Date June 30,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	
2008	-	86,563	86,563	0.0%	662,392	13.07%
2009 *	-	108,943	108,943	0.0%	652,721	16.69%
2010 *	-	111,939	111,939	0.0%	601,878	18.60%
2011 *	-	110,336	110,336	0.0%	635,758	17.36%
2012 *	-	126,548	126,548	0.0%	542,880	23.31%
2013 *	-	134,778	134,778	0.0%	601,562	22.40%

\* For fiscal years prior to 2009 (which were prior to the implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2009, GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULES**  
**FOR THE FOLLOWING MAJOR FUNDS**

**Capital Projects Funds**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

- **Development Impact Fees Capital Projects Fund** – This fund is used to account for Library, Parks, Police, Street, and General Government impact fees restricted or earmarked for development of the respective capital improvements.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**DEVELOPMENT IMPACT FEE**  
**CAPITAL PROJECTS FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ 10,700	\$ 10,700	\$ 19,553	\$ 8,853
Interest	1,000	1,000	-	(1,000)
Total Revenue	<u>11,700</u>	<u>11,700</u>	<u>19,553</u>	<u>7,853</u>
<b>EXPENDITURES:</b>				
Capital outlay	73,945	73,945	5,729	68,216
Debt service:				
Principal	<u>46,800</u>	<u>46,800</u>	<u>19,009</u>	<u>27,791</u>
Total Expenditures	<u>120,745</u>	<u>120,745</u>	<u>24,738</u>	<u>96,007</u>
Excess of Revenues Over (Under) Expenditures	<u>(109,045)</u>	<u>(109,045)</u>	<u>(5,185)</u>	<u>103,860</u>
Fund Balance, Beginning of Year	<u>261,659</u>	<u>261,659</u>	<u>261,659</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 152,614</u>	<u>\$ 152,614</u>	<u>\$ 256,474</u>	<u>\$ 103,860</u>

**SUPPLEMENTARY INFORMATION**  
**COMBINING STATEMENTS**  
**AND BUDGETARY COMPARISON SCHEDULES**

**Non-major Governmental Fund**

**Special Revenue Funds**

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

- **Grants Fund** – This fund is used to account for various federal and state grants and other contributions that are restricted for public safety, public works/streets, tourism and recreation, and community and economic development.

**Capital Projects Funds**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

- **Acquisition and Development Fund** – This fund is used for community and economic development projects, debt service on recreational facilities and the acquisition and construction of major capital facilities other than those funded by user fees and proprietary funds and trust funds.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Balance Sheet**  
**Non-major Governmental Funds**  
**June 30, 2013**

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	Grants Fund	Acquisition & Development Fund	Total
<b>Assets</b>			
Cash	\$ -	\$ 17,013	\$ 17,013
Due from other governments	46,035	-	46,035
	<u>46,035</u>	<u>-</u>	<u>46,035</u>
Total Assets	<u>\$ 46,035</u>	<u>\$ 17,013</u>	<u>\$ 63,048</u>
 <b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	26,680	-	26,680
Unearned Revenue	19,355	17,000	36,355
	<u>19,355</u>	<u>17,000</u>	<u>36,355</u>
Total Liabilities	<u>46,035</u>	<u>17,000</u>	<u>63,035</u>
 <b>Fund Balance</b>			
Assigned for community and economic development	-	13	13
Unassigned	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>13</u>	<u>13</u>
Total Liabilities and Fund Balances	<u>\$ 46,035</u>	<u>\$ 17,013</u>	<u>\$ 63,048</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-major Governmental Funds**  
**For the Year Ended June 30, 2013**

<b>REVENUES</b>	<u>Grants Fund</u>	<u>Acquisition &amp; Development Fund</u>	<u>Total</u>
Intergovernmental revenue	\$ 463,833	\$ -	\$ 463,833
Interest	-	83	83
Total Revenues	<u>463,833</u>	<u>83</u>	<u>463,916</u>
 <b>EXPENDITURES</b>			
Current:			
General government	34,437	-	34,437
Public safety	155,057	-	155,057
Public works/streets	212,248	-	212,248
Tourism and recreation	38,484	-	38,484
Community and economic development	23,607	65,459	89,066
Capital outlay	-	125,945	125,945
Debt Service:			
Principal	-	180,000	180,000
Interest	-	16,419	16,419
Total Expenditures	<u>463,833</u>	<u>387,823</u>	<u>851,656</u>
 Excess of Revenues			
Over (Under) Expenditures	<u>-</u>	<u>(387,740)</u>	<u>(387,740)</u>
 <b>Other Financing Sources (Uses):</b>			
Debt issuance	-	60,000	60,000
Transfers in	-	327,753	327,753
Total Other Financing Sources (Uses)	<u>-</u>	<u>387,753</u>	<u>387,753</u>
Net change in fund balances	-	13	13
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 13</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**GRANTS**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 762,880	\$ 762,880	\$ 463,833	\$ (299,047)
Total Revenue	<u>762,880</u>	<u>762,880</u>	<u>463,833</u>	<u>(299,047)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	14,500	14,500	34,437	(19,937)
Public safety	438,000	438,000	155,057	282,943
Public works	-	-	212,248	(212,248)
Tourism and recreation	90,380	90,380	38,484	51,896
Economic development	220,000	220,000	23,607	196,393
Total Expenditures	<u>762,880</u>	<u>762,880</u>	<u>463,833</u>	<u>299,047</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**ACQUISITION & DEVELOPMENT**  
**CAPITAL PROJECTS FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Investment earnings	\$ 50	\$ 50	\$ 83	\$ 33
Total Revenue	<u>50</u>	<u>50</u>	<u>83</u>	<u>33</u>
<b>EXPENDITURES:</b>				
Current:				
Community and economic development	81,280	81,280	65,459	15,821
Capital outlay	20,100	20,100	125,945	(105,845)
Debt Service:				
Principal	180,000	180,000	180,000	-
Interest	16,425	16,425	16,419	6
Total Expenditures	<u>297,805</u>	<u>297,805</u>	<u>387,823</u>	<u>(90,018)</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(297,755)</u>	<u>(297,755)</u>	<u>(387,740)</u>	<u>(89,985)</u>
Other Financing Sources (Uses):				
Debt issuance	-	-	60,000	60,000
Transfers in	282,755	282,755	327,753	44,998
Total Other Financing Sources (Uses):	<u>282,755</u>	<u>282,755</u>	<u>387,753</u>	<u>104,998</u>
Net change in fund balance	(15,000)	(15,000)	13	15,013
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (15,000)</u>	<u>\$ (15,000)</u>	<u>\$ 13</u>	<u>\$ 15,013</u>

## STATISTICAL SECTION

This part of the Town of Pinetop-Lakeside’s financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends .....	57
<i>These schedules contain trend information to help the reader understand how the government’s financial performance and well being have changed over time.</i>	
Revenue Capacity .....	62
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity .....	64
<i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	68
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information .....	69
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs</i>	

Town of Pinetop-Lakeside, Arizona  
 Financial Trends  
 Net Position by Component  
 Last Ten Fiscal Years (Unaudited)  
 (accrual basis of accounting)

	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Governmental activities</b>										
Net investment in capital assets	\$ 510,985	\$ 2,097,522	\$ 2,306,592	\$ 2,446,763	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494	\$ 6,005,581
Restricted	1,183,989	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609	788,771
Unrestricted	646,882	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)
Total governmental activities net position	\$ 2,341,856	\$ 3,738,299	\$ 4,177,211	\$ 4,677,442	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740
<b>Primary government</b>										
Net investment in capital assets	\$ 510,985	\$ 2,097,522	\$ 2,306,592	\$ 2,446,763	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494	\$ 6,005,581
Restricted	1,183,989	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609	788,771
Unrestricted	646,882	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)
Total primary government net position	\$ 2,341,856	\$ 3,738,299	\$ 4,177,211	\$ 4,677,442	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740

**Town of Pinetop-Lakeside, Arizona**  
**Financial Trends**  
**Changes in Net Position**  
**Last Ten Fiscal Years (Unaudited)**  
**(accrual basis of accounting)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental activities:										
General government	\$ 1,478,855	\$ 1,062,943	\$ 1,155,805	\$ 1,278,191	\$ 1,064,940	\$ 1,201,412	\$ 1,194,493	\$ 1,263,351	\$ 1,235,522	\$ 1,240,409
Public safety	1,375,483	1,350,807	1,464,137	1,685,909	1,770,291	2,041,011	1,991,096	2,038,235	2,091,653	2,239,765
Public works/Streets	704,390	1,216,169	1,541,117	1,115,192	1,321,052	816,470	784,839	757,453	1,143,070	790,877
Culture and recreation	597,783	698,508	841,133	1,055,169	1,238,971	1,003,582	950,846	947,880	995,126	1,132,279
Economic development	551,709	442,894	816,522	636,314	875,855	927,805	647,267	439,196	394,438	403,912
Interest on long-term debt	159,202	223,317	110,037	109,043	103,544	87,580	68,112	52,853	38,793	24,294
Total governmental activities expenses	4,867,422	4,994,638	5,928,751	5,879,818	6,374,653	6,077,860	5,636,653	5,498,968	5,898,602	5,831,536
Total primary government expenses	\$ 4,867,422	\$ 4,994,638	\$ 5,928,751	\$ 5,879,818	\$ 6,374,653	\$ 6,077,860	\$ 5,636,653	\$ 5,498,968	\$ 5,898,602	\$ 5,831,536
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services:										
General government	226,193	498,267	584,839	502,021	300,060	277,154	244,658	443,713	312,155	234,243
Public safety	81,587	73,329	54,104	67,188	64,053	75,207	66,321	51,755	83,198	91,322
Public works/Streets	-	-	-	-	-	-	-	-	-	-
Culture and recreation	49,633	45,427	44,186	33,902	30,586	28,337	36,834	23,175	24,818	23,237
Economic development	-	-	-	-	-	-	-	-	-	9,404
Operating grants and contributions	951,740	669,724	753,841	824,993	750,842	699,134	569,216	682,175	738,207	688,041
Capital grants and contributions	18,602	54,445	183,119	139,057	352,032	829,702	201,738	206,600	751,168	293,116
Total governmental activities program revenues	1,327,755	1,341,192	1,620,089	1,567,161	1,497,573	1,909,534	1,118,767	1,407,418	1,909,546	1,339,363
Total primary government program revenues	\$ 1,327,755	\$ 1,341,192	\$ 1,620,089	\$ 1,567,161	\$ 1,497,573	\$ 1,909,534	\$ 1,118,767	\$ 1,407,418	\$ 1,909,546	\$ 1,339,363

\* Information not available

(continued)

**Town of Pinetop-Lakeside, Arizona**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Continued)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (3,539,667)	\$ (3,653,446)	\$ (4,308,662)	\$ (4,312,657)	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)	\$ (4,492,173)
Total primary government net expense	\$ (3,539,667)	\$ (3,653,446)	\$ (4,308,662)	\$ (4,312,657)	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)	\$ (4,492,173)
<b>General Revenues and Other</b>										
<b>Changes in Net Position</b>										
Governmental activities:										
Taxes:										
Sales taxes	\$ 2,903,149	\$ 3,147,312	\$ 3,605,635	\$ 4,187,256	\$ 4,180,995	\$ 3,576,365	\$ 3,256,167	\$ 3,335,049	\$ 3,373,567	\$ 3,286,485
Franchise taxes	38,176	40,509	48,984	54,119	55,860	57,091	54,814	52,327	50,930	48,550
State revenue sharing	322,987	329,285	375,033	472,876	586,141	622,764	537,745	405,391	361,404	350,490
State sales taxes	301,354	331,838	382,949	395,872	382,780	331,381	305,650	319,406	334,597	210,755
Auto-in-lieu	198,675	205,007	229,725	248,658	248,521	238,361	216,864	215,174	213,147	437,397
Investment earnings	15,774	20,135	49,611	87,345	85,961	31,376	5,103	7,681	5,382	91
Other	57,041	994,020	55,637	86,185	-	5,003	2,604	-	-	-
Total governmental activities	3,837,156	5,068,106	4,747,574	5,532,311	5,540,258	4,862,341	4,378,947	4,335,028	4,339,027	4,333,768
Total Primary government	\$ 3,837,156	\$ 5,068,106	\$ 4,747,574	\$ 5,532,311	\$ 5,540,258	\$ 4,862,341	\$ 4,378,947	\$ 4,335,028	\$ 4,339,027	\$ 4,333,768
<b>Change in Net Asset</b>										
Governmental activities	\$ 297,489	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)
Total primary government	\$ 297,489	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)

Town of Pinetop-Lakeside, Arizona  
 Financial Trends  
 Fund Balances of Governmental Funds  
 Last Ten Fiscal Years (Unaudited)  
 (modified accrual basis of accounting)

	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>General fund</b>										
Nonspendable	\$ 144,304	\$ 10,455	\$ 57,936	\$ 81,962	\$ 50,013	\$ 118,408	\$ 32,820	\$ 110,954	\$ 31,496	\$ 21,651
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	730,444	1,292,743	1,640,370	2,123,946	1,367,371	703,189	373,973	176,884	133,020	(272,671)
Total general fund	\$ 874,748	\$ 1,303,198	\$ 1,698,306	\$ 2,205,908	\$ 1,417,384	\$ 821,597	\$ 406,793	\$ 287,838	\$ 164,516	\$ (251,020)
<b>All other governmental funds</b>										
Restricted:										
Public safety	\$ -	\$ -	\$ -	\$ 18,497	\$ 36,390	\$ 45,779	\$ 46,248	\$ 58,764	\$ 14,952	\$ -
Highways and streets	-	-	-	44,974	251,397	133,450	243,838	614,218	537,341	671,045
Community and economic development	-	-	-	28,220	46,205	45,260	53,373	54,474	59,602	65,573
Other	143,167	236,263	-	51,858	70,741	59,911	89,121	124,901	55,714	52,153
Committed for:										
Tourism and recreation	-	-	-	-	-	65,703	27,588	20,203	20,593	-
Assigned for:										
Community and economic development	-	-	-	-	-	-	-	-	-	13
Unassigned, reported in:										
Special revenue funds	983,750	101,316	265,678	(6,606)	-	(193,631)	-	-	-	(8,137)
Capital projects funds	-	-	-	-	-	-	-	-	-	-
	\$ 1,126,917	\$ 337,579	\$ 265,678	\$ 136,943	\$ 404,733	\$ 156,472	\$ 460,168	\$ 872,560	\$ 688,202	\$ 780,647

Note: The City began to report fund balance classification per GASB Statement 54 in fiscal year 2011. Balances previously reported as reserved are reported as restricted and balances previously reported as unreserved are reported as unassigned, restricted, committed or assigned as applicable.

\* Both restricted and committed fund balances for capital outlay are reported as restricted previous to 2007.

Town of Pinetop-Lakeside, Arizona  
Financial Trends  
Changes in Fund Balance of Governmental Funds  
Last Ten Fiscal Years (Unaudited)  
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Revenues</b>										
Taxes	\$ 2,903,149	\$ 3,147,312	\$ 3,605,636	\$ 4,187,256	\$ 4,180,994	\$ 3,576,365	\$ 3,256,167	\$ 3,335,050	\$ 3,373,568	\$ 3,286,485
Franchise taxes	38,176	40,509	48,984	54,119	55,860	57,092	54,814	52,327	50,930	48,550
Intergovernmental	1,792,771	1,589,275	1,924,667	1,941,087	2,029,959	2,240,232	1,810,130	1,666,312	1,920,673	1,952,454
Licenses, permits, and fees	160,332	308,265	466,493	370,663	179,177	116,741	101,349	106,442	93,428	126,153
Charges for services	102,421	120,809	73,439	80,375	123,241	110,771	130,385	109,367	109,043	119,806
Fines and forfeitures	35,080	69,239	49,620	63,665	59,492	71,407	63,116	49,720	82,131	53,239
Interest	15,774	20,136	49,610	87,345	85,960	31,376	5,103	7,681	5,382	91
Lease income	59,580	104,633	17,829	18,140	17,823	17,820	17,820	17,820	22,275	17,820
Impact fees	-	-	-	139,057	184,230	59,510	19,738	81,434	13,102	19,553
Other	89,309	19,900	76,348	157,763	121,094	490,561	39,091	316,291	127,241	48,981
Total Revenues	\$ 5,196,592	\$ 5,420,078	\$ 6,312,626	\$ 7,099,470	\$ 7,037,830	\$ 6,771,875	\$ 5,497,713	\$ 5,742,444	\$ 5,797,773	\$ 5,673,132
<b>Expenditures</b>										
Current:										
General government	\$ 1,269,340	\$ 1,009,181	\$ 1,136,972	\$ 1,297,984	\$ 1,198,102	\$ 1,215,854	\$ 1,159,361	\$ 1,135,419	\$ 1,142,334	\$ 1,149,334
Public safety	1,382,376	1,309,540	1,469,481	1,666,616	1,847,878	1,938,776	1,873,364	1,961,851	2,215,692	2,167,567
Public works/streets	705,664	1,178,023	1,444,619	1,441,777	1,672,565	1,879,964	612,841	600,760	985,898	822,572
Tourism and recreation	544,697	582,570	800,308	970,118	1,120,125	1,030,831	795,263	878,006	847,481	979,971
Community and economic development	596,510	424,171	814,428	634,330	870,400	924,902	597,683	437,464	394,736	406,802
Capital outlay	942,288	1,724,158	189,649	401,904	363,822	233,542	99,807	57,654	712,874	131,674
Debt service										
Principal	518,613	423,377	763,300	327,867	382,128	370,793	402,389	325,000	381,415	374,009
Interest and fiscal charges	159,202	181,576	151,778	109,043	103,544	87,580	68,112	52,853	38,793	24,294
Total expenditures	6,118,690	6,832,596	6,770,535	6,849,639	7,558,564	7,682,242	5,608,820	5,449,007	6,719,223	6,056,223
Revenues over (under) expenditures	(922,098)	(1,412,518)	(457,909)	249,831	(520,734)	(910,367)	(111,107)	293,437	(921,450)	(383,091)
<b>Other finance sources (Uses)</b>										
Proceeds of long-term debt issuance	1,539,378	-	-	129,036	-	66,319	-	-	613,770	60,000
Proceeds from sale of capital assets	153,610	1,203,329	781,113	-	-	-	-	-	-	-
Transfers in	28,370	468,700	486,342	410,100	952,259	984,673	533,849	451,603	428,686	537,635
Transfers out	(28,370)	(468,700)	(486,342)	(410,100)	(952,259)	(984,673)	(533,849)	(451,603)	(428,686)	(537,635)
Total other finance sources (uses)	1,692,988	1,203,329	781,113	129,036	-	66,319	-	-	613,770	60,000
<b>Net change in fund balances</b>	\$ 770,890	\$ (209,189)	\$ 323,204	\$ 378,867	\$ (520,734)	\$ (844,048)	\$ (111,107)	\$ 293,437	\$ (307,680)	\$ (323,091)
Debt service as a percentage of noncapital expenditures	13.14%	11.71%	14.01%	7.36%	7.56%	7.54%	8.44%	7.07%	7.30%	6.98%

**Town of Pinetop-Lakeside, Arizona**  
**Revenue Capacity**  
**General Government Tax Revenues by Source**  
**Last Ten Fiscal Years (Unaudited)**  
**(modified accrual basis of accounting)**

<b>Fiscal Year</b>	<b>State Shared Sales Tax</b>	<b>City Sales Tax</b>	<b>Franchise Tax</b>	<b>Motor Fuel Tax</b>	<b>Vehicle License Tax</b>	<b>State Shared Income Tax</b>
2004	\$ 301,354	\$ 2,954,132	\$ 38,176	\$ 562,058	\$ 198,675	\$ 322,987
2005	331,838	3,202,086	40,509	577,485	205,007	329,285
2006	382,949	3,659,494	48,984	582,147	229,725	375,033
2007	395,872	3,963,230	54,119	610,703	248,658	472,876
2008	382,780	4,198,925	55,860	590,551	248,521	586,141
2009	331,381	3,606,796	57,092	533,436	238,361	622,764
2010	305,650	3,256,167	54,814	498,319	216,864	537,745
2011	319,406	3,335,049	52,327	513,738	215,174	405,391
2012	334,597	3,373,567	50,930	429,242	213,147	361,404
2013	350,490	3,286,485	48,550	470,581	210,755	437,397

Source: The Town of Pinetop-Lakeside, Arizona's Financial Services Department.

**Town of Pinetop-Lakeside, Arizona**  
**Revenue Capacity**  
**Local Sales Tax Revenue by Industry**  
**Last Six Fiscal Years (Unaudited)**

	Fiscal Year											
	2008		2009		2010		2011		2012		2013	
	Collections	% of Total										
Communication & Utilities	259,439	6.2%	251,314	7.0%	251,042	7.7%	264,629	7.9%	268,981	8.0%	279,845	8.5%
Construction	574,389	13.7%	339,124	9.5%	222,624	6.8%	270,420	8.1%	230,097	6.8%	122,646	3.7%
Manufacturing	195,198	4.6%	144,399	4.0%	113,564	3.5%	116,963	3.5%	114,541	3.4%	107,925	3.3%
Retail	1,454,697	34.7%	1,365,758	38.2%	1,238,356	38.0%	1,257,632	37.7%	1,299,885	38.5%	1,333,417	40.6%
Real Estate Leasing	290,776	6.9%	255,464	7.1%	210,426	6.5%	175,397	5.3%	179,001	5.3%	153,831	4.7%
Restaurant & Bar	787,298	18.8%	709,559	19.8%	717,512	22.0%	717,337	21.5%	718,311	21.3%	758,904	23.1%
Accommodation	259,806	6.2%	207,781	5.8%	211,801	6.5%	198,457	6.0%	193,127	5.7%	210,043	6.4%
Services	199,893	4.8%	167,253	4.7%	171,405	5.3%	159,191	4.8%	143,600	4.3%	134,278	4.1%
All Other	176,432	4.2%	135,713	3.8%	119,391	3.7%	175,024	5.2%	228,389	6.8%	185,596	5.6%
Total	4,197,928	100.0%	3,576,365	100.0%	3,256,122	100.0%	3,335,050	100.0%	3,375,932	#DIV/0!	3,286,485	#DIV/0!

-1.19% up from prior year    -14.81% down from prior year    -8.95% down from prior year    2.42% down from prior year    1.23% up from prior year    -2.65%

Source: Arizona Department of Revenue

Note: Fiscal Year 2012 amounts reflect receipts through July 2012

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the town's tax revenues.

**Town of Pinetop-Lakeside, Arizona  
Debt Capacity  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years (Unaudited)**

Fiscal Year	Governmental Activities						Total Government Debt	Percentage of Personal Income	Population	Per Capita <sup>(1)</sup>
	Revenue	General	Capital	Leases		Debt				
	Bonds	Obligaion Debt								
2004	\$ 2,880,000	\$ 631,538	\$ 104,378			\$ 3,615,916	187.04%	4,055	\$ 892	
2005	2,630,000	761,946	79,748			3,471,694	163.72%	4,165	834	
2006	2,365,000	95,838	54,166			2,515,004	111.24%	4,540	554	
2007	2,090,000	69,541	156,632			2,316,173	96.00%	4,758	487	
2008	1,805,000	156,134	89,390			2,050,524	80.74%	4,769	430	
2009	1,510,000	65,872	86,997			1,662,869	63.13%	4,805	346	
2010	1,200,000	-	-			1,200,000	43.75%	4,282 *	280	
2011	875,000	-	-			875,000	31.00%	4,282 *	204	
2012	540,000	-	560,741			1,100,741	37.90%	4,282 *	257	
2013	185,000	-	561,102			746,102	24.97%	4,282 *	174	

\* Population adjusted to results of 2010 US Census

(1) Population numbers prior to 2010 are based on Arizona Department of Economic Security estimates.

**Town of Pinetop-Lakeside, Arizona**  
**Debt Capacity**  
**Direct and Overlapping Governmental Activities Debt**  
**(Unaudited)**

Governmental Unit	Net Debt Outstanding (1)	Percentage Applicable to the Town of Pinetop-Lakeside	Amount Applicable to the Town of Pinetop-Lakeside
Blue Ridge Unified School District #32	\$ 21,100,000	21.4%	\$ 4,521,730
Pinetop-Lakeside Sanitary District	19,378	79.0%	15,309
Pinetop Fire District	5,430,875	85.0%	4,616,244
Lakeside Fire District	-	31.0%	-
Subtotal, overlapping debt			9,153,282
Town direct debt			746,102
Total direct and overlapping debt			\$ 9,153,282

(1) Includes general obligation bonds outstanding

Source: Navajo County Finance Department

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the taxpayers of the Town of Pinetop-Lakeside. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the taxpayers should be taken into account.

**Town of Pinetop-Lakeside, Arizona**  
**Debt Capacity**  
**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years (Unaudited)**

Municipal Property Corporation Bonds Payable

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2004	\$ 3,777,148	\$ 120,000	\$ 71,410	\$ 191,410	19.73
2005	4,068,215	130,000	66,850	196,850	20.67
2006	4,647,201	135,000	61,650	196,650	23.63
2007	5,080,636	140,000	56,250	196,250	25.89
2008	5,416,367	145,000	50,370	195,370	27.72
2009	4,799,302	150,000	44,280	194,280	24.70
2010	4,316,426	155,000	37,830	192,830	22.38
2011	4,275,020	165,000	31,165	196,165	21.79
2012	4,282,714	170,000	23,905	193,905	22.09
2013	4,285,127	180,000	16,425	196,425	21.82

GADA Loan

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2004	\$ 3,777,148	\$ 110,000	\$ 28,603	\$ 138,603	27.25
2005	4,068,215	120,000	58,063	178,063	22.85
2006	4,647,201	130,000	52,663	182,663	25.44
2007	5,080,636	135,000	46,813	181,813	27.94
2008	5,416,367	140,000	40,738	180,738	29.97
2009	4,799,302	145,000	34,438	179,438	26.75
2010	4,316,426	155,000	28,275	183,275	23.55
2011	4,275,020	160,000	21,688	181,688	23.53
2012	4,282,714	165,000	14,888	179,888	23.81
2013	4,285,127	175,000	7,875	182,875	23.43

Source: The Town of Pinetop-Lakeside, Arizona's Financial Services Department

**Town of Pinetop-Lakeside, Arizona**  
**Debt Capacity**  
**Debt Limitations and Computation of Legal Debt Margin**

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value (in thousands)	\$ 71,962	\$ 71,962
Total assessed value	<u>\$ 71,962</u>	<u>\$ 71,962</u>
Legal debt margin:		
Debt limitation (in thousands)	\$ 14,392	\$ 4,318
Debt applicable to limitation:		
General Obligation Bonds	<u>-</u>	<u>-</u>
Total debt applicable to limitation	<u>-</u>	<u>-</u>
Legal debt margin (in thousands)	<u>\$ 14,392</u>	<u>\$ 4,318</u>
Total debt applicable to the limit as a percentage of the limit	0%	0%

Arizona's Constitution states that a municipality cannot issue general obligation bonds in excess of 6% of the assessed valuation for general municipal purposes.

Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purposes such as supplying water and sewer services and recreational and playground facilities.

**Town of Pinetop-Lakeside, Arizona  
Demographic and Economic Information  
Demographic Statistics - Population Statistics, Unemployment Averages  
Last Ten Fiscal Years (Unaudited)**

Calendar Year	Town of Pinetop-Lakeside		Navajo County		Navajo County Per Capita Personal Income		Pinetop-Lakeside Public School Enrollment (5)		Town of Pinetop-Lakeside		Unemployment Averages (3)	
	Population (1)	Population (1)	Population (1)	Personal Income (2) (in thousands)	County Personal Income	Pinetop-Lakeside Per Capita Income (4)	Pinetop-Lakeside Public School Enrollment (5)	Pinetop-Lakeside Public School Enrollment (5)	Pinetop-Lakeside	Navajo County	State of Arizona	
2004	3,972 *	105,020	1,933,211	\$ 18,408	\$ 21,203	2,576	2,576	4.0%	8.4%	5.0%		
2005	4,088 *	106,968	2,120,553	\$ 19,824	\$ 22,122	2,680	2,680	3.8%	8.0%	4.7%		
2006	4,333 *	109,000	2,260,966	\$ 20,743	\$ 23,044	2,690	2,690	3.5%	7.2%	4.1%		
2007	4,486 *	110,999	2,412,656	\$ 21,736	\$ 23,963	2,690	2,690	3.0%	6.2%	3.7%		
2008	4,503 *	112,348	2,539,509	\$ 22,604	\$ 24,883	2,617	2,617	4.4%	9.8%	6.0%		
2009	4,522 *	112,975	2,634,137	\$ 23,316	\$ 25,509	2,600	2,600	6.6%	15.2%	9.9%		
2010	4,282	97,470	2,742,716	\$ 28,139	\$ 26,720	2,462	2,462	7.8%	16.0%	10.5%		
2011	4,300 *	101,369	2,822,255	\$ 27,841	\$ 27,645	2,344	2,344	7.7%	16.0%	9.5%		
2012	4,303 *	107,923	2,904,100	\$ 26,909	\$ 28,561	2,308	2,308	8.2%	15.1%	8.3%		
2013	4,389 *	110,081	2,988,319	\$ 27,146	\$ 28,561	2,335	2,335	8.2%	14.8%	8.3%		

(1) Source: U.S. Department of Commerce estimates, Bureau of the Census; Arizona Department of Administration estimates.

\* Population estimated except for 2010 Census.

(2) Source: US Department of Commerce, Bureau of Economic Analysis Unit (2002-2009). 2010 & 2011 county data unavailable and estimated based on statewide information

(3) Source: WWW.AZSTATS.GOV

(4) Source: Arizona Department of Administration; Bureau of the Census American FactFinder 2003 and 2010 per capita income come from the Census Bureau, all other years are estimated.

(5) Source: Blue Ridge Unified School District #32

**Town of Pinetop-Lakeside, Arizona**  
**Operating Information**  
**Full Time Equivalent Employees by Function**  
**Last Ten Fiscal Years (Unaudited)**

Function	Full-time Equivalent Employees									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	16	16	17	18	18	18	14	14	12	12.5
Public Safety	14	14	14	14	14	14	14	15	17	17
Officers	10	10	10	10	10	9.5	7.5	7.5	7.5	7.5
Civilians	6	6	6	6	6	5	6.5	6.5	6.5	5.5
Streets	7	7	8	8	8	7	6.5	6.5	6.5	6.5
Parks and Recreation	4	5	5	5	5	5	5	5	5	5
Library										
Total	57	58	60	61	61	58.5	53.5	54.5	54.5	54.0

Source: Town of Pinetop-Lakeside, Arizona

**Town of Pinetop-Lakeside, Arizona  
 Operating Information  
 Construction/Building Permit Activity  
 Last Ten Fiscal Years (Unaudited)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
<b>Building Permits</b>										
Residential	80	93	162	98	36	23	10	9	9	9
Commercial	8	14	9	11	5	1	2	1	1	1
<b>Value of Construction</b>										
Residential	\$12,719,000	\$18,317,000	\$39,137,000	\$27,796,000	\$12,055,000	\$ 6,039,000	\$ 3,610,000	\$ 3,749,000	\$ 2,545,000	\$ 2,442,000
Commercial	4,843,000	4,166,000	3,232,000	3,695,000	22,688,000	97,000	6,900,000	2,783,000	988,000	1,100,000
<b>Total</b>	<b>\$17,562,088</b>	<b>\$22,483,107</b>	<b>\$42,369,171</b>	<b>\$31,491,109</b>	<b>\$34,743,041</b>	<b>\$ 6,136,024</b>	<b>\$10,510,012</b>	<b>\$ 6,532,010</b>	<b>\$ 3,533,010</b>	<b>\$ 3,542,010</b>

\*2012 is the most recent completed year of record keeping

Source: Town of Pinetop-Lakeside Building Department

**Town of Pinetop-Lakeside, Arizona  
 Operating Information  
 Capital Asset Statistics by Function  
 Last Ten Fiscal Years (Unaudited)**

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	45	45	45	45	45	45	45	45	45	45
Highways (Miles)	5	5	5	5	5	5	5	5	5	5
Traffic lights	5	5	6	6	6	6	6	6	6	6
Parks and Recreation										
Acreage	534	684	684	150	150	150	150	150	150	150
Playgrounds	2	3	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	2	4	4	4	4	4	4	4	4	4
Football and Soccer Fields	1	5	5	5	5	5	5	5	5	5

Source: Town of Pinetop-Lakeside, Arizona

**Town of Pinetop-Lakeside, Arizona  
Operating Information  
Operating Indicators by Function  
Last Ten Fiscal Years (Unaudited)**

Function	Fiscal Years									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Building Permits Issued	107	171	109	41	24	12	10	10	10	*
Building Inspections Conducted	107	171	109	41	24	12	10	10	10	*
Police										
Physical Arrests	*	*	*	*	*	444	670	599	529	387
Parking Violations	*	*	*	*	*	0	4	0	0	1
Traffic Violations	*	*	*	*	*	1,760	1,882	2,551	2,010	1,438
Calls for Service	*	*	*	*	*	7,994	8,430	9,752	10,787	7,991
Streets **										
Street Resurfacing (Miles)	0	0	0	2	1	0	1	2	2	10
Potholes Repaired	500	575	700	900	1,100	1,200	1,215	1,350	1,500	1,620
Street Sweeping (Miles)	50	50	1,135	1,135	1,135	1,135	1,135	1,135	1,135	1,135
Culture and recreation										
Parks acreage	148	148	148	148	148	148	148	148	148	148
Ball fields	7	7	7	7	7	7	7	7	7	7

Source: Town of Pinetop-Lakeside, Arizona

\* Information not available.

\*\* These are estimates based on material purchases.

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

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**Independent Auditor's 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  
Pinetop-Lakeside, Arizona

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 4, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Pinetop-Lakeside, Arizona, 's internal control over financial reporting (internal control) to determine the 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 a 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described

in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies.

07-01. Segregation of Duties

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town'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 determination of financial statement amounts. 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.



HintonBurdick, PLLC  
Flagstaff, Arizona  
November 4, 2013

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**Independent Auditors' Report on  
State Legal Compliance**

The Honorable Mayor and  
Town Council  
Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona for the year ended June 30, 2013, and have issued our report thereon dated November 4, 2013. Our audit also included test work on the Town of Pinetop-Lakeside'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 Pinetop-Lakeside 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 Pinetop-Lakeside 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 Pinetop-Lakeside 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 Pinetop-Lakeside complied, in all material respects, with the requirements identified above for the year ended June 30, 2013.



HintonBurdick, PLLC  
Flagstaff, Arizona  
November 4, 2013

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