

TOWN OF PINETOP-LAKESIDE, ARIZONA



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2014

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**

Prepared by:

Department of Finance and Administration

TOWN OF PINETOP-LAKESIDE

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November 26, 2014

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

We are pleased to submit to you the 2014 Comprehensive Annual Financial Report (CAFR) for the Town of Pinetop-Lakeside, Arizona (the Town) in accordance with the Arizona Revised Statutes, Section 9-481.

This document represents management's report to its governing body, constituents, legislative and oversight bodies, and investors and creditors. Copies of this report will be sent to the Town's elected officials, made available to all management personnel, placed on the Electronic Municipal Market Access (EMMA) website for all bond rating agencies and repositories and other agencies that have expressed an interest in the Town's financial matters. Copies of this financial report will also be placed on record in the Town Clerk's official library and on the Town's website for use by the general public.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rest with the management of the Town. The Town has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of financial statements. We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the Town on both a city-wide and fund basis. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understating of the Town's financial activity and financial stability have been included.

These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

An independent firm of certified public accountants, HintonBurdick, PLLC, whose report is included herein, has examined the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2014, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements for the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2014, are fairly presented, in all material respects, and are in conformity with GAAP. The independent auditors' report is presented as the first component 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, has a Council-Manager form of government with a seven member Town Council consisting of a Mayor and six Council Members. The Mayor is selected by the Council members from among themselves and serves a two-year term. Council members serve four-year terms, with three or four members elected every two years. The Town Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of Town Manager, Town Attorney, Magistrate Judge and Town Clerk. The Town Manager is responsible for appointing its department heads and carrying out the policies and enforcing the ordinances of the Town Council, as well as overseeing the day-to-day operations of the Town.

The Town of Pinetop-Lakeside is located in Navajo County in the eastern part of the State of Arizona. It currently occupies 11.3 square miles and serves a population of 4,465 (estimated). The Town of Pinetop-Lakeside is empowered to levy a property tax on real property located within its boundaries, and to extend its corporate limits by annexation. The Town has chosen not to levy a property tax since incorporation.

The Town's economy is primarily tourism focused with the majority of local operating revenue being generated through sales and bed taxes. The impacts of the recent national and statewide economic downturn have also been felt in Pinetop-Lakeside. Although tourist activity has begun to return, the rate of growth is expected to be minimal.

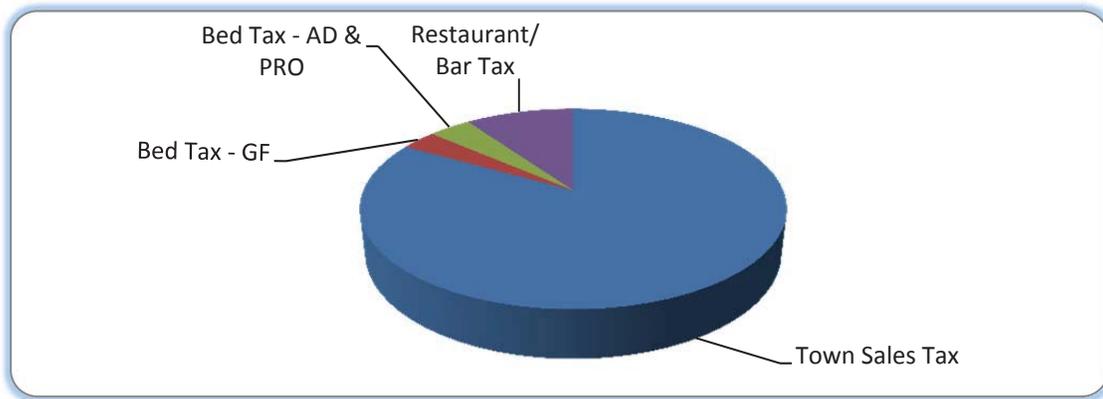
The Town of Pinetop-Lakeside provides a full range of municipal services, including police protection, snow removal, traffic control, planning and zoning services, building inspections, maintenance of streets and other infrastructure, recreational and cultural activities, and library services. The Town partners with other organizations to provide various community services that otherwise would not be cost-effective to operate as a Town function. Some partner-operated functions include the Chamber of Commerce, Humane Society, Transit services, and teen and youth programs.

The Town 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.

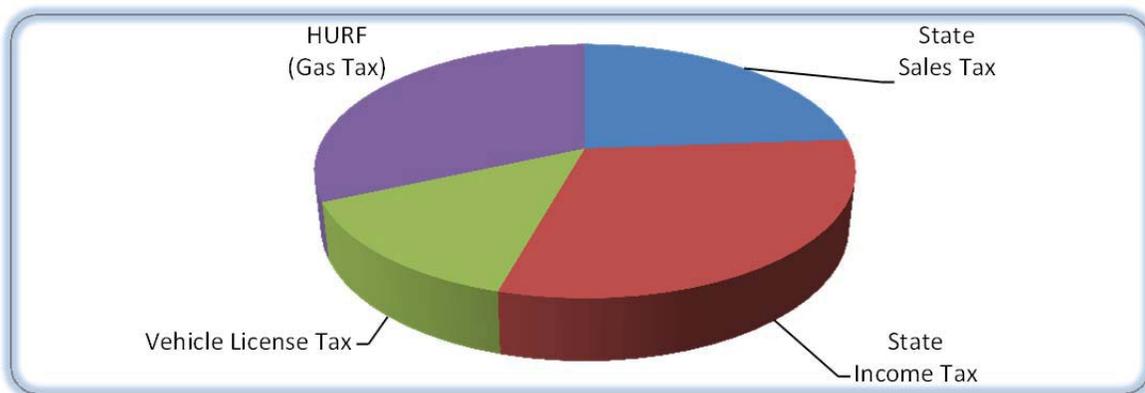
Local economy

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. There is a heavy reliance on Sales tax and the economy is heavily driven by tourism and the generation of sales taxes from tourism related activities. Overall, sales tax revenues comprise approximately 61% of the Town's revenues.

The Town's sales rate is 2.50%, with general capital projects being funded from an annually adjusted transfer at levels necessary to support needed projects and allowing for allocation of funds to the most fundamental areas of service. The Town also has a 3% Bed tax (occupancy) which is allocated to the General Fund and Tourism and Promotion fund and a 2.0% Restaurant/Bar tax which is allocated to the Parks Fund.



State shared revenues received by the Town of Pinetop-Lakeside include allocations of the State-collected sales, income, and gas and motor vehicle in-lieu taxes. The sales and income taxes are placed in the Town's General Fund, where it is used to support the Town's day-to-day activities. The gas and motor vehicle taxes are placed into the Highway Users Revenue Fund, where it is used for the Town's construction and maintenance of streets and roads. The gas tax is restricted to this type of fund, where the motor vehicle tax has been assigned to these functions by Town Council action. State shared revenues comprise approximately 20% of the Town's revenues.



Because of its location in a region with a narrow economic base, unemployment had been relatively stable until the effect of the economic downturn. Since that time, the unemployment rate has risen to a current high of 8.1%. Although unemployment rates have started dropping nationwide, the Town of Pinetop-Lakeside remains constant at approximately 8% over the last three years. This rate is higher than national and State averages.

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. At the end of 2012, the median price of a single family home in the vicinity of the Town of Pinetop-Lakeside was \$161,000. By June, 2014, the median price has increased to \$227,000.

Long-term financial planning and major initiatives

In reviewing the long-term fiscal outlook for the Town, it is evident that the Town will need to provide new funding or reallocation of sources in order to balance demands for services. Staff and Council will need to start the process of evaluating and prioritizing capital and programming needs and identifying possible funding strategies for those priorities. This long-term strategy will assist the Town in developing programs and funding capital projects in a way to maintain a financially stable environment in the Town for years to come.

The Town staff and elected officials have worked cooperatively to implement cost reductions to address the changes in the overall economy experienced. 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.

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). When estimated revenues are less than appropriations, the policy allows for the appropriation of fund balance to close the gap. In addition to the budget balancing strategies, forward looking revenue projections are conservatively estimated anticipating impacts to tourism related revenues. The forecasts are prepared to examine the Town's ability to absorb operating costs due to changes in the economy, service demands and capital improvements.

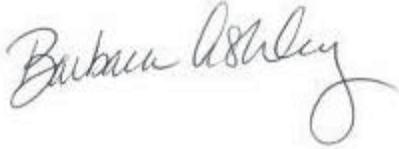
Awards and Acknowledgements

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, Arizona for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the third year that the Town of Pinetop-Lakeside has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents must conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal 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 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the staff of the Town's Finance Department and along with the assistance of the Town's Department Heads. We also wish to thank the members of the Town Council for their interest and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Barbara Ashley". The signature is written in dark ink and is positioned above the printed name and title.

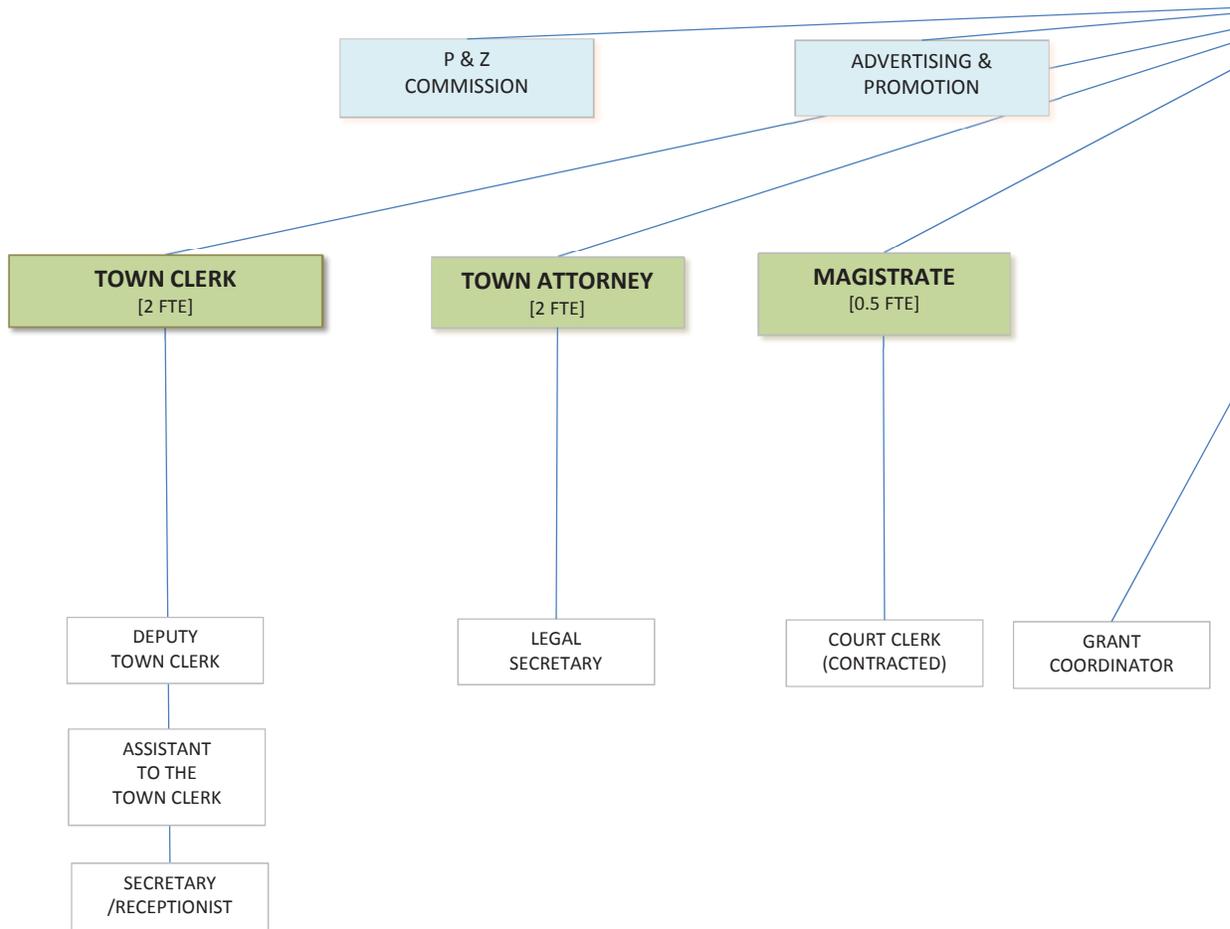
Barbara Ashley
Interim Finance Director

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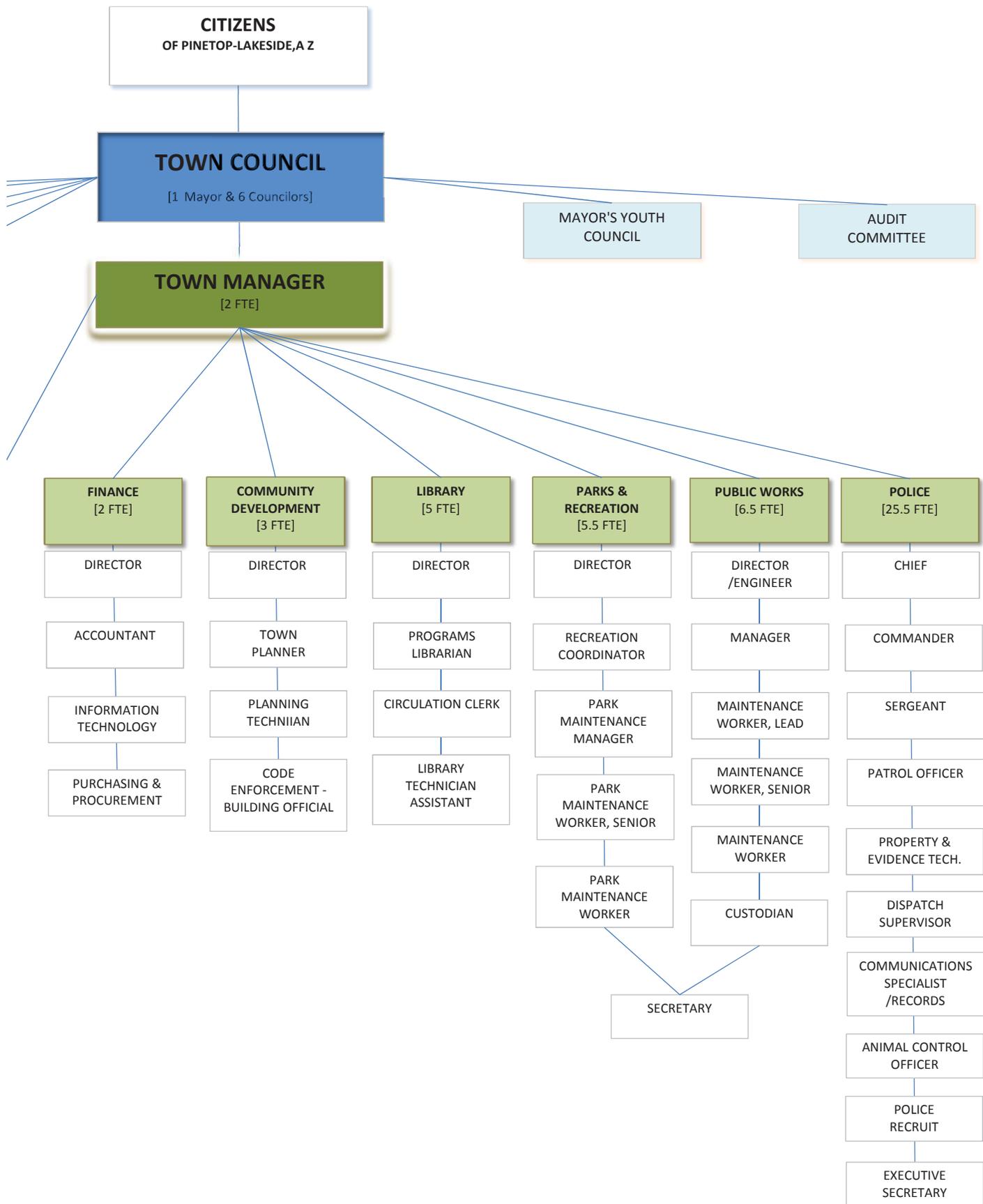
**Town of Pinetop-Lakeside
List of Officials**

	As of June 30, 2014	As of October 15, 2014
Position	Name	Name
Mayor	Roger Williams	Roger Williams
Vice-Mayor	Dara Vanesian	Dara Vanesian
Council	Leslee Wessel	Leslee Wessel
Council	Stephanie Irwin	Stephanie Irwin
Council	Chris Cannon	Chris Cannon
Council	Tamara Hayes	Greg Smith
Council	Patrick Place	Patrick Place
Attorney	W. Kent Foree	Sims Murray, LTD.
Manager	Vacant	Evelyn Racette
Town Clerk	**Leah Chavez	Leah Chavez
Finance Director	J. Kent Brooksby	Interim
Community Development Director	Paul Esparza	Paul Esparza
Library Director	Jeff Collins	Jeff Collins
Parks & Recreation Director	John Vuolo	John Vuolo
Public Works Director	**Andy Romance	Andy Romance
Police Chief	**Ron Wheeler	Ron Wheeler

**At the April 28, 2014, Town Council voted to have the vacant Town Manager position filled with 3 Dept. Heads. The Chief of Police, Town Clerk and Public Works Director would share the responsibility, with the PW Director being the signatory person. This was a six-month appointment scheduled to terminate October 28, 2014.



ORGANIZATION 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, 2013

Executive Director/CEO

FINANCIAL SECTION

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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, 2014, 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, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Highway Users Revenue 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, major capital project fund budgetary comparisons, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The major capital project fund budgetary comparisons, and combining and individual non-major fund financial statements 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 non-major 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 10, 2014, 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 10, 2014

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TOWN OF PINETOP-LAKESIDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year-Ended June 30, 2014

As management of the Town of Pinetop-Lakeside, we are proud to offer the Town's financial statements. This is a narrative of our discussion and analysis of the Town of Pinetop-Lakeside's financial performance, and provides an overview of the Town's financial activities for the fiscal year ended June 30, 2014. 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 \$247,566 as a result of this year's operations.
- During the year, the Town had expenses that were \$247,566 more than the \$5,868,154 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$6,115,720 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 \$678,388, an increase of \$131,761.
- The general fund reported an increase of \$10,590.

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 acquisition and development 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 26-43 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 46 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 47-54 of this report.

The Town as a Whole

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined net position decreased from \$6,330,740 to \$6,100,174 as shown in the following condensed statement of net position as of June 30, 2014. Our analysis below focuses on the Net Position and Changes in Net Position of the Town's governmental activities.

Town of Pinetop-Lakeside Net Position

	Governmental activities	
	6/30/2014	6/30/2013
Current and other assets	\$ 1,262,552	\$ 1,094,429
Capital assets	6,231,458	6,751,683
Total assets	<u>7,494,010</u>	<u>7,846,112</u>
Long-term liabilities outstanding	709,513	744,380
Other liabilities	684,323	770,992
Total liabilities	<u>1,393,836</u>	<u>1,515,372</u>
Net position:		
Net investment in capital assets	5,734,415	6,005,581
Restricted	194,130	788,771
Unrestricted	171,629	(463,612)
Total net position	<u>\$ 6,100,174</u>	<u>\$ 6,330,740</u>

Governmental Activities

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture and Recreation, and Community (Economic) Development. Each programs' net cost (total cost less revenues generated by activities) is presented below. The net cost shows the extent to which the Town's general taxes support each of the Town's programs.

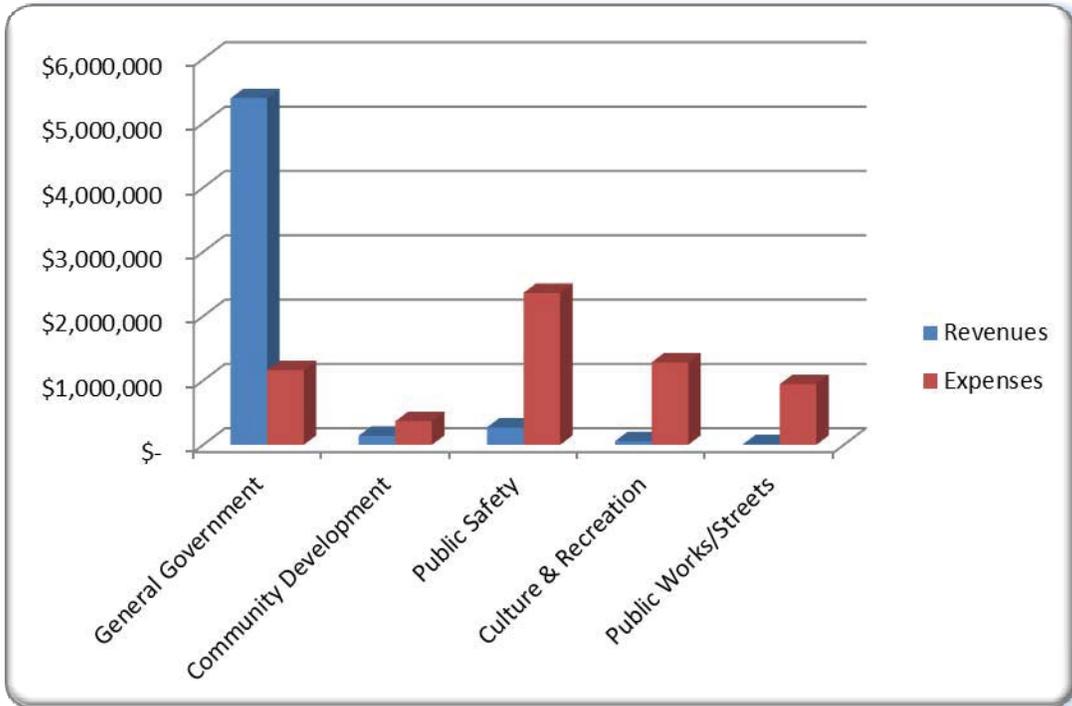
**Town of Pinetop-Lakeside
Changes in Net Position**

	Governmental activities	
	6/30/2014	6/30/2013
Revenues:		
Program revenues:		
Charges for services	\$ 334,467	\$ 358,206
Operating grants and contributions	799,252	688,041
Capital grants and contributions	129,764	293,116
General revenues:		
Sales taxes	3,484,164	3,286,485
State shared revenues	1,068,764	998,642
Other taxes	49,231	48,550
Other general revenues	2,512	91
Total revenues	5,868,154	5,673,131
Expenses:		
General government	1,118,223	1,240,409
Public safety	2,377,376	2,239,765
Public works/streets	949,805	790,877
Culture and recreation	1,291,630	1,132,279
Economic development	370,361	403,912
Interest on long-term debt	8,325	24,294
Total expenses	6,115,720	5,831,536
Increase (Decrease) in net position	(247,566)	(158,405)
Net position, beginning	6,330,740	6,489,145
Prior period adjustment	17,000	-
Net position, ending	\$ 6,100,174	\$ 6,330,740

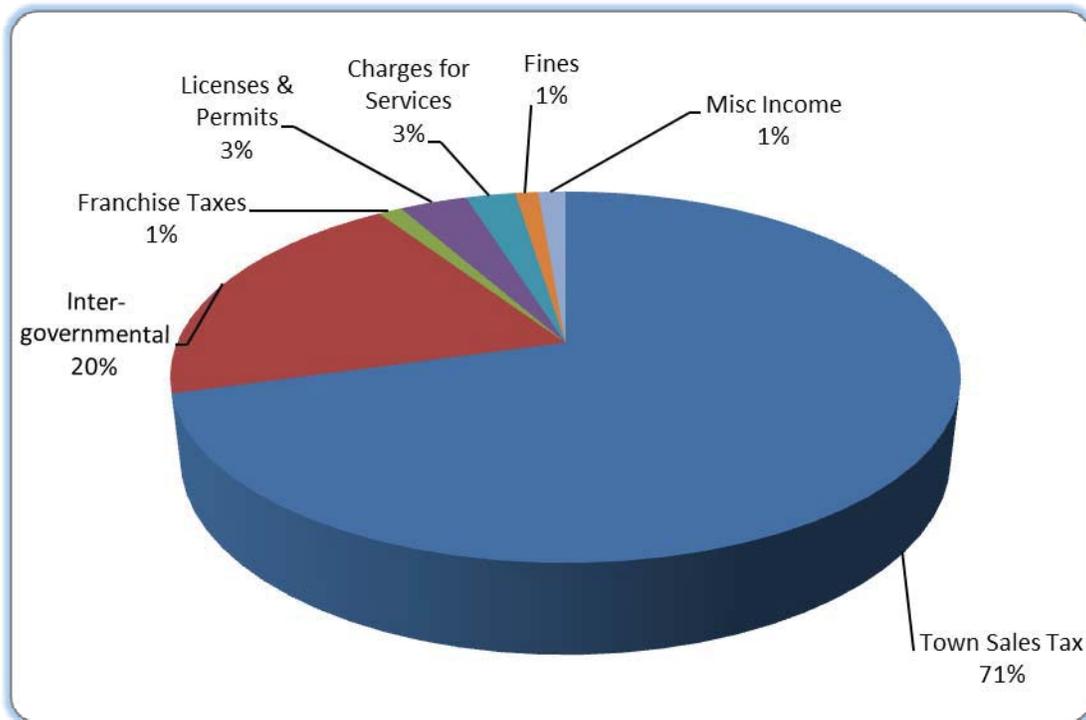
Total resources available during the year to finance governmental operations were \$12.2 million consisting of Net position at July 1, 2013 of \$6.3 million, General revenues of \$4.6 million, program, grants and contributions of \$1.3 million. Total Government Activities during the year were \$6.2 million combined with a prior period adjustment of \$17,000; thus Governmental Net Position was decreased by \$230,566.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Revenues and Expenses – Government Activities



Revenue by Source – Government Activities



The following table 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.

Governmental Activities

	Total Cost of Services 2014	Net Per Capita Cost of Services 2014
Public Safety	\$ 2,377,376	\$555
Public Works/Streets	949,805	222
Parks and Recreation	1,291,630	302
All Others	<u>1,496,909</u>	350
Totals	<u>\$ 6,115,720</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 \$678,388 which increased over last year’s total \$529,627. The Town’s uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

- The General Fund is the chief operating fund to the Town of Pinetop-Lakeside. At the end of the current fiscal year, the General fund had a surplus of \$10,590 which lowered the total fund balance deficit in the general fund to (\$240,430) all of which is unassigned. If not for transfers from the General Fund to the Parks and Acquisition and Development funds, the General Fund could have recovered from its deficit balance and 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 2014 budget allowed for the use of 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. Delays in many anticipated road projects occurred due to staff changes and cash flow. Projects for FY 2014 have been budgeted in FY 2015 for completion. Highway Users Revenue Funds are restricted for road and street construction and improvements.
- Development Impact fee fund balance decreased in accordance with Town Council direction to staff to utilize existing fund balance as much as possible. The FY 2014 budget allocated \$188,845 in existing fund balance to this purpose, of which only \$62,489 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 the future fiscal years.
- 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.

General Fund Budgetary Highlights

The General Fund's revenues of \$ 4,258,373 were \$521,687 less than budgeted revenues of \$4,780,060. The General Fund's expenditures, \$4,247,782 (including transfers) were 90% of budgeted expenditures of \$4,780,060 a variance of \$532,278. 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 2014, the Town had \$6,231,458 (net of depreciation) invested in a broad range of capital assets, including buildings, park facilities, police equipment, roads, and other assets (See Table below). This amount represents a net decrease of \$520,225 or 7.7 percent over last year.

Capital Assets at Year-End

	Governmental Activities 2014	Governmental Activities 2013
Land	\$1,104,564	\$1,104,564
Construction in Progress	-	-
Buildings and Improvements	2,548,397	2,731,608
Infrastructure	1,677,994	1,811,910
Equipment	<u>900,503</u>	<u>1,103,601</u>
Total	<u>\$6,231,458</u>	<u>\$6,751,683</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. 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 \$809,672 in bonds and notes outstanding versus \$1,005,886 last year – a decrease of 24 percent, as shown in the table below.

Outstanding Debt at Year-End

	Governmental Activities 2014	Governmental Activities 2013
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 0	\$ 185,000
Other long-term obligations	<u>809,672</u>	<u>820,886</u>
Totals	<u>\$809,672</u>	<u>\$1,005,886</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 of Pinetop-Lakeside, Arizona as well as other Arizona cities and towns, remains dependent on State shared revenues and Local sales taxes for resources. These revenue sources are economically sensitive taxes and subject to slowdowns in the economy and legislative appropriations. The Town is committed to creating and maintaining a cash reserve for general fund operations, both for financial stability and in anticipation of the capital and operational needs of the community.

The Town's elected and appointed officials consider many factors when setting the fiscal year budgets. Local sales tax collection has slightly increased in the Town of Pinetop-Lakeside, and in general is up 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.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about this report, or requests for additional financial information should be addressed to: Town of Pinetop-Lakeside, Finance Department, 1360 N. Niels Hansen Lane, Lakeside, Arizona 85929, or call 928-368-8696. Or visit our website at: www.PinetopLakesideAZ.gov

BASIC FINANCIAL STATEMENTS

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Total</u>
Assets		
Cash and cash equivalents	\$ 390,095	\$ 390,095
Investments	439,947	439,947
Receivables (net of allowance)	403,646	403,646
Prepays	14,458	14,458
Other assets	14,406	14,406
Capital assets (net of accumulated depreciation):		
Land	1,104,564	1,104,564
Buildings and improvements	784,556	784,556
Other improvements	1,763,841	1,763,841
Furniture, machinery & equipment	396,064	396,064
Vehicles	504,439	504,439
Infrastructure	1,677,994	1,677,994
Total assets	<u>7,494,010</u>	<u>7,494,010</u>
Liabilities		
Accounts payable and other current liabilities	420,981	420,981
Unearned revenue	163,183	163,183
Noncurrent liabilities:		
Due within one year	100,159	100,159
Due in more than one year	709,513	709,513
Total liabilities	<u>1,393,836</u>	<u>1,393,836</u>
Net Position		
Net investment in capital assets	5,734,415	5,734,415
Restricted for:		
Capital projects	193,985	193,985
Grants/Other	145	145
Unrestricted	171,629	171,629
Total net position	<u>\$ 6,100,174</u>	<u>\$ 6,100,174</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total Governmental Activities
Governmental activities:					
General government	\$ 1,118,223	\$ 236,111	\$ 1,127	\$ 23,335	(857,650)
Public safety	2,377,376	75,839	109,543	5,633	(2,186,361)
Public works/Streets	949,805	-	494,840	63,593	(391,372)
Culture and recreation	1,291,630	22,517	193,742	37,203	(1,038,168)
Economic development	370,361	-	-	-	(370,361)
Interest on long-term debt	8,325	-	-	-	(8,325)
Total governmental activities	6,115,720	334,467	799,252	129,764	(4,852,237)
General Revenues:					
Taxes:					
					3,484,164
					49,231
					372,717
					218,764
					477,283
					2,512
					<u>4,604,671</u>
					(247,566)
					6,330,740
					17,000
					<u>\$ 6,100,174</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA

**Balance Sheet
Governmental Funds
June 30, 2014**

Assets	General Fund	Highway Users Revenue Fund	Acquisition & Development Fund	Development Impact Fee Fund
Cash and Cash Equivalents	\$ -	\$ 235,449	\$ 62,623	\$ 46,646
Investments	71,247	200,612	-	168,088
Prepays	14,458	-	-	-
Receivables:				
Taxes	294,045	-	-	-
Intergovernmental	23,652	57,806	-	-
Due from Other Funds	-	398,555	-	-
Notes and Other Assets	14,406	-	-	-
Total Assets	\$ 417,808	\$ 892,422	\$ 62,623	\$ 214,734
 Liabilities				
Accounts Payable	\$ 66,324	\$ 13,848	\$ 62,610	\$ 20,749
Accrued Wages and Benefits	86,769	5,440	-	-
Accrued Liabilities	44,542	-	-	-
Customer Deposits	75,722	-	-	-
Unearned Revenue	57	151,021	-	-
Due to Other Funds	384,824	-	-	-
Total Liabilities	658,238	170,309	62,610	20,749
 Fund Balances				
Nonspendable:				
Prepays	14,458	-	-	-
Restricted for:				
Public safety	-	-	-	4,239
Highways and streets	-	-	-	97,838
Community and economic development	-	-	-	86,032
Other purposes	-	-	-	5,876
Assigned to:				
Community and economic development	-	-	13	-
Highways and streets	-	722,113	-	-
Unassigned	(254,888)	-	-	-
Total fund balances (deficits)	(240,430)	722,113	13	193,985
Total Liabilities and Fund Balances	\$ 417,808	\$ 892,422	\$ 62,623	\$ 214,734

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

Non-major Funds	Total Governmental Funds
\$ 45,377	\$ 390,095
-	439,947
-	14,458
-	294,045
28,143	109,601
-	398,555
-	14,406
<u>\$ 73,520</u>	<u>\$ 1,661,107</u>

\$ 40,055	\$ 203,586
4,922	97,131
-	44,542
-	75,722
12,105	163,183
13,731	398,555
<u>70,813</u>	<u>982,719</u>

-	14,458
-	4,239
-	97,838
-	86,032
145	6,021
2,562	2,575
-	722,113
-	(254,888)
<u>2,707</u>	<u>678,388</u>
<u>\$ 73,520</u>	<u>\$ 1,661,107</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, 2014

Total fund balances - governmental funds	\$	678,388
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Governmental capital assets	\$	10,779,082
Accumulated depreciation		<u>(4,547,624)</u>
		6,231,458
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$	-
Leases payable		(497,043)
Compensated absences		(306,117)
Landfill closure payable		<u>(6,512)</u>
		(809,672)
Total net position - governmental activities	\$	<u><u>6,100,174</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 Balances - Governmental Funds
For the Year Ended June 30, 2014

REVENUES	General Fund	Highway Users Revenue Fund	Acquisition & Development Fund	Development Impact Fee Fund
Taxes	\$ 3,008,697	\$ -	\$ -	\$ -
Franchise taxes	49,231	-	-	-
Intergovernmental revenue	851,127	713,604	-	-
Licenses, permits and fees	141,228	-	-	-
Charges for services	103,423	-	-	-
Fines and forfeitures	47,674	-	-	-
Interest	1,129	651	53	678
Lease income	17,820	-	-	-
Impact fees	-	-	-	36,974
Miscellaneous	38,043	-	-	-
Total Revenues	<u>4,258,372</u>	<u>714,255</u>	<u>53</u>	<u>37,652</u>
EXPENDITURES				
Current:				
General government	1,021,807	-	-	-
Public safety	2,096,820	-	-	-
Public works/streets	57,222	521,439	-	-
Tourism and recreation	420,219	-	-	-
Community and economic development	295,159	-	143,935	-
Capital outlay	-	3,000	51,749	53,727
Debt Service:				
Principal	-	-	185,000	-
Interest	-	-	8,325	-
Total Expenditures	<u>3,891,227</u>	<u>524,439</u>	<u>389,009</u>	<u>53,727</u>
Excess of Revenues Over (Under) Expenditures	<u>367,145</u>	<u>189,816</u>	<u>(388,956)</u>	<u>(16,075)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	371,956	-
Transfers out	(356,555)	-	-	(46,414)
Total Other Financing Sources (Uses)	<u>(356,555)</u>	<u>-</u>	<u>371,956</u>	<u>(46,414)</u>
Net change in fund balances	10,590	189,816	(17,000)	(62,489)
Fund Balances (deficits), Beginning of Year	(251,020)	532,297	13	256,474
Prior period adjustment	-	-	17,000	-
Fund Balances (deficits), End of Year	<u>\$ (240,430)</u>	<u>\$ 722,113</u>	<u>\$ 13</u>	<u>\$ 193,985</u>

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

Non-major Funds	Total Governmental Funds
\$ 475,467	\$ 3,484,164
-	49,231
378,216	1,942,947
-	141,228
4,139	107,562
-	47,674
1	2,512
-	17,820
-	36,974
-	38,043
857,823	5,868,155
23,335	1,045,142
100,906	2,197,726
26,069	604,730
702,606	1,122,825
-	439,094
25,076	133,552
-	185,000
-	8,325
877,992	5,736,394
(20,169)	131,761
31,013	402,969
-	(402,969)
31,013	-
10,844	131,761
(8,137)	529,627
-	17,000
\$ 2,707	\$ 678,388

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, 2014

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

Net change in fund balances - total governmental funds	\$	131,761
<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	\$	38,810
Depreciation expense		<u>(559,035)</u>
		(520,225)
<p>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 position.</p>		
		249,385
<p>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.</p>		
		(108,487)
Change in net position of governmental activities		<u><u>\$ (247,566)</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, 2014

REVENUES	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		Actual
Taxes:				
Taxes	\$ 3,460,915	\$ 3,460,915	\$ 3,008,697	\$ (452,218)
Franchise tax	45,000	45,000	49,231	4,231
Intergovernmental Revenue	899,720	899,720	851,127	(48,593)
Licenses and permits	146,900	146,900	141,228	(5,672)
Charges for services	114,540	114,540	103,423	(11,117)
Fines and Forfeitures	65,000	65,000	47,674	(17,326)
Interest	1,005	1,005	1,129	124
Lease income	17,820	17,820	17,820	-
Miscellaneous	29,160	29,160	38,043	8,883
Total Revenues	4,780,060	4,780,060	4,258,372	(521,688)
 EXPENDITURES				
Current:				
General Government:				
Administration	907,200	837,175	538,532	298,643
Finance	276,270	276,270	269,334	6,936
Legal	225,990	225,990	213,941	12,049
Public Safety:				
Police	2,137,130	2,137,130	1,978,693	158,437
Animal control	79,740	79,740	57,135	22,605
Magistrate	63,285	63,285	60,992	2,293
Public Works/Streets	63,100	63,100	57,222	5,878
Tourism and recreation	449,485	449,485	420,219	29,266
Community & economic development	319,690	319,690	295,159	24,531
Total Expenditures	4,521,890	4,451,865	3,891,227	560,638
Excess of Revenues				
Over (Under) Expenditures	258,170	328,195	367,145	38,950
 Other Financing Sources (Uses):				
Transfers out	(258,170)	(328,195)	(356,555)	(28,360)
Total Other Financing Sources (Uses)	(258,170)	(328,195)	(356,555)	(28,360)
Net change in fund balance	-	-	10,590	10,590
Fund Balance (deficit), Beginning of Year	(251,020)	(251,020)	(251,020)	-
Fund Balance (deficit), End of Year	\$ (251,020)	\$ (251,020)	\$ (240,430)	\$ 10,590

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental revenue	\$ 1,092,610	\$ 1,092,610	\$ 713,604	\$ (379,006)
Interest	-	-	651	651
Total Revenue	<u>1,092,610</u>	<u>1,092,610</u>	<u>714,255</u>	<u>(378,355)</u>
EXPENDITURES:				
Current:				
Public Works:				
Administration	4,750	4,750	4,560	190
Street maintenance	927,360	927,360	458,953	468,407
Street rehabilitation	263,000	263,000	14,305	248,695
Maintenance yard	28,900	28,900	35,120	(6,220)
Utilities	10,000	10,000	8,501	1,499
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>3,000</u>	<u>7,000</u>
Total Expenditures	<u>1,244,010</u>	<u>1,244,010</u>	<u>524,439</u>	<u>719,571</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(151,400)</u>	<u>(151,400)</u>	<u>189,816</u>	<u>341,216</u>
Fund Balance, Beginning of Year	<u>532,297</u>	<u>532,297</u>	<u>532,297</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 380,897</u>	<u>\$ 380,897</u>	<u>\$ 722,113</u>	<u>\$ 341,216</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 1. Summary of Significant Accounting Policies

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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 non-major 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 **Acquisition and Development 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.

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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. Sick leave is accrued for employees with ten years of service. 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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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.

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

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 position. 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.

Note 3. Stewardship, Compliance, and Accountability

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, 2014

Note 3. Stewardship, Compliance, and Accountability, Continued

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.

Supplementary budgetary appropriations were made during the year. The Town's budget includes \$284,300 for contingencies.

Expenditures over Appropriations

The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports on pages 23-24, 48-49, and 53-54 present all of the funds which incurred an excess of expenditures/ expenses over appropriations for the year ended June 30, 2014, 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, 2014

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, 2014, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$341,014. As of June 30, 2014, the Town's bank balance of \$388,161 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, 2014 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)	\$ 429,206	AAA	1-5
Money Market Mutual Fund	10,741	N/A	less than 1
Arizona Local Government			
Investment Pool	<u>48,031</u>	(1)	59 days
Total Fair Value	<u>\$ 487,978</u>		

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 4. Deposits and Investments, Continued

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, 2014

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, 2014, interfund receivables and payables are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 384,824
Special Revenue Funds:		
HURF Fund	398,555	-
Grant Fund	-	13,731
	\$ 398,555	\$ 398,555

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, 2014, interfund transfers are as follows:

	Transfers In		
Transfers Out:	Acquisition & Development	Recreation and Tourism	Total
General Fund	\$ 325,542	\$ 31,013	\$ 356,555
Development Impact Fee Fund	46,414	-	46,414
	\$ 371,956	\$ 31,013	\$ 402,969

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, 2014

Note 6. Capital Assets

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

Primary Government Governmental Activities:	Balance 6/30/2013	Additions	Retirements	Balance 6/30/2014
Capital Assets not being Depreciated:				
Land	\$ 1,104,564	\$ -	\$ -	\$ 1,104,564
Total capital assets not being depreciated	<u>1,104,564</u>	<u>-</u>	<u>-</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	5,834	-	3,041,585
Machinery & Equipment	1,455,984	-	-	1,455,984
Vehicles	1,379,424	32,976	(80,498)	1,331,902
Infrastructure	2,366,074	-	-	2,366,074
Total capital assets being depreciated	<u>9,716,206</u>	<u>38,810</u>	<u>(80,498)</u>	<u>9,674,518</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(664,320)	(30,097)	-	(694,417)
Improvements other than buildings	(1,118,796)	(158,948)	-	(1,277,744)
Machinery & Equipment	(928,071)	(131,849)	-	(1,059,920)
Vehicles	(803,736)	(104,225)	80,498	(827,463)
Infrastructure	(554,164)	(133,916)	-	(688,080)
Total accumulated depreciation	<u>(4,069,087)</u>	<u>(559,035)</u>	<u>80,498</u>	<u>(4,547,624)</u>
Total Capital Assets being depreciated, net	<u>5,647,119</u>	<u>(520,225)</u>	<u>-</u>	<u>5,126,894</u>
Governmental activities capital assets, net	<u>\$ 6,751,683</u>	<u>\$ (520,225)</u>	<u>\$ -</u>	<u>\$ 6,231,458</u>

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

Governmental Activities:	
General government	\$ 52,459
Public safety	110,496
Public works/streets	238,026
Culture & recreation	158,054
Total depreciation expense - governmental activities	<u>\$ 559,035</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 7. Long-Term Debt

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

Governmental Activities:	Balance 6/30/2013	Additions	Retirements	Balance 6/30/2014	Current Portion
Accrued compensated absences	\$ 252,946	\$ 108,487	\$ 55,316	\$ 306,117	\$ 79,550
Landfill monitoring costs	6,838	-	326	6,512	326
Total other long-term debt	<u>259,784</u>	<u>108,487</u>	<u>55,642</u>	<u>312,629</u>	<u>79,876</u>
Revenue Bonds:					
Municipal facilities series 1999	<u>185,000</u>	-	<u>185,000</u>	-	-
Capital Leases:					
Zions Bank building lease	516,536	-	19,493	497,043	20,283
Key Government Finance vehicle lease	<u>44,566</u>	-	<u>44,566</u>	-	-
Total capital leases	<u>561,102</u>	-	<u>64,059</u>	<u>497,043</u>	<u>20,283</u>
Total general long-term debt	<u>\$ 1,005,886</u>	<u>\$ 108,487</u>	<u>\$ 304,701</u>	<u>\$ 809,672</u>	<u>\$ 100,159</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, 2014

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 and sick 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, the majority of which is the general 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.

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TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

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 3.46-3.98%, together with the present value of the net minimum lease payments:

June 30,	General Long-Term Debt
2015	\$ 38,029
2016	38,029
2017	38,029
2018	38,029
2019	38,029
2020-2024	190,143
2025-2029	190,143
2030-2032	98,241
Total remaining lease payments	668,672
Less amount representing interest	(171,629)
Present value of net remaining minimum lease payments	\$ 497,043

A summary of assets acquired through capital leases follows:

Governmental Activities	Cost	Accumulated Depreciation
Land	\$ 100,000	\$ -
Buildings & Improvements	380,000	(22,958)
Vehicles	133,770	(34,557)
Total	\$ 513,770	\$ (57,515)

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 9. Retirement and Pension Plans

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.

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 11.54 percent (11.30 percent for retirement, and 0.24 percent for long-term disability) of the members’ annual covered payroll and the Town was required to contribute 11.54 percent (10.70 percent for retirement, 0.60 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:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2012	\$ 150,336	\$ 9,596	\$ 3,656
2013	173,575	11,007	4,064
2014	167,039	9,367	3,747

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 9. Retirement and Pension Plans, Continued

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 34.55 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 1.75 percent of covered payroll.

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, 2014 were established by the June 30, 2012 actuarial valuations using the entry age normal method. The actuarial assumptions included (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 9.0 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 June 30, 2014 amortization period was not yet available at the time the financial statements were issued.

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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 9. Retirement and Pension Plans, Continued

Annual Pension/OPEB Cost – During the year ended June 30, 2014, the Town’s annual pension cost of \$231,629 and the annual OPEB cost of \$10,474 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	2012	\$ 150,729	100%	-
	2013	218,198	100%	-
	2014	231,629	100%	-
Health Insurance	2012	\$ 10,785	100%	-
	2013	10,023	100%	-
	2014	10,474	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2013 is as follows (The June 30, 2014 information was not yet available at the time the financial statements were issued):

	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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 10. 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.

Note 11. Contingencies

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.

Note 12. Prior Period Adjustment

In the Acquisition and Development Fund, \$17,000 previously recorded as deferred revenue was discovered to have been spent in prior years and should have been recognized as revenue in the year the expenditure was made. As such, a prior period adjustment was recorded to remove the deferred revenue and increase fund balance in the Acquisitions and Development Fund. On the government-wide statements, this also resulted in an increase in net position in the governmental activities by \$17,000.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Funding Progress
June 30, 2014

Public Safety Personnel Retirement System – Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2008 through June 30, 2014, based on actuarial valuations follows:

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 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%
2014 *	**	**	**	**	**	**

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

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 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%
2014 *	-	**	**	**	**	**

* 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.

** The June 30, 2014 information was not yet available at the time the financial statements were issued.

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.
- **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
DEVELOPMENT IMPACT FEE
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 20,300	\$ 20,300	\$ 36,974	\$ 16,674
Interest	600	600	678	78
Total Revenue	<u>20,900</u>	<u>20,900</u>	<u>37,652</u>	<u>16,752</u>
EXPENDITURES:				
Capital Outlay	<u>154,390</u>	<u>154,390</u>	<u>53,727</u>	<u>100,663</u>
Total Expenditures	<u>154,390</u>	<u>154,390</u>	<u>53,727</u>	<u>100,663</u>
Excess of Revenues Over (Under) Expenditures	<u>(133,490)</u>	<u>(133,490)</u>	<u>(16,075)</u>	<u>117,415</u>
Other Financing Sources (Uses): Transfers out:	<u>(55,355)</u>	<u>(55,355)</u>	<u>(46,414)</u>	<u>8,941</u>
Total Other Financing Sources (Uses):	<u>(55,355)</u>	<u>(55,355)</u>	<u>(46,414)</u>	<u>8,941</u>
Net Change in Fund Balance	(188,845)	(188,845)	(62,489)	126,356
Fund Balance, Beginning of Year	<u>256,474</u>	<u>256,474</u>	<u>256,474</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 67,629</u>	<u>\$ 67,629</u>	<u>\$ 193,985</u>	<u>\$ 126,356</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 50	\$ 50	\$ 53	\$ 3
Total Revenue	50	50	53	3
EXPENDITURES:				
Current:				
Community and economic development	63,000	133,025	143,935	(10,910)
Capital Outlay	49,300	49,300	51,749	(2,449)
Debt Service:				
Principal	183,000	183,000	185,000	(2,000)
Interest	10,325	10,325	8,325	2,000
Total Expenditures	305,625	375,650	389,009	(13,359)
Excess of Revenues				
Over (Under) Expenditures	(305,575)	(375,600)	(388,956)	(13,356)
Other Financing Sources (Uses):				
Transfers in	305,575	375,600	371,956	(3,644)
Total Other Financing Sources (Uses):	305,575	375,600	371,956	(3,644)
Net Change in Fund Balance	-	-	(17,000)	(17,000)
Fund Balance, Beginning of Year	13	13	13	-
Prior Period Adjustment	-	-	17,000	-
Fund Balance, End of Year	\$ 13	\$ 13	\$ 13	\$ (17,000)

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.
- **Recreation & Tourism** – This 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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2014

	<u>Grants Fund</u>	<u>Recreation and Tourism Fund</u>	<u>Total</u>
Assets			
Cash	\$ -	\$ 45,377	\$ 45,377
Due from other governments	<u>28,143</u>	<u>-</u>	<u>28,143</u>
Total Assets	<u>\$ 28,143</u>	<u>\$ 45,377</u>	<u>\$ 73,520</u>
Liabilities			
Accounts payable	\$ 2,162	\$ 37,893	\$ 40,055
Accrued wages and benefits	-	4,922	4,922
Unearned revenue	12,105	-	12,105
Due to other funds	<u>13,731</u>	<u>-</u>	<u>13,731</u>
Total Liabilities	<u>27,998</u>	<u>42,815</u>	<u>70,813</u>
Fund Balance			
Restricted for grants	145	-	145
Assigned for community and economic development	<u>-</u>	<u>2,562</u>	<u>2,562</u>
Total Fund Balances	<u>145</u>	<u>2,562</u>	<u>2,707</u>
Total Liabilities and Fund Balances	<u>\$ 28,143</u>	<u>\$ 45,377</u>	<u>\$ 73,520</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, 2014

REVENUES	<u>Grants Fund</u>	<u>Recreation and Tourism</u>	<u>Total</u>
Taxes	\$ -	\$ 475,467	\$ 475,467
Intergovernmental revenue	378,216	-	378,216
Charges for services	-	4,139	4,139
Interest	-	1	1
Total Revenues	<u>378,216</u>	<u>479,607</u>	<u>857,823</u>
 EXPENDITURES			
Current:			
General government	23,335	-	23,335
Public safety	100,906	-	100,906
Public works/streets	26,069	-	26,069
Tourism and recreation	202,685	499,921	702,606
Capital outlay	<u>25,076</u>	<u>-</u>	<u>25,076</u>
Total Expenditures	<u>378,071</u>	<u>499,921</u>	<u>877,992</u>
 Excess of Revenues			
Over (Under) Expenditures	<u>145</u>	<u>(20,314)</u>	<u>(20,169)</u>
 Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>31,013</u>	<u>31,013</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>31,013</u>	<u>31,013</u>
Net change in fund balances	145	10,699	10,844
Fund Balances (deficits), Beginning of Year	<u>-</u>	<u>(8,137)</u>	<u>(8,137)</u>
Fund Balances, End of Year	<u>\$ 145</u>	<u>\$ 2,562</u>	<u>\$ 2,707</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 2,144,140	\$ 2,144,140	\$ 378,216	\$ (1,765,924)
Total Revenue	<u>2,144,140</u>	<u>2,144,140</u>	<u>378,216</u>	<u>(1,765,924)</u>
EXPENDITURES:				
Current:				
General government	16,000	16,000	23,335	(7,335)
Public safety	803,140	803,140	100,906	702,234
Public works	200,000	200,000	26,069	173,931
Tourism and recreation	875,000	875,000	202,685	672,315
Economic development	250,000	250,000	-	250,000
Capital outlay	-	-	25,076	(25,076)
Total Expenditures	<u>2,144,140</u>	<u>2,144,140</u>	<u>378,071</u>	<u>1,766,069</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>145</u>	<u>145</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145</u>	<u>\$ 145</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
RECREATION & TOURISM
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 500,000	\$ 500,000	\$ 475,467	\$ (24,533)
Charges for services	5,000	5,000	4,139	(861)
Investment earnings	10	10	1	(9)
Miscellaneous	300	300	-	(300)
Total Revenue	505,310	505,310	479,607	(25,703)
EXPENDITURES:				
Current:				
Tourism and recreation	519,940	519,940	499,921	20,019
Total Expenditures	519,940	519,940	499,921	20,019
Excess of Revenues				
Over (Under) Expenditures	(14,630)	(14,630)	(20,314)	(5,684)
Other Financing Sources (Uses):				
Transfers in	7,950	7,950	31,013	23,063
Total Other Financing Sources (Uses):	7,950	7,950	31,013	23,063
Net change in fund balance	(6,680)	(6,680)	10,699	17,379
Fund Balance (deficit), Beginning of Year	(8,137)	(8,137)	(8,137)	-
Fund Balance (deficit), End of Year	\$ (14,817)	\$ (14,817)	\$ 2,562	\$ 17,379

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>	

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Net investment in capital assets	\$ 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	\$ 5,734,415
Restricted	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609	788,771	194,130
Unrestricted	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)	171,629
Total governmental activities net position	\$ 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	\$ 6,100,174
Primary government										
Net investment in capital assets	\$ 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	\$ 5,734,415
Restricted	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609	788,771	194,130
Unrestricted	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)	171,629
Total primary government net position	\$ 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	\$ 6,100,174

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities										
General government	\$ 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	\$ 1,152,393
Public safety	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	2,362,975
Public works/Streets	1,216,169	1,541,117	1,115,192	1,321,052	816,470	784,839	757,453	1,143,070	790,877	943,183
Culture and recreation	698,508	841,133	1,055,169	1,238,971	1,003,582	950,846	947,880	995,126	1,132,279	1,282,073
Economic development	442,894	816,522	636,314	875,855	927,805	647,267	439,196	394,438	403,912	366,771
Interest on long-term debt	223,317	110,037	109,043	103,544	87,580	68,112	52,853	38,793	24,294	8,325
Total governmental activities expense:	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	6,115,720
Total primary government expenses	\$ 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	\$ 6,115,720
Program Revenues										
Governmental Activities										
Charges for services:										
General government	498,267	584,839	502,021	300,060	277,154	244,658	443,713	312,155	234,243	236,111
Public safety	73,329	54,104	67,188	64,053	75,207	66,321	51,755	83,198	91,322	75,839
Public works/Streets	-	-	-	-	-	-	-	-	-	-
Culture and recreation	45,427	44,186	33,902	30,586	28,337	36,834	23,175	24,818	23,237	22,517
Economic development	-	-	-	-	-	-	-	-	9,404	-
Operating grants and contribution:	669,724	753,841	824,993	750,842	699,134	569,216	682,175	738,207	688,041	799,252
Capital grants and contribution:	54,445	183,119	139,057	352,032	829,702	201,738	206,600	751,168	293,116	129,764
Total governmental activities program revenues	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	1,263,483
Total primary government program revenues	\$ 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	\$ 1,263,483

(continued)

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

	<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>	<u>2014</u>
Net (expense)/revenue										
Governmental activities:										
Total primary government net expense	\$ (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)	\$ (4,852,237)
	\$ (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)	\$ (4,852,237)
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes:										
Sales taxes	\$ 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	\$ 3,484,164
Franchise taxes	40,509	48,984	54,119	55,860	57,091	54,814	52,327	50,930	48,550	49,231
State revenue sharing	329,285	375,033	472,876	586,141	622,764	537,745	405,391	361,404	437,397	477,283
State sales taxes	331,838	382,949	395,872	382,780	331,381	305,650	319,406	334,597	350,490	372,717
Auto-in-lieu	205,007	229,725	248,658	248,521	238,361	216,864	215,174	213,147	210,755	218,764
Investment earnings:	20,135	49,611	87,345	85,961	31,376	5,103	7,681	5,382	91	2,512
Other	994,020	55,637	86,185	-	5,003	2,604	-	-	-	-
Total governmental activities	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	4,604,671
Total Primary government	\$ 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	\$ 4,604,671
Change in Net Position										
Governmental activities:										
Total primary government	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)	\$ (247,566)
	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)	\$ (247,566)

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

	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund											
Nonspendable	\$ 144,304	\$ 10,455	\$ 57,936	\$ 81,962	\$ 50,013	\$ 118,408	\$ 32,820	\$ 110,954	\$ 31,496	\$ 21,651	\$ 14,458
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)	(254,888)
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)	\$ (240,430)

All other governmental funds

Restricted:											
Public safety	\$ -	\$ -	\$ -	\$ 18,497	\$ 36,390	\$ 45,779	\$ 46,248	\$ 58,764	\$ 14,952	\$ -	\$ 4,239
Highways and streets	-	-	-	44,974	251,397	133,450	243,838	614,218	537,341	671,045	97,838
Community and economic development	-	-	-	28,220	46,205	45,260	53,373	54,474	59,602	65,573	86,032
Other	143,167	236,263	-	51,858	70,741	59,911	89,121	124,901	55,714	52,153	6,021
Committed for:											
Tourism and recreation	-	-	-	-	-	65,703	27,588	20,203	20,593	-	-
Assigned for:											
Community and economic development	-	-	-	-	-	-	-	-	-	13	13
Unassigned, reported in:											
Special revenue funds	983,750	101,316	265,678	(6,606)	-	(193,631)	-	-	-	(8,137)	2,707
Capital projects funds	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 1,126,917	\$ 337,579	\$ 265,678	\$ 136,943	\$ 404,733	\$ 156,472	\$ 460,168	\$ 872,560	\$ 688,202	\$ 780,647	\$ 196,850

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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	\$ 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	\$ 3,484,164
Franchise taxes	40,509	48,984	54,119	55,860	57,092	54,814	52,327	50,930	48,550	49,231
Intergovernmental	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	1,942,947
Licenses, permits, and fees	308,265	466,493	370,663	179,177	116,741	101,349	106,442	93,428	126,153	141,228
Charges for services	120,809	73,439	80,375	123,241	110,771	130,385	109,367	109,043	119,806	107,562
Fines and forfeitures	69,239	49,620	63,665	59,492	71,407	63,116	49,720	82,131	53,239	47,674
Interest	20,136	49,610	87,345	85,960	31,376	5,103	7,681	5,382	91	2,512
Lease income	104,633	17,829	18,140	17,823	17,820	17,820	17,820	22,275	17,820	17,820
Impact fees	-	-	139,057	184,230	59,510	19,738	81,434	13,102	19,553	36,974
Other	19,900	76,348	157,763	121,094	490,561	39,091	316,291	127,241	48,981	38,043
Total Revenues	\$ 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	\$ 5,868,155

Expenditures

Current:

General government	\$ 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	\$ 1,045,142
Public safety	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	2,197,726
Public works/streets	1,178,023	1,444,619	1,441,777	1,672,565	1,879,964	612,841	600,760	985,898	822,572	604,730
Tourism and recreation	582,570	800,308	970,118	1,120,125	1,030,831	795,263	878,006	847,481	979,971	1,122,825
Community and economic development	424,171	814,428	634,330	870,400	924,902	597,683	437,464	394,736	406,802	439,094
Capital outlay	1,724,158	189,649	401,904	363,822	233,542	99,807	57,654	712,874	131,674	133,552
Debt service										
Principal	423,377	763,300	327,867	382,128	370,793	402,389	325,000	381,415	374,009	185,000
Interest and fiscal charges	181,576	151,778	109,043	103,544	87,580	68,112	52,853	38,793	24,294	8,325
Total expenditures	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	5,736,394

Revenues over (under) expenditures:

Other finance sources (Uses)

Proceeds of long-term debt issuance	-	-	129,036	-	66,319	-	-	613,770	60,000	-
Proceeds from sale of capital assets	1,203,329	781,113	-	-	-	-	-	-	-	-
Transfers in	468,700	486,342	410,100	952,259	984,673	533,849	451,603	428,686	537,635	402,969
Transfers out	(468,700)	(486,342)	(410,100)	(952,259)	(984,673)	(533,849)	(451,603)	(428,686)	(537,635)	(402,969)
Total other finance sources (uses)	1,203,329	781,113	129,036	-	66,319	-	-	613,770	60,000	-
Net change in fund balances	\$ (209,189)	\$ 323,204	\$ 378,867	\$ (520,734)	\$ (844,048)	\$ (111,107)	\$ 293,437	\$ (307,680)	\$ (323,091)	\$ 131,761

Debt service as a percentage of noncapital expenditures:

	11.71%	14.01%	7.36%	7.56%	7.54%	8.44%	7.07%	7.30%	6.98%	3.39%
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Town of Pinetop-Lakeside, Arizona
Revenue Capacity
General Government Tax Revenues by Source
Last Ten Fiscal Years (Unaudited)
(modified accrual basis of accounting)

Fiscal Year	State Shared Sales Tax	City Sales Tax	Franchise Tax	Motor Fuel Tax	Vehicle License Tax	State Shared Income Tax
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
2014	372,717	3,484,164	49,231	494,840	218,764	477,283

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)**

	2009		2010		2011		2012		2013		2014	
	Collections	% of Total										
Communication & Utilities	251,314	7.0%	251,042	7.7%	264,629	7.9%	268,981	8.0%	279,845	8.5%	305,623	8.8%
Construction	339,124	9.5%	222,624	6.8%	270,420	8.1%	230,097	6.8%	122,646	3.7%	222,033	6.4%
Manufacturing	144,399	4.0%	113,564	3.5%	116,963	3.5%	114,541	3.4%	107,925	3.3%	125,562	3.6%
Retail	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%	1,293,976	37.1%
Real Estate Leasing	255,464	7.1%	210,426	6.5%	175,397	5.3%	179,001	5.3%	153,831	4.7%	156,033	4.5%
Restaurant & Bar	709,559	19.8%	717,512	22.0%	717,337	21.5%	718,311	21.3%	758,904	23.1%	768,373	22.1%
Accommodation	207,781	5.8%	211,801	6.5%	198,457	6.0%	193,127	5.7%	210,043	6.4%	245,388	7.0%
Services	167,253	4.7%	171,405	5.3%	159,191	4.8%	143,600	4.3%	134,278	4.1%	182,574	5.2%
All Other	135,713	3.8%	119,391	3.7%	175,024	5.2%	228,389	6.8%	185,596	5.6%	184,602	5.3%
Total	3,576,365	100.0%	3,256,122	100.0%	3,335,050	100.0%	3,375,932	100.0%	3,286,485	100.0%	3,484,163	100.0%

-14.81% down from prior year
-8.95% down from prior year
2.42% up from prior year
1.23% up from prior year
-2.65% down from prior year
6.01% up from prior year

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 ⁽¹⁾
	Revenue	General Obligation Debt	Capital Leases							
	Bonds					Income				
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%	4,269 *	205	
2012	540,000	-	560,741			1,100,741	37.90%	4,303 *	256	
2013	185,000	-	561,102			746,102	24.97%	4,389 *	170	
2014	-	-	497,043			497,043	16.16%	4,465 *	111	

* 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)(2)	Percentage Applicable to the Town of Pinetop-Lakeside	Amount Applicable to the Town of Pinetop-Lakeside
Blue Ridge Unified School District #3	\$ 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			497,043
Total direct and overlapping debt			\$ 9,153,282

(1) Includes general obligation bonds outstanding

(2) Amounts are per June 30, 2013, information for June 30, 2014 was not available

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
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
2014	4,552,929	185,000	8,325	193,325	23.55

GADA Loan					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
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
2014	4,552,929	-	-	-	-

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)	\$ 65,771	\$ 65,771
Total assessed value	<u>\$ 65,771</u>	<u>\$ 65,771</u>
Legal debt margin:		
Debt limitation (in thousands)	\$ 13,154	\$ 3,946
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>\$ 13,154</u>	<u>\$ 3,946</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		Pinetop-Lakeside		Unemployment Averages (3)	
	Population (1)	Population (1)	Personal Income Navajo County (2) (in thousands)	Personal Income (2)	Personal Income (4)	Personal Income (4)	Pinetop-Lakeside School Enrollment (5)	Town of Pinetop-Lakeside	Navajo County	State of Arizona
					Per Capita	Per Capita	Enrollment (5)			
2004	3,972 *	105,020	1,933,211	\$ 18,408	\$ 21,203	2,576	4.0%	8.4%	5.0%	
2005	4,088 *	106,968	2,120,553	\$ 19,824	\$ 22,122	2,680	3.8%	8.0%	4.7%	
2006	4,333 *	109,000	2,260,966	\$ 20,743	\$ 23,044	2,690	3.5%	7.2%	4.1%	
2007	4,486 *	110,999	2,412,656	\$ 21,736	\$ 23,963	2,690	3.0%	6.2%	3.7%	
2008	4,503 *	112,348	2,539,509	\$ 22,604	\$ 24,883	2,617	4.4%	9.8%	6.0%	
2009	4,522 *	112,975	2,634,137	\$ 23,316	\$ 25,509	2,600	6.6%	15.2%	9.9%	
2010	4,282	107,677	2,742,716	\$ 25,472	\$ 26,720	2,462	7.8%	16.0%	10.5%	
2011	4,269 *	107,226	2,822,255	\$ 26,321	\$ 27,645	2,344	7.7%	16.0%	9.5%	
2012	4,303 *	107,923	2,904,100	\$ 26,909	\$ 28,561	2,308	8.2%	15.1%	8.3%	
2013	4,389 *	109,028	2,988,319	\$ 27,409	\$ 28,561	2,335	8.2%	14.8%	8.3%	
2014	4,465 *	110,142	3,074,980	\$ 27,918	\$ 26,393	2,137	8.1%	15.5%	6.9%	

(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 (2004-2009). 2010-2014 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	16	17	18	18	18	14	14	12	12.5	12.5
Public Safety										
Officers	14	14	14	14	14	14	15	17	17	17
Civilians	10	10	10	10	9.5	7.5	7.5	7.5	7.5	7.5
Streets	6	6	6	6	5	6.5	6.5	6.5	5.5	5.5
Parks and Recreation	7	8	8	8	7	6.5	6.5	6.5	6.5	6.5
Library	5	5	5	5	5	5	5	5	5	5
Total	58	60	61	61	58.5	53.5	54.5	54.5	54.0	54.0

Source: Town of Pinetop-Lakeside, Arizona

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Building Permits										
Residential	93	162	98	36	23	10	9	9	10	18
Commercial	14	9	11	5	1	2	1	1	1	0
Value of Construction										
Residential	\$18,317,000	\$39,137,000	\$27,796,000	\$12,055,000	\$6,039,000	\$3,610,000	\$3,749,000	\$2,545,000	\$3,313,000	\$4,725,000
Commercial	4,166,000	3,232,000	3,695,000	22,688,000	97,000	6,900,000	2,783,000	988,000	1,238,000	455,000
Total	\$22,483,000	\$42,369,000	\$31,491,000	\$34,743,000	\$6,136,000	\$10,510,000	\$6,532,000	\$3,533,000	\$4,551,000	\$5,180,000

*2013 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	6	6	6	6	6	6	6	6	6
Parks and Recreation										
Acreage	684	684	150	150	150	150	150	150	150	150
Playgrounds	3	3	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	4	4	4	4	4	4	4	4	4	4
Football and Soccer Fields	5	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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Building Permits Issued	171	109	41	24	12	10	10	10	18	*
Building Inspections Conducted	171	109	41	24	12	10	10	10	18	*
Police										
Physical Arrests	*	*	*	*	444	670	599	529	387	395
Parking Violations	*	*	*	*	0	4	0	0	1	0
Traffic Violations	*	*	*	*	1,760	1,882	2,551	2,010	1,438	3,376
Calls for Service	*	*	*	*	7,994	8,430	9,752	10,787	7,991	8,209
Streets**										
Street Resurfacing (Miles)	0	0	2	1	0	1	2	2	10	1
Potholes Repaired**	575	700	900	1,100	1,200	1,215	1,350	1,500	1,620	1,740
Street Sweeping (Miles)	50	1,135	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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**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, 2014, 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 10, 2014.

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 10, 2014

**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, 2014, and have issued our report thereon dated November 10, 2014. 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, 2014.



HintonBurdick, PLLC
Flagstaff, Arizona
November 10, 2014