

**TOWN OF PINETOP-LAKESIDE, ARIZONA**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2017**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

**Prepared by:**

**Department of Finance and Administration**

# TOWN OF PINETOP-LAKESIDE

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February 24, 2018

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

We are pleased to submit to you the 2017 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, legislative and oversight bodies, constituents, 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 of 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, 2017, 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 unmodified opinion that the financial statements for the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2017, 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 current Mayor was selected by the Council members from among themselves and serves a two-year term. However, there was a measure that passed on the ballot of the November, 2016 election whereby for future years, the Mayor will be directly elected by the voters. 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 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 4,463 (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 had also been felt in Pinetop-Lakeside. However, tourist activity has begun to return. For the year ended June 30, 2017, there was minimal growth. But, subsequent to year end, the Town has seen positive growth. Through January, 2018, the Town's sales taxes are up about 16% from the prior year.

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.

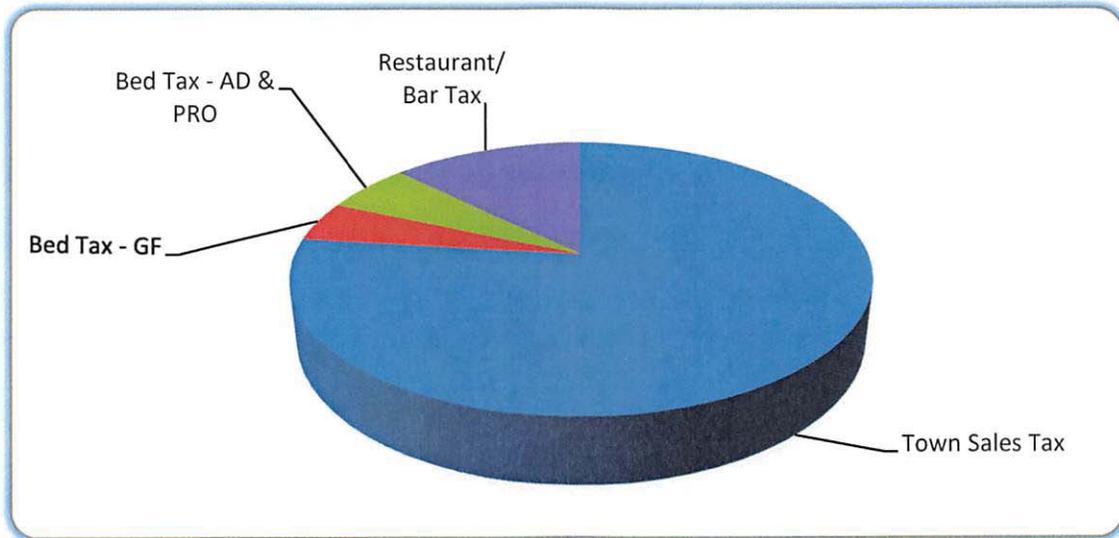
The Town Council is required to adopt an initial budget for the fiscal year no later than August 15 for the fiscal year beginning on July 1. This annual budget serves as the foundation for the Town of Pinetop-Lakeside's financial planning and control. The budget is prepared by fund, function (e.g., public 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***

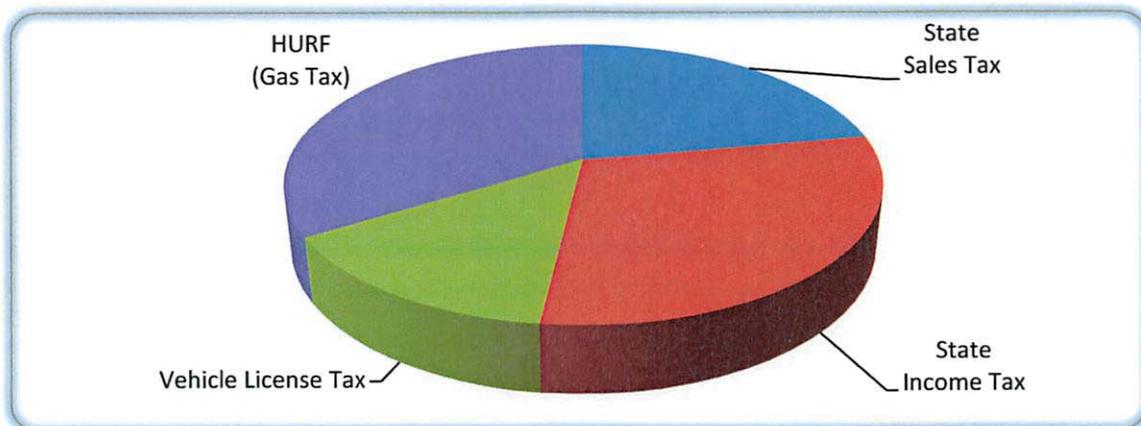
The Town of Pinetop-Lakeside is a rural area depending heavily on the tourist trade. Major industries located within the Town's boundaries or in close proximity include a hospital, manufacturing, retail stores, several medical and legal practices, financial institutions and insurance companies. The Blue 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 60% of the Town's revenues.

At June 30, 2017, the Town's sales rate was 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 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. 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. However, the Town as well as the rest of the country, has seen a significant recovery in the last year. Currently, the unemployment rate is estimated to be 3.4%.

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 had been nearly at a standstill since that time. However, the Town has seen a significant jump in the amount of both residential and commercial construction in the last year. The median price of a single family home in the vicinity of the Town of Pinetop-Lakeside was \$200,550.

### ***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. Council and Staff have started the process of evaluating and prioritizing capital and programming needs and identifying possible funding strategies for those priorities. A five year Capital Improvement Plan to maintain our infrastructure and update our equipment has been laid out by staff and presented to Council. The Town recognized two major issues that needed to be addressed: (1) the need for an adequate Town Hall building, and (2) the need to address our deteriorating streets. Both of these were addressed subsequent to the year end of June 30, 2017. First, the Town sold revenue bonds and bought a new Town Hall building in December, 2017. Second, the Town increased the sales tax (or TPT) rate on most items from 2.5% to 3.0%. The increase of .5% will be dedicated to the Street Fund to address deteriorating roads.

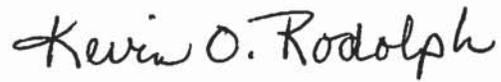
The Town staff and elected officials have worked cooperatively to implement cost reductions to address the changes in the overall economy experienced. The Town of Pinetop-Lakeside maintains a five-year Capital Improvement Program which serves as its planning document to ensure that its facilities, equipment, 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, 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.

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,

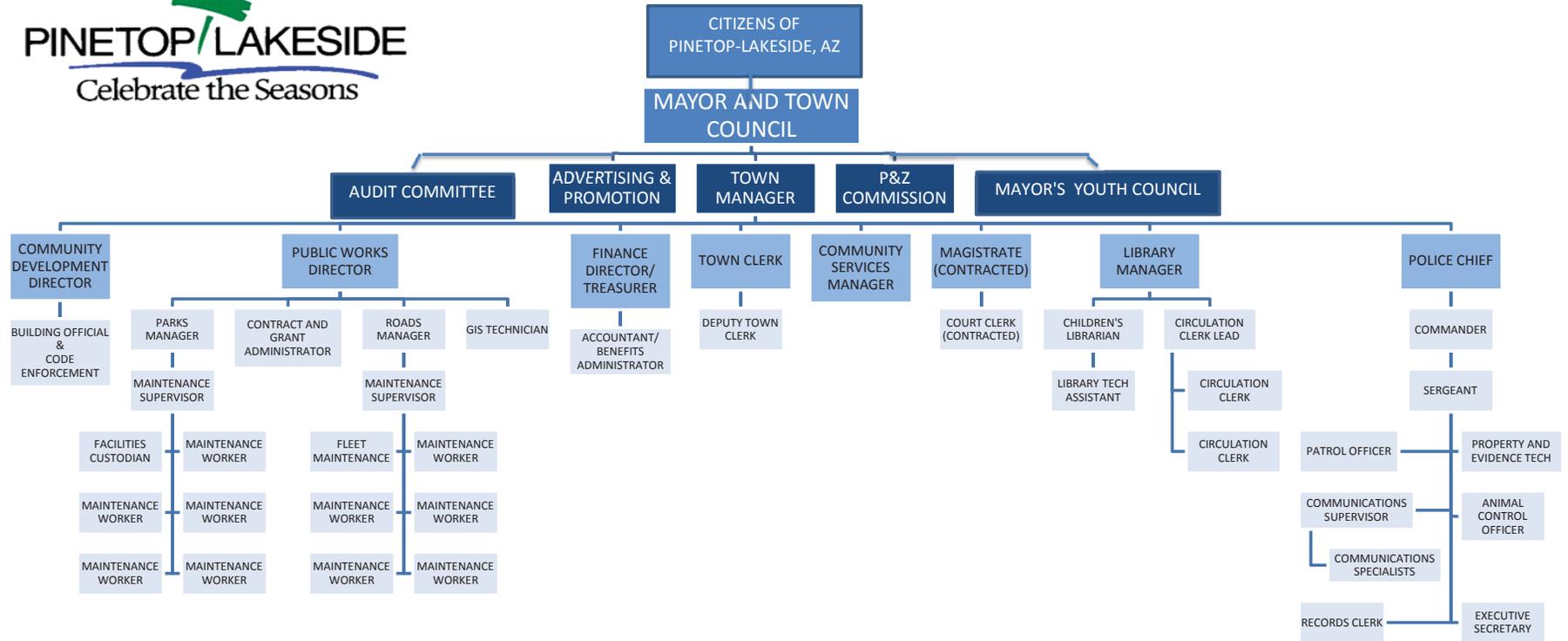
A handwritten signature in black ink that reads "Kevin O. Rodolph". The signature is written in a cursive, flowing style.

Kevin O. Rodolph, CPA  
Finance Director

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

<b>Position</b>	<b>Name</b>
<b>Mayor</b>	Stephanie Irwin
<b>Vice-Mayor</b>	Jerry Smith
<b>Council</b>	Carla Bowen
<b>Council</b>	Kathy Dahnk
<b>Council</b>	Norris Dodd
<b>Council</b>	Cathy Penrod
<b>Council</b>	Jim Snitzer
<b>Attorney</b>	Sims Murray, LTD.
<b>Town Manager</b>	Keith Johnson
<b>Town Clerk</b>	Remilie Miller
<b>Finance Director</b>	Kevin Rodolph
<b>Community Development Director</b>	Cody Blake
<b>Library Manager</b>	Kendra Abel
<b>Community Services Manager</b>	Matthew Williams
<b>Public Works Director</b>	Kenneth M. Patterson
<b>Police Chief</b>	David Sargent





Government Finance Officers Association

**Certificate of  
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Presented to

**Town of Pinetop-Lakeside  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

*Christopher P. Morill*

Executive Director/CEO

## **FINANCIAL SECTION**

## 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 fiscal year ended June 30, 2017, 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.

### *Auditors' 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 auditors' 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 auditors consider 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, 2017, 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, schedule of proportionate share of the net pension liability, schedule of changes in the net pension liability and related ratios, schedule of contributions, the schedule of agent OPEB plans' funding progress, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

The combining and individual non-major fund financial statements and budgetary comparisons 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 December 26, 2017, 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 Arizona, PLLC  
Flagstaff, Arizona  
December 26, 2017

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**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year-Ended June 30, 2017**

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, 2017. 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 \$3,688 mainly as a result of this year's operations.
- During the year, the Town had expenses that were \$3,688 more than the \$6,011,742 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$6,015,430 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 \$1,848,949 an increase of \$453,579.
- The general fund reported an increase of \$338,323.

**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 seven 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 development impact fee fund, and the capital projects fund which are considered to be major funds. Data from the other three 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 16-19 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 20-47 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, and the general fund and major special revenue fund budgetary comparison schedule. Required supplementary information can be found starting on page 48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the budgetary comparison schedule for the major funds. These combining and individual fund statements and schedules can be found on starting on page 59 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 \$526,402 to \$522,714 as shown in the following condensed statement of net position as of June 30, 2017. 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	
	6/30/2017	6/30/2016
Current and other assets	\$ 2,396,805	\$ 1,949,055
Capital assets	5,940,253	6,463,051
Total assets	<u>8,337,058</u>	<u>8,412,106</u>
Deferred outflows of resources	<u>1,688,287</u>	<u>1,384,265</u>
Long-term liabilities outstanding	8,259,814	8,102,468
Other liabilities	<u>761,989</u>	<u>657,835</u>
Total liabilities	<u>9,021,803</u>	<u>8,760,303</u>
Deferred inflows of resources	<u>480,828</u>	<u>509,666</u>
Net position:		
Net investment in capital assets	5,143,699	5,572,726
Restricted	479,647	589,590
Unrestricted	<u>(5,100,632)</u>	<u>(5,635,914)</u>
Total net position	<u>\$ 522,714</u>	<u>\$ 526,402</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.

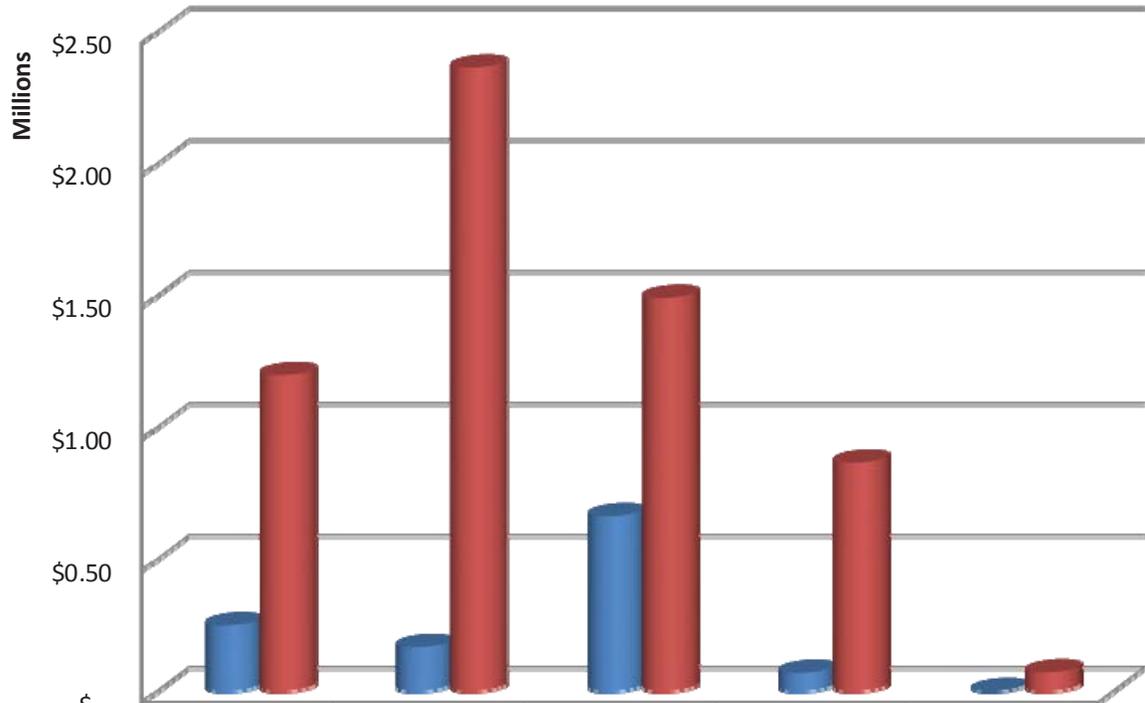
**Town of Pinetop-Lakeside  
Changes in Net Position**

	Governmental activities	
	6/30/2017	6/30/2016
Revenues:		
Program revenues:		
Charges for services	\$ 336,652	\$ 287,687
Operating grants and contributions	710,715	807,733
Capital grants and contributions	102,447	232,160
General revenues:		
Sales taxes	3,609,646	3,578,240
State shared revenues	1,188,331	1,165,577
Other taxes	69,734	55,631
Other general revenues	(5,783)	46,847
Total revenues	6,011,742	6,173,875
Expenses:		
General government	1,198,079	1,327,775
Public safety	2,363,177	2,490,393
Public works/streets	1,490,644	1,002,330
Culture and recreation	866,281	967,222
Economic development	71,573	225,575
Interest on long-term debt	25,676	13,876
Total expenses	6,015,430	6,027,171
Increase (Decrease) in net position	(3,688)	146,704
Net position, beginning	526,402	379,698
Net position, ending	\$ 522,714	\$ 526,402

Total resources available during the year to finance governmental operations were \$6.5 million consisting of Net position at July 1, 2016 of \$526,000, General revenues of \$4.8 million, program grants and contributions of \$1.1 million. Total Government Activities during the year were \$6 million; thus Governmental Net Position was decreased by \$3,688.

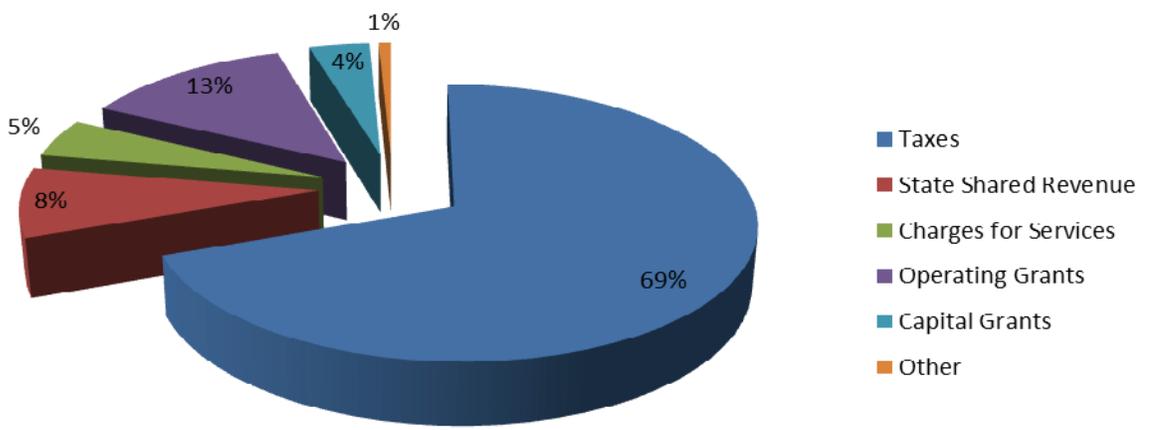
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

### Expenses and Program Revenues - Governmental Activities



	General Government	Public Safety	Public Works/Street s	Culture and Recreation	Economic Development
■ Revenues	\$249,786.00	\$167,116.00	\$663,214.00	\$69,698.00	\$-
■ Expenses	\$1,198,079.00	\$2,363,177.00	\$1,490,644.00	\$866,281.00	\$71,573.00

### Revenue by Source - Governmental Activities



The following table presents the cost of each of the Town’s largest programs – police, public works, and general government – 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 4,463. 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**

	<b>Total Cost of Services 2017</b>	<b>Net Per Capita Cost of Services 2017</b>
Public Safety	\$ 2,363,177	\$530
Public Works/Streets	1,490,644	334
General Government	1,198,079	268
All Others	963,530	216
Totals	<u>\$ 6,015,430</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 \$1,848,949 which increased over last year’s total by \$453,579. The Town 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 in operations of \$338,323. The General Fund had a surplus in operations for the year, and the fund balance at year end remains strong at \$1,064,942.
- The Highway Users Revenue Fund (HURF), had a surplus in operations of \$87,986 during 2017. The fund balance at year end remains positive at \$362,094. HURF funds are restricted for road and street construction and improvements.
- The Recreation and Tourism Fund had a surplus in operations of \$201,588 for the year. The revenue in this fund is provided by our special, incremental sales taxes which are an additional 3% levied on hotels/motels, and 2% levied on restaurant and bar sales.
- 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 were used to fund the debt service and operations of the Mountain Meadow Recreation Complex and Woodland Lake Park.

**General Fund Budgetary Highlights**

The General Fund’s revenues of \$4,564,017 were \$211,143 less than budgeted revenues of \$4,775,160. The General Fund’s expenditures, \$4,652,766 (including transfers) were 87% of budgeted expenditures and transfers of \$5,334,052 a variance of \$681,610. Sales tax collection was up over last year in most categories. However, total overall sales taxes were flat as compared to the prior year. Comparisons are difficult due to the change in the way information was received from the Arizona Department of Revenue.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of Fiscal Year 2017, the Town had \$5,940,253 (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 \$522,798 or 8.09 percent over last year. More detailed information is presented in Note 6 to the financial statements.

#### Capital Assets at Year-End

	<b>Governmental Activities 2017</b>	<b>Governmental Activities 2016</b>
Land	\$704,564	\$1,104,564
Construction in Progress	241,933	624,612
Buildings and Improvements	2,656,179	2,184,261
Infrastructure	1,284,875	1,417,835
Equipment	<u>1,052,702</u>	<u>1,131,779</u>
Total	<u>\$5,940,253</u>	<u>\$6,463,051</u>

### Debt

At year-end, the Town had \$8.4 million in long-term obligations, as shown in the table below.

#### Outstanding Debt at Year-End

	<b>Governmental Activities 2017</b>	<b>Governmental Activities 2016</b>
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 0	\$ 0
Other long-term obligations	<u>8,369,977</u>	<u>8,206,618</u>
Totals	<u>\$8,369,977</u>	<u>\$8,206,618</u>

Other obligations include accrued vacation, sick leave, net pension liabilities and capital leases. More detailed information is presented in Notes 7, 8 and 9 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 remained flat in the Town of Pinetop-Lakeside as compared to the prior

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.

#### **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, 958 S Woodland Road, Lakeside, Arizona 85929, or call 928-368-8696. Or visit our website at: [www.pinetoplakeside.com](http://www.pinetoplakeside.com)

**BASIC FINANCIAL STATEMENTS**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Net Position**  
**June 30, 2017**

	<u>Governmental Activities</u>	<u>Total</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,957,503	\$ 1,957,503
Receivables (net of allowance)	381,119	381,119
Prepays	43,572	43,572
Other assets	14,611	14,611
Capital assets (net of accumulated depreciation):		
Land	704,564	704,564
Buildings and improvements	707,036	707,036
Other improvements	1,949,143	1,949,143
Furniture, machinery & equipment	617,199	617,199
Vehicles	435,503	435,503
Infrastructure	1,284,875	1,284,875
Construction in progress	241,933	241,933
Total assets	<u>8,337,058</u>	<u>8,337,058</u>
<b>Deferred outflows</b>		
Deferred outflows related to pensions	<u>1,688,287</u>	<u>1,688,287</u>
<b>Liabilities</b>		
Accounts payable and other current liabilities	616,826	616,826
Unearned revenue	35,000	35,000
Noncurrent liabilities:		
Due within one year	110,163	110,163
Due in more than one year	8,259,814	8,259,814
Total liabilities	<u>9,021,803</u>	<u>9,021,803</u>
<b>Deferred inflows</b>		
Deferred inflows related to pensions	<u>480,828</u>	<u>480,828</u>
<b>Net Position</b>		
Net investment in capital assets	5,143,699	5,143,699
Restricted for:		
Capital projects	117,553	117,553
Public works/Streets	362,094	362,094
Unrestricted	(5,100,632)	(5,100,632)
Total net position	<u>\$ 522,714</u>	<u>\$ 522,714</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants &amp; Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Total Governmental Activities</u>
Governmental activities:					
General government	\$ 1,198,079	\$ 237,697	\$ 187	\$ 11,902	(948,293)
Public safety	2,363,177	61,207	101,364	4,545	(2,196,061)
Public works/Streets	1,490,644	-	601,781	61,433	(827,430)
Culture and recreation	866,281	37,748	7,383	24,567	(796,583)
Economic development	71,573	-	-	-	(71,573)
Interest on long-term debt	25,676	-	-	-	(25,676)
<b>Total governmental activities</b>	<b>6,015,430</b>	<b>336,652</b>	<b>710,715</b>	<b>102,447</b>	<b>(4,865,616)</b>
General Revenues:					
Taxes:					
					3,609,646
					69,734
					397,955
					258,797
					531,579
					707
					(6,490)
					<u>4,861,928</u>
					(3,688)
					<u>526,402</u>
					<u>\$ 522,714</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

<b>Assets</b>	<b>General Fund</b>	<b>Highway Users Revenue Fund</b>	<b>Recreation and Tourism Fund</b>	<b>Non-major Funds</b>	<b>Total Governmental Funds</b>
Cash and Cash Equivalents	\$ 1,224,844	\$ 308,266	\$ 270,493	\$ 153,900	\$ 1,957,503
Prepays	33,424	-	148	10,000	43,572
Receivables:					
Taxes	274,991	-	-	-	274,991
Intergovernmental	25,334	54,935	-	25,859	106,128
Due from Other Funds	2,246	-	-	-	2,246
Notes and Other Assets	14,611	-	-	-	14,611
<b>Total Assets</b>	<b>\$ 1,575,450</b>	<b>\$ 363,201</b>	<b>\$ 270,641</b>	<b>\$ 189,759</b>	<b>\$ 2,399,051</b>
<b>Liabilities</b>					
Accounts Payable	\$ 197,314	\$ -	\$ -	\$ -	\$ 197,314
Accrued Wages and Benefits	92,335	1,107	-	-	93,442
Accrued Liabilities	78,184	-	-	1,241	79,425
Customer Deposits	142,675	-	-	-	142,675
Unearned Revenue	-	-	-	35,000	35,000
Due to other funds	-	-	-	2,246	2,246
<b>Total Liabilities</b>	<b>510,508</b>	<b>1,107</b>	<b>-</b>	<b>38,487</b>	<b>550,102</b>
<b>Fund Balances</b>					
Nonspendable:					
Prepays	33,424	-	148	10,000	43,572
Restricted for:					
Public safety	-	-	-	13,584	13,584
Highways and streets	-	362,094	-	25,735	387,829
Community and economic development	-	-	-	48,724	48,724
Other purposes	-	-	-	19,510	19,510
Committed to:					
Tourism and recreation	-	-	270,493	-	270,493
Assigned to:					
Community and economic development	-	-	-	10,119	10,119
Highways and streets	169,169	-	-	-	169,169
Other purposes	-	-	-	23,600	23,600
Unassigned	862,349	-	-	-	862,349
<b>Total fund balances</b>	<b>1,064,942</b>	<b>362,094</b>	<b>270,641</b>	<b>151,272</b>	<b>1,848,949</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,575,450</b>	<b>\$ 363,201</b>	<b>\$ 270,641</b>	<b>\$ 189,759</b>	<b>\$ 2,399,051</b>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2017**

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Total fund balances - governmental funds \$ 1,848,949

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

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

Governmental capital assets	\$ 11,651,250	
Accumulated depreciation	<u>(5,710,997)</u>	
		5,940,253

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	\$ 1,688,287	
Deferred inflows	<u>(480,828)</u>	
		1,207,459

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Leases payable	\$ (796,554)	
Compensated absences	(187,249)	
Net pension liability	(7,380,638)	
Landfill closure payable	(5,536)	
PSPRS refund payable	<u>(103,970)</u>	
		(8,473,947)

Total net position - governmental activities	<u><u>\$ 522,714</u></u>
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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 Fiscal Year Ended June 30, 2017**

<b>REVENUES</b>	<b>General Fund</b>	<b>Highway Users Revenue Fund</b>	<b>Recreation and Tourism Fund</b>	<b>Non-major Funds</b>	<b>Total Governmental Funds</b>
Taxes	\$ 2,946,703	\$ -	\$ 662,942	\$ -	\$ 3,609,645
Franchise taxes	69,734	-	-	-	69,734
Intergovernmental revenue	1,188,331	601,781	-	142,942	1,933,054
Licenses, permits and fees	153,108	-	-	-	153,108
Charges for services	102,209	-	3,695	-	105,904
Fines and forfeitures	45,958	-	-	-	45,958
Interest	518	112	-	77	707
Lease income	14,494	-	-	-	14,494
Impact fees	-	-	-	42,666	42,666
Miscellaneous	42,962	-	-	-	42,962
Total Revenues	<u>4,564,017</u>	<u>601,893</u>	<u>666,637</u>	<u>185,685</u>	<u>6,018,232</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,260,878	-	-	-	1,260,878
Public safety	2,000,315	-	-	67,778	2,068,093
Public works/streets	723,764	546,256	-	-	1,270,020
Tourism and recreation	362,121	-	415,247	3,931	781,299
Community and economic development	96,876	-	-	-	96,876
Capital outlay	-	15,863	-	456,477	472,340
Debt Service:					
Principal	-	-	-	38,648	38,648
Interest	-	-	-	25,676	25,676
Total Expenditures	<u>4,443,954</u>	<u>562,119</u>	<u>415,247</u>	<u>592,510</u>	<u>6,013,830</u>
Excess of Revenues Over (Under) Expenditures	<u>120,063</u>	<u>39,774</u>	<u>251,390</u>	<u>(406,825)</u>	<u>4,402</u>
<b>Other Financing Sources (Uses):</b>					
Sale of capital assets	399,544	48,212	1,421	-	449,177
Transfers in	27,528	-	-	234,368	261,896
Transfers out	(208,812)	-	(51,223)	(1,861)	(261,896)
Total Other Financing Sources (Uses)	<u>218,260</u>	<u>48,212</u>	<u>(49,802)</u>	<u>232,507</u>	<u>449,177</u>
Net change in fund balances	338,323	87,986	201,588	(174,318)	453,579
Fund Balances, Beginning of Year	<u>726,619</u>	<u>274,108</u>	<u>69,053</u>	<u>325,590</u>	<u>1,395,370</u>
Fund Balances, End of Year	<u>\$ 1,064,942</u>	<u>\$ 362,094</u>	<u>\$ 270,641</u>	<u>\$ 151,272</u>	<u>\$ 1,848,949</u>

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

**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 Fiscal Year Ended June 30, 2017**

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

Net change in fund balances - total governmental funds	\$	453,579
<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	\$	421,002
Depreciation expense	<u>(543,800)</u>	(122,798)
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the loss on the sale of capital assets is reported net of its net book value.</p>		
		(400,000)
<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>		
		94,096
<p>Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.</p>		
Pension contribution	\$	531,392
Pension expense	<u>(429,789)</u>	101,603
<p>Compensated absences and PSPRS contributions payable 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>		
		(130,168)
Change in net position of governmental activities	<u>\$</u>	<u>(3,688)</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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**Description of government-wide financial statements**

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

**Reporting entity**

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

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

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

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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**Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its blended component unit. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as 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 Users Revenue Fund** is used to account for the Town's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

The **Recreation and Tourism 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.

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, 2017**

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

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**Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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

*Deposits and investments*

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

*Prepaid items*

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

*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 acquisition 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, 2017**

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

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*Unearned revenue*

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

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 9 for more information.

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 one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 9 for more information.

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*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.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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*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.

*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.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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*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.

**Tax Abatements**

The Town has not entered into any tax abatement agreements and the Town is not aware of any tax abatement agreements that have been entered into by other governments that would reduce the Town's tax revenues.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

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The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net 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 17.

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 19.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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

**Budgets and Budgetary Accounting**

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provides the Town with a final expenditure limit for the coming fiscal year.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were made during the year. The Town's budget includes \$122,000 for contingencies.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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**Expenditures over Appropriations**

The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the funds which incurred an excess of expenditures/expenses over appropriations for the fiscal year ended June 30, 2017, 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.

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**Note 4. Deposits and Investments**

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**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, 2017, cash on hand was \$721, and the carrying amount of the Town's deposits was \$1,908,135. As of June 30, 2017, the Town's bank balance of \$1,999,516 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. The State Board of Investments provides oversight for the State Treasurer's investment pools. 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.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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, 2017 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>
Arizona Local Government Investment Pool	48,616	(1)	0.10
Total Fair Value	<u>\$ 48,616</u>		

(1) The Town's investment in the State Treasurer's Investment Pool #5 was rated AAA from Moody's.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2017:

- Arizona Local Governmental Investment Pool is valued using inputs other than quoted prices, that are observable (Level 2 inputs).

**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 above.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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, 2017, interfund receivables and payables are as follows:

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
General Fund	\$ 2,246	\$ -
Special Revenue Funds:		
Grant Fund	-	2,246
	\$ 2,246	\$ 2,246

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, 2017, interfund transfers are as follows:

	<b>Transfers In</b>		
<b>Transfers Out</b>	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 208,812	\$ 208,812
Recreation Fund	25,667	25,556	51,223
Grant Fund	1,861		1,861
	\$ 27,528	\$ 234,368	\$ 261,896

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.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 6. Capital Assets**

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

<b>Primary Government Governmental Activities:</b>	<b>Balance 6/30/2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2017</b>
Capital Assets not being depreciated:				
Land	\$ 1,104,564	\$ -	\$ (400,000)	\$ 704,564
Construction in progress	624,612	191,984	(574,663)	241,933
Total capital assets not being depreciated	<u>1,729,176</u>	<u>191,984</u>	<u>(974,663)</u>	<u>946,497</u>
Capital Assets being depreciated:				
Buildings & Improvements	1,478,973	7,139	-	1,486,112
Improvements other than buildings	3,049,158	660,815	-	3,709,973
Machinery & Equipment	1,738,847	81,261	(104,378)	1,715,730
Vehicles	1,364,228	54,466	-	1,418,694
Infrastructure	<u>2,374,244</u>	<u>-</u>	<u>-</u>	<u>2,374,244</u>
Total capital assets being depreciated	<u>10,005,450</u>	<u>803,681</u>	<u>(104,378)</u>	<u>10,704,753</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(751,180)	(27,896)	-	(779,076)
Improvements other than buildings	(1,592,690)	(168,140)	-	(1,760,830)
Machinery & Equipment	(1,111,107)	(91,802)	104,378	(1,098,531)
Vehicles	(860,189)	(123,002)	-	(983,191)
Infrastructure	<u>(956,409)</u>	<u>(132,960)</u>	<u>-</u>	<u>(1,089,369)</u>
Total accumulated depreciation	<u>(5,271,575)</u>	<u>(543,800)</u>	<u>104,378</u>	<u>(5,710,997)</u>
Total Capital Assets being depreciated, net	<u>4,733,875</u>	<u>259,881</u>	<u>-</u>	<u>4,993,756</u>
Governmental activities capital assets, net	<u>\$ 6,463,051</u>	<u>\$ 451,865</u>	<u>\$ (974,663)</u>	<u>\$ 5,940,253</u>

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

<b>Governmental Activities:</b>	
General government	\$ 43,739
Public safety	106,361
Public works/streets	250,212
Culture & recreation	<u>143,488</u>
Total depreciation expense - governmental activities	<u>\$ 543,800</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 7. Long-Term Liabilities**

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2017</b>	<b>Current Portion</b>
Accrued compensated absences	\$ 161,051	\$ 42,778	\$ 16,580	\$ 187,249	\$ 18,725
Net pension liabilities	7,149,381	254,508	23,251	7,380,638	-
Landfill monitoring costs	5,861	-	325	5,536	325
Total other long-term debt	<u>7,316,293</u>	<u>297,286</u>	<u>40,156</u>	<u>7,573,423</u>	<u>19,050</u>
<b>Capital Leases:</b>					
Zions Bank building lease	455,655	-	21,961	433,694	22,851
John Deere equipment lease	20,596	-	5,194	15,402	5,406
Caterpillar backhoe lease	92,724	-	10,384	82,340	9,880
Caterpillar motograder lease	223,045	-	23,904	199,141	21,098
KS Bank copier lease	9,299	-	4,340	4,959	2,242
Ford police vehicle lease	89,006	-	27,988	61,018	29,636
Total capital leases	<u>890,325</u>	<u>-</u>	<u>93,771</u>	<u>796,554</u>	<u>91,113</u>
Total general long-term debt	<u>\$ 8,206,618</u>	<u>\$ 297,286</u>	<u>\$ 133,927</u>	<u>\$ 8,369,977</u>	<u>\$ 110,163</u>

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.

Net pension liabilities consist of Arizona State Retirement System and Public Safety Personnel Retirement System liabilities. See footnote 9 for more information. Each governmental funds' liability for net pension liabilities 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.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 8. Capital Leases Payable**

The Town entered into 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 3.2-6.32%, together with the present value of the net minimum lease payments:

June 30,	General Long-Term Debt
2018	\$ 119,596
2019	119,596
2020	82,642
2021	77,703
2022	107,289
2023-2027	277,642
2028-2032	174,296
Total remaining lease payments	958,764
Less amount representing interest	(162,210)
Present value of net remaining minimum lease payments	\$ 796,554

A summary of assets acquired through capital leases follows:

	Cost	Depreciation
Land	\$ 160,000	\$ -
Buildings & Improvements	380,000	(51,458)
Machinery & Equipment	504,408	(88,541)
Total	\$ 1,044,408	\$ (139,999)

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans**

The Town contributes to the Arizona State Retirement System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2017, the Town reported the following aggregate amounts related to pensions for plans to which it contributes:

<b>Statement of Net Position and Statement of Activities</b>	<b>ASRS</b>	<b>PSPRS</b>	<b>Governmental Activities Total</b>
Net pension liability	\$ 2,501,856	\$ 4,878,782	\$ 7,380,638
Deferred outflows of resources	446,034	1,242,253	1,688,287
Deferred inflows of resources	480,828	-	480,828
Pension expense	(56,972)	490,440	433,468

The Town reported \$433,468 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

**Arizona State Retirement System (ASRS)**

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

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

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

\* With actuarially reduced benefits.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

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

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active member's annual covered payroll.

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to ASRS would typically fill.

The Town's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 162,519	\$ 8,805	\$ 1,791
2016	157,435	7,255	1,741
2017	159,712	8,297	2,074

**Pension liability** – At June 30, 2017, the Town reported a liability of \$2,501,856 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016 reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Town's proportion measured as of June 30, 2016, was 0.01550 percent, which was a decrease of 0.000710 percent from its proportion measured as of June 30, 2015.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

**Pension expense and deferred outflows/inflows of resources** – For the fiscal year ended June 30, 2017 the Town recognized pension expense for ASRS of \$(56,972). At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 15,204	\$ 172,109
Changes in assumptions	-	132,368
Net difference between projected and actual earnings on pension plan investments	271,118	-
Changes in proportion and differences between contributions and proportional share of contributions	-	176,351
Contributions subsequent to the measurement date	159,712	-
Total	\$ 446,034	\$ 480,828

The \$159,712 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2018	\$ (238,565)
2019	(135,115)
2020	103,152
2021	76,022
2022	-

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed income	25%	3.70%	0.93%
Multi-asset	5%	3.41%	0.17%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.50%
	Inflation		3.25%
	Expected arithmetic nominal return		8.75%

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate** – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of			
Net pension (asset) / liability	\$ 3,190,056	\$ 2,501,856	\$ 1,950,070

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

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

**Plan description** – Town police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement (PSPRS). The PSPRS administers agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publically available financial; report that includes financial statements and required supplementary information for the PSPRS plan. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com)

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

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

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

**Employees covered by benefit terms** – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	2
Active employees	12
<b>Total</b>	<b>25</b>

**Contributions and annual OPEB cost** – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active PSPRS members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 56.02 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 1.32 percent.

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the fiscal year ended June 30, 2017, were:

<b>Pension</b>	
Contributions made	\$ 371,680
 <b>Health Insurance Premium Benefit</b>	
Annual OPEB cost	\$ 9,739
Contributions made	\$ 9,739

**Pension liability** – At June 30, 2017, the Town reported a net pension liability of \$4,878,782. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016, voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.5 percent for the PSPRS plan.

The net pension liabilities measured as of June 30, 2017 will reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town’s net pension liabilities as a result of these changes is not known.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Investment rate of return	7.50%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
Short term investments	2.00%	0.75%
Absolute return	5.00%	4.11%
Risk parity	4.00%	5.13%
Fixed income	7.00%	2.92%
Real assets	8.00%	4.77%
GTAA	10.00%	4.38%
Private equity	11.00%	9.50%
Real estate	10.00%	4.48%
Credit opportunities	13.00%	7.08%
Non-U.S. equity	14.00%	8.25%
U.S. equity	16.00%	6.23%
<b>Total</b>	<u>100.00%</u>	

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

**Pension Discount Rate** – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability**

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at June 30, 2016	\$ 6,569,688	\$ 1,945,414	\$ 4,624,274
Changes for the year:			
Service cost	118,486	-	118,486
Interest on total pension liability	505,576	-	505,576
Changes of benefit terms	(180,718)	-	(180,718)
Difference between expected and actual experience in the measurement of the pension liability	111,434	-	111,434
Changes of assumptions	268,033	-	268,033
Contributions - employer	-	388,358	(388,358)
Contributions - employee	-	80,710	(80,710)
Net investment income	-	12,011	(12,011)
Benefit payments, including refunds of employee contributions	(376,953)	(376,953)	-
Pension plan administrative expense	-	(2,129)	2,129
Other changes *	-	89,353	(89,353)
Net changes	<u>445,858</u>	<u>191,350</u>	<u>254,508</u>
Balances at June 30, 2017	<u>\$ 7,015,546</u>	<u>\$ 2,136,764</u>	<u>\$ 4,878,782</u>

\* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of			
Net pension (asset) / liability	\$ 5,746,228	\$ 4,878,782	\$ 4,158,319

**Pension plan fiduciary net position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

**Pension expense and deferred outflows/inflows of resources** – For the fiscal year ended June 30, 2017 the Town recognized pension expense for PSPRS of \$490,440. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 198,656	\$ -
Changes in assumptions	543,147	-
Net difference between projected and actual earnings on pension plan investments	128,770	-
Contributions subsequent to the measurement date	371,680	-
Total	\$ 1,242,253	\$ -

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

<b>Year Ended June 30</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2018	\$ 374,784
2019	271,121
2020	126,654
2021	98,014
2022	-
Thereafter	-

**Agent plan OPEB actuarial assumptions** – The health insurance premium benefit contribution requirements for the fiscal year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plan as the Town and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 9. Retirement and Pension Plans, Continued**

**Agent plan OPEB trend information** – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2015	\$ 11,627	100%	-
	2016	7,232	100%	-
	2017	9,739	100%	-

**Agent plan OPEB funded status** – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	<u>Insurance Subsidy</u>
Actuarial accrued liability (AAL)	\$ 210,467
Actuarial value of plan assets	<u>94,182</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 116,285</u>
Funded ratio (actuarial value of plan assets/AAL)	44.75%
Covered payroll (active plan members)	\$ 621,324
UAAL as a percentage of covered payroll	18.72%

The actuarial methods and assumptions used for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	20 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 10. Risk Management**

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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.

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**Note 11. Contingencies**

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

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 11. Contingencies, Continued**

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After seeking further clarification from the Supreme Court on their ruling, the PSPRS Board of Trustees in April directed employers in both EORP and PSPRS plans to revert the rates back to pre-SB1609 levels for affected members. As a result, members who were hired prior to July 20, 2011 are also entitled to receive a return of those excess contributions with interest. Therefore, at its May 31, 2017 meeting, the PSPRS Board of Trustees authorized local boards who have stopped withholding at the higher rate to begin working with their employer in returning those contributions as soon as practicable. However, while the Hall case has been remanded to the Superior Court, the ruling on the interest amount from a hearing on June 6, 2017 has yet to be decided and released. As such, the Hall case is not finalized yet, but the excess contributions should be returned as soon as possible to stop interest from accruing.

Because the plans administered by PSPRS are 401(a) qualified plans, the IRS dictates the method used to return the excess contributions to members. PSPRS is not allowed to return the contributions directly to members or employers. Instead, employers are required to return the excess contributions to members, and then may take advantage of credit memos set up by PSPRS to offset future employer contributions. PSPRS will prepare credit memos equal to the contributions plus pre-judgment interest. Employers that want to take advantage of those credit memos may use those credit memos in lieu of sending PSPRS future employer contributions until the credit memos are used up. As of June 30, 2017 the City owed refunds totaling \$103,970 to current and former employees, excluding interest. The payable and related credit claims and judgement expense are reported on the government-wide statement of net position and the statement of activities.

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**Note 12. Subsequent Events**

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On December 13, 2017, the Town sold Revenue Bonds in the amount of \$1,937,853. The Bonds are being paid off over 30 years, semi-annual payments, and have interest rates ranging from 3.0% to 4.0% over the life of the Bond issue. The bulk of the funds are to be used for the purchase of a new Town Hall building, with the rest used to pay off an outstanding lease purchase debt. Those are described below.

On December 27, 2017, the Town closed on the purchase of a building to be used for a new Town Hall. The purchase price of this building was \$1,354,000. The Town will be remodeling this building, and hopes to move administrative offices during the late part of the Summer, 2018.

The Town had an outstanding debt on the land and building where the Public Works and Administrative offices are currently housed. This debt was a lease purchase agreement with Zions First National Bank. The Town used \$428,908 of funds from the Revenue Bond issue to pay off Zions Bank

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**June 30, 2017**

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**Arizona State Retirement System**

	<b>Reporting Fiscal Year</b>		
	<b>(Measurement Date)</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(2016)</b>	<b>(2015)</b>	<b>(2014)</b>
Proportion of the net pension liability (asset)	0.015500%	0.016210%	0.017325%
Proportionate share of the net pension liability (asset)	\$ 2,501,856	\$ 2,525,107	\$ 2,563,253
Covered payroll	\$ 1,444,948	\$ 1,492,080	\$ 1,545,034
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	173.15%	169.23%	165.90%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension plan schedules.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**June 30, 2017**

**Public Safety Personnel Retirement System**

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
<b>Total pension liability</b>			
Service cost	\$ 118,486	\$ 125,205	\$ 117,492
Interest on total pension liability	505,576	485,413	362,813
Changes of benefit terms	(180,718)	-	227,203
Difference between expected and actual experience of the total net pension liability	111,434	22,866	277,339
Changes of assumptions	268,033	-	945,302
Benefit payments, including refunds of employee contributions	(376,953)	(369,607)	(374,824)
<b>Net change in total pension liability</b>	445,858	263,877	1,555,325
<b>Total pension liability - beginning</b>	6,569,688	6,305,811	4,750,486
<b>Total pension liability - ending (a)</b>	<u>\$ 7,015,546</u>	<u>\$ 6,569,688</u>	<u>\$ 6,305,811</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 388,358	\$ 274,652	\$ 300,744
Contributions - employee	80,710	72,855	66,534
Net investment income	12,011	69,641	224,497
Benefit payments, including refunds of employee contributions	(376,953)	(369,607)	(374,824)
Pension plan administrative expense	(2,129)	(2,081)	-
Other (net transfer)	89,353	(6,639)	114,007
<b>Net change in plan fiduciary net position</b>	191,350	38,821	330,958
<b>Plan fiduciary net position - beginning</b>	1,945,414	1,906,593	1,575,565
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 2,136,764</u>	<u>\$ 1,945,414</u>	<u>\$ 1,906,523</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ 4,878,782</u>	<u>\$ 4,624,274</u>	<u>\$ 4,399,288</u>
Plan fiduciary net position as a percentage of the total pension liability	30.46%	29.61%	30.23%
Covered payroll	\$ 730,884	\$ 682,144	\$ 655,492
Net pension liability as a percentage of covered payroll	667.52%	677.90%	671.14%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available

See accompanying notes to pension plan schedules.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Contributions**  
**June 30, 2017**

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**Arizona State Retirement System**

	<b>Fiscal Year</b>			
	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Contractually required contribution	\$ 159,712	\$ 157,461	\$ 157,461	\$ 162,602
Contributions in relation to the contractually required contribution	\$ (159,712)	\$ (157,461)	\$ (157,461)	\$ (162,602)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,482,748	\$ 1,444,948	\$ 1,492,080	\$ 1,545,034
Contributions as a percentage of covered payroll	10.77%	10.90%	10.55%	10.52%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension plan schedules.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Contributions, Continued**  
**June 30, 2017**

**Public Safety Personnel Retirement System**

	Fiscal Year			
	2017	2016	2015	2014
Actuarially determined contribution	\$ 371,680	\$ 388,358	\$ 274,652	\$ 300,744
Contributions in relation to the actuarially determined contribution	\$ (371,680)	\$ (388,358)	\$ (274,652)	\$ (300,744)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 682,684	\$ 730,884	\$ 682,144	\$ 655,492
Contributions as a percentage of covered payroll	54.44%	53.14%	40.26%	45.88%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension plan schedules.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Required Supplementary Information**  
**Notes to the Pension Plan Schedules**  
**June 30, 2017**

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**NOTE 1. Actuarially Determined Contribution Rates**

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Actuarially determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2014 actuarial valuation	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2016 using projection scale AA (adjusted by 105% for both males and females)

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**NOTE 2. Factors that Affect Trends**

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In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the Town's net pension liability and related ratios. These changes also increased the PSPRS's required contributions beginning in fiscal year 2016 in the schedule of town pension contributions.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2017**

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**Public Safety Personnel Retirement System**  
**Health Insurance Premium Benefit**

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
<b>Valuation Date June 30,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	
2014	\$ 89,706	\$ 152,938	\$ 63,232	58.7%	\$ 655,492	9.65%
2015	98,030	184,615	86,585	53.1%	682,114	12.69%
2016	94,182	210,467	116,285	44.7%	621,324	18.72%

Fiscal year June 30, 2017 information is not available at the time the financial statements were issued.

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

**General Fund**

The **General Fund** is used to account for resources traditionally associated with Town which are not required legally or by sound financial management to be accounted for in another fund.

**Special Revenue Funds**

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

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share of motor fuel tax revenues which are set aside for the maintaining, repairing, and upgrading of streets.
- **Recreation and Tourism Fund** - 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**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Taxes	\$ 3,202,676	\$ 3,202,676	\$ 2,946,703	\$ (255,973)
Franchise tax	47,525	47,525	69,734	22,209
Intergovernmental revenue	1,199,954	1,199,954	1,188,331	(11,623)
Licenses and permits	125,425	125,425	153,108	27,683
Charges for services	106,074	106,074	102,209	(3,865)
Fines and forfeitures	51,788	51,788	45,958	(5,830)
Interest	1,740	1,740	518	(1,222)
Lease income	17,445	17,445	14,494	(2,951)
Miscellaneous	22,533	22,533	42,962	20,429
Total Revenues	<u>4,775,160</u>	<u>4,775,160</u>	<u>4,564,017</u>	<u>(211,143)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Administration	1,246,951	1,246,951	1,027,381	219,570
Finance	214,026	214,026	233,497	(19,471)
Public Safety:				
Police	2,204,677	2,204,677	1,939,460	265,217
Magistrate	64,653	64,653	60,855	3,798
Public Works/Streets	742,350	742,350	723,764	18,586
Tourism and recreation	394,255	394,255	362,121	32,134
Community & economic development	196,234	196,234	96,876	99,358
Total Expenditures	<u>5,063,146</u>	<u>5,063,146</u>	<u>4,443,954</u>	<u>619,192</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(287,986)</u>	<u>(287,986)</u>	<u>120,063</u>	<u>408,049</u>
Other Financing Sources (Uses):				
Sale of assets	324	324	399,544	399,220
Transfers in	-	-	27,528	27,528
Transfers out	(271,230)	(271,230)	(208,812)	62,418
Total Other Financing Sources (Uses)	<u>(270,906)</u>	<u>(270,906)</u>	<u>218,260</u>	<u>489,166</u>
Net change in fund balance	(558,892)	(558,892)	338,323	897,215
Fund Balance, Beginning of Year	<u>726,619</u>	<u>726,619</u>	<u>726,619</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 167,727</u>	<u>\$ 167,727</u>	<u>\$ 1,064,942</u>	<u>\$ 897,215</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Highway Users Revenue Fund**  
**Special Revenue Fund**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 567,037	\$ 567,037	\$ 601,781	\$ 34,744
Interest	543	543	112	(431)
Total Revenue	<u>567,580</u>	<u>567,580</u>	<u>601,893</u>	<u>34,313</u>
<b>EXPENDITURES:</b>				
Current:				
Public Works:				
Administration	4,400	4,400	5,493	(1,093)
Street maintenance	770,077	770,077	517,480	252,597
Street rehabilitation	17,800	17,800	15,921	1,879
Maintenance yard	-	-	866	(866)
Utilities	10,000	10,000	6,496	3,504
Capital Outlay	<u>9,000</u>	<u>9,000</u>	<u>15,863</u>	<u>(6,863)</u>
Total Expenditures	<u>811,277</u>	<u>811,277</u>	<u>562,119</u>	<u>249,158</u>
Excess of Revenues Over (Under) Expenditures	<u>(243,697)</u>	<u>(243,697)</u>	<u>39,774</u>	<u>283,471</u>
Other Financing Sources (Uses):				
Sale of capital assets	<u>4,089</u>	<u>4,089</u>	<u>48,212</u>	<u>44,123</u>
Total Other Financing Sources (Uses):	<u>4,089</u>	<u>4,089</u>	<u>48,212</u>	<u>44,123</u>
Net change in fund balance	(239,608)	(239,608)	87,986	327,594
Fund Balance, Beginning of Year	<u>274,108</u>	<u>274,108</u>	<u>274,108</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 34,500</u>	<u>\$ 34,500</u>	<u>\$ 362,094</u>	<u>\$ 327,594</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Recreation and Tourism Fund**  
**Special Revenue Fund**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 488,705	\$ 488,705	\$ 662,942	\$ 174,237
Charges for services	3,721	3,721	3,695	(26)
Total Revenue	<u>492,426</u>	<u>492,426</u>	<u>666,637</u>	<u>174,211</u>
<b>EXPENDITURES:</b>				
Current:				
Tourism and recreation	382,920	382,920	415,247	(32,327)
Total Expenditures	<u>382,920</u>	<u>382,920</u>	<u>415,247</u>	<u>(32,327)</u>
Excess of Revenues				
Over (Under) Expenditures	<u>109,506</u>	<u>109,506</u>	<u>251,390</u>	<u>141,884</u>
Other Financing Sources (Uses):				
Sale of capital assets	3,803	3,803	1,421	(2,382)
Transfers out	(148,033)	(148,033)	(51,223)	96,810
Total Other Financing Sources (Uses):	<u>(144,230)</u>	<u>(144,230)</u>	<u>(49,802)</u>	<u>94,428</u>
Net change in fund balance	(34,724)	(34,724)	201,588	236,312
Fund Balance, Beginning of Year	<u>69,053</u>	<u>69,053</u>	<u>69,053</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 34,329</u>	<u>\$ 34,329</u>	<u>\$ 270,641</u>	<u>\$ 236,312</u>

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

**Non-major Governmental Funds**

**Special Revenue Funds**

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

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

**Capital Projects Funds**

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Balance Sheet**  
**Non-major Governmental Funds**  
**June 30, 2017**

	<u>Grants Fund</u>	<u>Development Impact Fee Fund</u>	<u>Capital Projects Fund</u>	<u>Acquisition &amp; Development Fund</u>	<u>Total</u>
<b>Assets</b>					
Cash	\$ -	\$ 107,553	\$ 1,228	\$ 45,119	\$ 153,900
Due from other governments	25,859	-	-	-	25,859
Prepaid expense	-	10,000	-	-	10,000
Total Assets	<u>\$ 25,859</u>	<u>\$ 117,553</u>	<u>\$ 1,228</u>	<u>\$ 45,119</u>	<u>\$ 189,759</u>
<b>Liabilities</b>					
Accrued liabilities	1,241	-	-	-	1,241
Unearned revenue	-	-	-	35,000	35,000
Due to other funds	2,246	-	-	-	2,246
Total Liabilities	<u>3,487</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>38,487</u>
<b>Fund Balance</b>					
Nonspendable:					
Prepays	-	10,000	-	-	10,000
Restricted for:					
Public Safety	-	13,584	-	-	13,584
Highways and streets	-	25,735	-	-	25,735
Community and economic development	-	48,724	-	-	48,724
Other purposes	-	19,510	-	-	19,510
Assigned for :					
Community and economic development	-	-	-	10,119	10,119
Other purposes	22,372	-	1,228	-	23,600
Total Fund Balances	<u>22,372</u>	<u>117,553</u>	<u>1,228</u>	<u>10,119</u>	<u>151,272</u>
Total Liabilities and Fund Balances	<u>\$ 25,859</u>	<u>\$ 117,553</u>	<u>\$ 1,228</u>	<u>\$ 45,119</u>	<u>\$ 189,759</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-major Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

<b>REVENUES</b>	<b>Grants Fund</b>	<b>Development Impact Fee Fund</b>	<b>Capital Projects Fund</b>	<b>Acquisition &amp; Development Fund</b>	<b>Total</b>
Intergovernmental revenue	\$ 142,942	\$ -	\$ -	\$ -	\$ 142,942
Interest	-	66	-	11	77
Impact fees	-	42,666	-	-	42,666
Total Revenues	<u>142,942</u>	<u>42,732</u>	<u>-</u>	<u>11</u>	<u>185,685</u>
<b>EXPENDITURES</b>					
Current:					
Public safety	67,778	-	-	-	67,778
Tourism and recreation	3,931	-	-	-	3,931
Capital outlay	47,000	240,661	168,816	-	456,477
Debt Service:					
Principal	-	-	38,648	-	38,648
Interest	-	-	25,676	-	25,676
Total Expenditures	<u>118,709</u>	<u>240,661</u>	<u>233,140</u>	<u>-</u>	<u>592,510</u>
Excess of Revenues					
Over (Under) Expenditures	<u>24,233</u>	<u>(197,929)</u>	<u>(233,140)</u>	<u>11</u>	<u>(406,825)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	234,368	-	234,368
Transfers out	(1,861)	-	-	-	(1,861)
Total Other Financing Sources (Uses)	<u>(1,861)</u>	<u>-</u>	<u>234,368</u>	<u>-</u>	<u>232,507</u>
Net change in fund balances	22,372	(197,929)	1,228	11	(174,318)
Fund Balances, Beginning of Year	<u>-</u>	<u>315,482</u>	<u>-</u>	<u>10,108</u>	<u>325,590</u>
Fund Balances, End of Year	<u>\$ 22,372</u>	<u>\$ 117,553</u>	<u>\$ 1,228</u>	<u>\$ 10,119</u>	<u>\$ 151,272</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**GRANTS**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 1,380,887	\$ 1,380,887	\$ 142,942	\$ (1,237,945)
Total Revenue	1,380,887	1,380,887	142,942	(1,237,945)
<b>EXPENDITURES:</b>				
Current:				
Public safety	142,500	142,500	67,778	74,722
Tourism and recreation	117,500	117,500	3,931	113,569
Capital outlay	-	-	47,000	(47,000)
Total Expenditures	260,000	260,000	118,709	141,291
Excess of Revenues Over (Under) Expenditures	1,120,887	1,120,887	24,233	(1,096,654)
Other Financing Sources (Uses):				
Transfers out	(1,120,887)	(1,120,887)	(1,861)	1,119,026
Total Other Financing Sources	(1,120,887)	(1,120,887)	(1,861)	1,119,026
Net change in fund balances	-	-	22,372	22,372
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ 22,372	\$ 22,372

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**DEVELOPMENT IMPACT FEE FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Impact fees	\$ 33,463	\$ 33,463	\$ 42,666	\$ 9,203
Interest	998	998	66	(932)
Total Revenue	<u>34,461</u>	<u>34,461</u>	<u>42,732</u>	<u>8,271</u>
<b>EXPENDITURES:</b>				
Capital Outlay	<u>269,295</u>	<u>269,295</u>	<u>240,661</u>	<u>28,634</u>
Total Expenditures	<u>269,295</u>	<u>269,295</u>	<u>240,661</u>	<u>28,634</u>
Excess of Revenues Over (Under) Expenditures	<u>(234,834)</u>	<u>(234,834)</u>	<u>(197,929)</u>	<u>36,905</u>
Fund Balance, Beginning of Year	<u>315,482</u>	<u>315,482</u>	<u>315,482</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 80,648</u></u>	<u><u>\$ 80,648</u></u>	<u><u>\$ 117,553</u></u>	<u><u>\$ 36,905</u></u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**CAPITAL PROJECTS FUND**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Total Revenue	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES:</b>				
Capital Outlay	1,798,146	1,798,146	168,816	1,629,330
Debt Service:				
Principal	47,590	47,590	38,648	8,942
Interest	25,676	25,676	25,676	-
Total Expenditures	1,871,412	1,871,412	233,140	1,638,272
Excess of Revenues Over (Under) Expenditures	(1,871,412)	(1,871,412)	(233,140)	1,638,272
Other Financing Sources (Uses):				
Transfers in	1,871,412	1,871,412	234,368	(1,637,044)
Total Other Financing Sources (Uses):	1,871,412	1,871,412	234,368	(1,637,044)
Net Change in Fund Balance	-	-	1,228	1,228
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ 1,228	\$ 1,228

**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, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Investment earnings	\$ -	\$ -	\$ 11	\$ 11
Total Revenue	-	-	11	11
<b>EXPENDITURES:</b>				
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	11	11
Fund Balance, Beginning of Year	10,108	10,108	10,108	-
Fund Balance, End of Year	<u>\$ 10,108</u>	<u>\$ 10,108</u>	<u>\$ 10,119</u>	<u>\$ 11</u>

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## 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 .....	69
<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 .....	74
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity .....	76
<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.....	80
<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 .....	81
<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)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Governmental activities</b>										
Net investment in capital assets	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494	\$ 6,005,581	\$ 5,734,415	\$ 5,295,494	\$ 5,572,726	\$ 5,143,699
Restricted	87,907	(193,631)	120,729	852,357	667,609	788,771	194,130	300,409	589,590	479,647
Unrestricted	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)	171,629	(5,216,205)	(5,635,914)	(5,100,632)
Total governmental activities net position	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740	\$ 6,100,174	\$ 379,698	\$ 526,402	\$ 522,714
<b>Primary government</b>										
Net investment in capital assets	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494	6,005,581	5,734,415	5,295,494	5,572,726	5,143,699
Restricted	87,907	(193,631)	120,729	852,357	667,609	788,771	194,130	300,409	589,590	479,647
Unrestricted	1,607,277	1,016,611	523,277	68,198	(58,958)	(463,612)	171,629	(5,216,205)	(5,635,914)	(5,100,632)
Total primary government net position	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740	\$ 6,100,174	\$ 379,698	\$ 526,402	\$ 522,714

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

<b>Expenses</b>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental activities:										
General government	\$ 1,064,940	\$ 1,201,412	\$ 1,194,493	\$ 1,263,351	\$ 1,235,522	\$ 1,240,409	\$ 1,152,393	\$ 1,025,609	\$ 1,327,775	\$ 1,198,079
Public safety	1,770,291	2,041,011	1,991,096	2,038,235	2,091,653	2,239,765	2,362,975	2,655,844	2,490,393	2,363,177
Public works/Streets	1,321,052	816,470	784,839	757,453	1,143,070	790,877	943,183	823,575	1,002,330	1,490,644
Culture and recreation	1,238,971	1,003,582	950,846	947,880	995,126	1,132,279	1,282,073	1,001,255	967,222	866,281
Economic development	875,855	927,805	647,267	439,196	394,438	403,912	366,771	301,189	225,575	71,573
Interest on long-term debt	103,544	87,580	68,112	52,853	38,793	24,294	8,325	-	13,876	25,676
Total governmental activities expenses	6,374,653	6,077,860	5,636,653	5,498,968	5,898,602	5,831,536	6,115,720	5,807,472	6,027,171	6,015,430
<b>Total primary government expenses</b>	<b>\$ 6,374,653</b>	<b>\$ 6,077,860</b>	<b>\$ 5,636,653</b>	<b>\$ 5,498,968</b>	<b>\$ 5,898,602</b>	<b>\$ 5,831,536</b>	<b>\$ 6,115,720</b>	<b>\$ 5,807,472</b>	<b>\$ 6,027,171</b>	<b>\$ 6,015,430</b>
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services:										
General government	300,060	277,154	244,658	443,713	312,155	234,243	236,111	215,126	193,380	237,697
Public safety	64,053	75,207	66,321	51,755	83,198	91,322	75,839	52,519	62,000	61,207
Public works/Streets	-	-	-	-	-	-	-	-	-	-
Culture and recreation	30,586	28,337	36,834	23,175	24,818	23,237	22,517	40,966	32,307	37,748
Economic development	-	-	-	-	-	9,404	-	10	-	-
Operating grants and contributions	750,842	699,134	569,216	682,175	738,207	688,041	799,252	689,368	807,733	710,715
Capital grants and contributions	352,032	829,702	201,738	206,600	751,168	293,116	129,764	233,074	232,160	102,447
Total governmental activities program revenues	1,497,573	1,909,534	1,118,767	1,407,418	1,909,546	1,339,363	1,263,483	1,231,063	1,327,580	1,149,814
<b>Total primary government program revenues</b>	<b>\$ 1,497,573</b>	<b>\$ 1,909,534</b>	<b>\$ 1,118,767</b>	<b>\$ 1,407,418</b>	<b>\$ 1,909,546</b>	<b>\$ 1,339,363</b>	<b>\$ 1,263,483</b>	<b>\$ 1,231,063</b>	<b>\$ 1,327,580</b>	<b>\$ 1,149,814</b>

(continued)

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)	\$ (4,492,173)	\$ (4,852,237)	\$ (4,576,409)	\$ (4,699,591)	\$ (4,865,616)
Total primary government net expense	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)	\$ (4,492,173)	\$ (4,852,237)	\$ (4,576,409)	\$ (4,699,591)	\$ (4,865,616)

**General Revenues and Other**  
**Changes in Net Position**

Governmental activities:

Taxes:										
Sales taxes	\$ 4,180,995	3,576,365	\$ 3,256,167	\$ 3,335,049	\$ 3,373,567	\$ 3,286,485	\$ 3,484,164	\$ 3,543,376	\$ 3,578,240	\$ 3,609,646
Franchise taxes	55,860	57,091	54,814	52,327	50,930	48,550	49,231	49,716	55,631	69,734
State revenue sharing	586,141	622,764	537,745	405,391	361,404	437,397	477,283	518,363	515,552	531,579
State sales taxes	382,780	331,381	305,650	319,406	334,597	350,490	372,717	391,327	404,308	397,955
Auto-in-lieu	248,521	238,361	216,864	215,174	213,147	210,755	218,764	225,562	245,717	258,797
Investment earnings	85,961	31,376	5,103	7,681	5,382	91	2,512	3,411	6,306	707
Other	-	5,003	2,604	-	-	-	-	-	40,541	(6,490)
Total governmental activities	5,540,258	4,862,341	4,378,947	4,335,028	4,339,027	4,333,768	4,604,671	4,731,755	4,846,295	4,861,928
Total Primary government	\$ 5,540,258	\$ 4,862,341	\$ 4,378,947	\$ 4,335,028	\$ 4,339,027	\$ 4,333,768	\$ 4,604,671	\$ 4,731,755	\$ 4,846,295	\$ 4,861,928

**Change in Net Position**

Governmental activities	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)	\$ (247,566)	\$ 155,346	\$ 146,704	\$ (3,688)
Total primary government	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971	\$ (158,405)	\$ (247,566)	\$ 155,346	\$ 146,704	\$ (3,688)

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>General fund</b>										
Nonspendable	\$ 50,013	\$ 118,408	\$ 32,820	\$ 110,954	\$ 31,496	\$ 21,651	\$ 14,458	\$ 12,026	\$ 34,013	\$ 33,424
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	692,853	389,664	169,169
Unassigned	1,367,371	703,189	373,973	176,884	133,020	(272,671)	(254,888)	217,472	302,942	862,349
Total general fund	\$ 1,417,384	\$ 821,597	\$ 406,793	\$ 287,838	\$ 164,516	\$ (251,020)	\$ (240,430)	\$ 922,351	\$ 726,619	\$ 1,064,942
<b>All other governmental funds</b>										
Nonspendable:										
Prepays	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,148
Restricted:										
Public safety	36,390	45,779	46,248	58,764	14,952	-	4,239	10,651	9,037	13,584
Highways and streets	251,397	133,450	243,838	614,218	537,341	671,045	819,951	440,620	420,213	387,829
Community and economic development	46,205	45,260	53,373	54,474	59,602	65,573	86,032	111,894	129,849	48,724
Other	70,741	59,911	89,121	124,901	55,714	52,153	6,021	30,323	30,491	19,510
Committed for:										
Tourism and recreation	-	65,703	27,588	20,203	20,593	-	-	-	-	270,493
Assigned for:										
Community and economic development	-	-	-	-	-	13	2,575	27,252	79,161	10,119
Other	-	-	-	-	-	-	-	145	-	23,600
Unassigned, reported in:										
Special revenue funds	-	(193,631)	-	-	-	(8,137)	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
	\$ 404,733	\$ 156,472	\$ 460,168	\$ 872,560	\$ 688,202	\$ 780,647	\$ 918,818	\$ 620,885	\$ 668,751	\$ 784,007

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.

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Taxes	\$ 4,180,994	\$ 3,576,365	\$ 3,256,167	\$ 3,335,050	\$ 3,373,568	\$ 3,286,485	\$ 3,484,164	\$ 3,543,376	\$ 3,578,244	\$ 3,609,645
Franchise taxes	55,860	57,092	54,814	52,327	50,930	48,550	49,231	49,716	55,631	69,734
Intergovernmental	2,029,959	2,240,232	1,810,130	1,666,312	1,920,673	1,952,454	1,942,947	1,902,646	2,099,580	1,933,054
Licenses, permits, and fees	179,177	116,741	101,349	106,442	93,428	126,153	141,228	127,540	110,028	153,108
Charges for services	123,241	110,771	130,385	109,367	109,043	119,806	107,562	104,633	103,339	105,904
Fines and forfeitures	59,492	71,407	63,116	49,720	82,131	53,239	47,674	43,474	51,068	45,958
Interest	85,960	31,376	5,103	7,681	5,382	91	2,512	3,411	6,304	707
Lease income	17,823	17,820	17,820	17,820	22,275	17,820	17,820	18,732	18,581	14,494
Impact fees	184,230	59,510	19,738	81,434	13,102	19,553	36,974	47,559	29,990	42,666
Other	121,094	490,561	39,091	316,291	127,241	48,981	38,043	121,730	80,569	42,962
<b>Total Revenues</b>	<b>\$ 7,037,830</b>	<b>\$ 6,771,875</b>	<b>\$ 5,497,713</b>	<b>\$ 5,742,444</b>	<b>\$ 5,797,773</b>	<b>\$ 5,673,132</b>	<b>\$ 5,868,155</b>	<b>\$ 5,962,817</b>	<b>\$ 6,133,334</b>	<b>\$ 6,018,232</b>
<b>Expenditures</b>										
Current:										
General government	\$ 1,198,102	\$ 1,215,854	\$ 1,159,361	\$ 1,135,419	\$ 1,142,334	\$ 1,149,334	\$ 1,045,142	\$ 1,025,155	\$ 1,365,521	\$ 1,260,878
Public safety	1,847,878	1,938,776	1,873,364	1,961,851	2,215,692	2,167,567	2,197,726	2,215,856	2,216,526	2,068,093
Public works/streets	1,672,565	1,879,964	612,841	600,760	985,898	822,572	604,730	637,870	841,805	1,270,020
Tourism and recreation	1,120,125	1,030,831	795,263	878,006	847,481	979,971	1,122,825	899,584	933,750	781,299
Community and economic development	870,400	924,902	597,683	437,464	394,736	406,802	439,094	290,996	343,656	96,876
Capital outlay	363,822	233,542	99,807	57,654	712,874	131,674	133,552	157,384	953,137	472,340
Debt service										
Principal	382,128	370,793	402,389	325,000	381,415	374,009	185,000	-	27,536	38,648
Interest and fiscal charges	103,544	87,580	68,112	52,853	38,793	24,294	8,325	-	13,876	25,676
<b>Total expenditures</b>	<b>7,558,564</b>	<b>7,682,242</b>	<b>5,608,820</b>	<b>5,449,007</b>	<b>6,719,223</b>	<b>6,056,223</b>	<b>5,736,394</b>	<b>5,226,845</b>	<b>6,695,807</b>	<b>6,013,830</b>
Revenues over (under) expenditures	(520,734)	(910,367)	(111,107)	293,437	(921,450)	(383,091)	131,761	735,972	(562,473)	4,402
<b>Other finance sources (Uses)</b>										
Proceeds of long-term debt issuance	-	66,319	-	-	613,770	60,000	-	128,876	372,857	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	41,750	449,177
Transfers in	952,259	984,673	533,849	451,603	428,686	537,635	402,969	693,293	573,309	261,896
Transfers out	(952,259)	(984,673)	(533,849)	(451,603)	(428,686)	(537,635)	(402,969)	(693,293)	(573,309)	(261,896)
Total other finance sources (uses)	-	66,319	-	-	613,770	60,000	-	128,876	414,607	449,177
<b>Net change in fund balances</b>	<b>\$ (520,734)</b>	<b>\$ (844,048)</b>	<b>\$ (111,107)</b>	<b>\$ 293,437</b>	<b>\$ (307,680)</b>	<b>\$ (323,091)</b>	<b>\$ 131,761</b>	<b>\$ 864,848</b>	<b>\$ (147,866)</b>	<b>\$ 453,579</b>
Debt service as a percentage of noncapital expenditures	7.56%	7.54%	8.44%	7.07%	7.30%	6.98%	3.39%	0.00%	0.65%	1.15%

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

<b>Fiscal Year</b>	<b>State Shared Sales Tax</b>	<b>City Sales Tax</b>	<b>Franchise Tax</b>	<b>Motor Fuel Tax</b>	<b>Vehicle License Tax</b>	<b>State Shared Income Tax</b>
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
2015	391,327	3,543,376	49,716	534,753	225,562	518,363
2016	404,308	3,587,540	55,631	568,921	245,717	515,552
2017	397,955	3,618,501	69,734	601,781	258,797	531,579

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 Seven Fiscal Years (Unaudited)**

	2011		2012		2013		2014		2015		2016		2017	
	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total
Communication & Utilities	264,629	7.9%	268,981	8.0%	279,845	8.5%	305,623	8.8%	290,537	8.2%	283,598	7.9%	291,625	8.1%
Construction	270,420	8.1%	230,097	6.8%	122,646	3.7%	222,033	6.4%	218,496	6.2%	156,183	4.4%	175,226	4.8%
Manufacturing	116,963	3.5%	114,541	3.4%	107,925	3.3%	125,562	3.6%	150,686	4.3%	132,830	3.7%	-	0.0%
Retail	1,257,632	37.7%	1,299,885	38.5%	1,333,417	40.6%	1,293,976	37.1%	1,341,772	37.9%	1,424,764	39.7%	1,563,107	43.2%
Real Estate Leasing	175,397	5.3%	179,001	5.3%	153,831	4.7%	156,033	4.5%	159,388	4.5%	156,619	4.4%	110,195	3.0%
Restaurant & Bar	717,337	21.5%	718,311	21.3%	758,904	23.1%	768,373	22.1%	808,379	22.8%	843,104	23.5%	1,024,428	28.3%
Accommodation	198,457	6.0%	193,127	5.7%	210,043	6.4%	245,388	7.0%	248,587	7.0%	289,336	8.1%	376,258	10.4%
Services	159,191	4.8%	143,600	4.3%	134,278	4.1%	182,574	5.2%	143,359	4.0%	96,195	2.7%	-	0.0%
All Other	175,024	5.2%	228,389	6.8%	185,596	5.6%	184,602	5.3%	182,172	5.1%	204,911	5.7%	77,662	2.1%
<b>Total</b>	<b>3,335,050</b>	<b>100.0%</b>	<b>3,375,932</b>	<b>100.0%</b>	<b>3,286,485</b>	<b>100.0%</b>	<b>3,484,163</b>	<b>100.0%</b>	<b>3,543,376</b>	<b>100.0%</b>	<b>3,587,540</b>	<b>100.0%</b>	<b>3,618,501</b>	<b>100.0%</b>
	2.42%		1.23%		-2.65%		6.01%		1.70%		1.25%		0.86%	
	up from prior year		up from prior year		down from prior year		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.

Note: In 2016, the Arizona Department of Revenue changed categories of classification in reporting. This happened in June, 2016. Consequently, totals reported for Manufacturing and Services are for eleven months only.

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

Fiscal Year	Governmental Activities			Total Government Debt	Percentage of Personal Income	Population	Per Capita <sup>(1)</sup>
	Revenue Bonds	General Obligaion Debt	Capital Leases				
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%	4,303 *	116
2015	-	-	604,330	604,330	19.65%	4,370 *	138
2016	-	-	890,325	890,325	28.14%	4,402 *	202
2017	-	-	796,554	796,554	25.25%	4,463 *	178.48

\* Population adjusted to results of 2010 US Census

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

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

Governmental Unit	Net Debt Outstanding (1)	Percentage Applicable to the Town of Pinetop-Lakeside	Amount Applicable to the Town of Pinetop-Lakeside
Blue Ridge Unified School District #32	\$ 31,010,000	21.4%	\$ 6,636,140
Pinetop-Lakeside Sanitary District	-	79.0%	-
Pinetop Fire District	4,069,692	85.0%	3,459,238
Timber Mesa Fire District	5,877,514	31.0%	1,822,029
Subtotal, overlapping debt			11,917,408
Town direct debt			796,554
Total direct and overlapping debt			\$ 12,713,962

(1) Includes general obligation bonds outstanding

Source: Navajo County Finance Department, Pinetop Fire Dist., Timber Mesa Fire Dist.

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
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
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-

GADA Loan

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
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	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-

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: (1)		
Assessed Value (in thousands)	\$ 68,658	\$ 68,658
Total assessed value	<u>\$ 68,658</u>	<u>\$ 68,658</u>
Legal debt margin:		
Debt limitation (in thousands)	\$ 13,732	\$ 4,119
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>\$ 13,732</u>	<u>\$ 4,119</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.

(1) Assessor Documents on Navajo County Assessor's website.

**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 Population (1)	Navajo County Population (2)	Personal Income Navajo County (2) (in thousands)	Navajo County Per Capita Personal Income	Pinetop-Lakeside Per Capita Income (3)	Pinetop-Lakeside Public School Enrollment (4)	Unemployment Averages (1)		
							Town of Pinetop-Lakeside	Navajo County	State of Arizona
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%
2015	4,370 *	109,671	3,164,155	\$ 27,918	\$ 28,058	2,153	9.2%	9.0%	6.9%
2016	4,402 *	108,277	3,154,284	\$ 29,132	\$ 27,246	2,165	9.5%	9.5%	6.4%
2017	4,463 *	110,026	3,235,693	\$ 29,408	\$ 26,517	2,060	3.4%	7.6%	5.3%

(1) Source: WWW.AZSTATS.GOV

Arizona Department of Administration estimates.

\* Population estimated except for 2010 Census.

(2) Source: US Department of Commerce, Bureau of Economic Analysis.

Population estimated except for 2010 Census.

(3) 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.

(4) Source: AZ OAG reports

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

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	18	18	14	14	12	12.5	12.5	12.5	12.85	12.35
Public Safety										
Officers	14	14	14	15	17	17	17	17	17	15
Civilians	10	9.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	8
Streets	6	5	6.5	6.5	6.5	5.5	5.5	5.5	7.65	8
Parks and Recreation	8	7	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6
Library	5	5	5	5	5	5	5	5	5	4.5
Total	<u>61</u>	<u>58.5</u>	<u>53.5</u>	<u>54.5</u>	<u>54.5</u>	<u>54.0</u>	<u>54.0</u>	<u>54.0</u>	<u>56.5</u>	<u>53.9</u>

Source: Town of Pinetop-Lakeside, Arizona

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Building Permits</b>										
Residential	23	10	9	9	10	18	24	18	21	32
Commercial	1	2	1	1	1	0	1	2	2	2
<b>Value of Construction</b>										
Residential	\$ 6,039,000	\$ 3,610,000	\$ 3,749,000	\$ 2,545,000	\$ 3,313,000	\$ 4,725,000	\$ 6,165,000	\$ 5,053,000	\$ 4,115,000	\$ 6,516,000
Commercial	97,000	6,900,000	2,783,000	988,000	1,238,000	455,000	830,800	726,500	1,286,000	5,287,000
<b>Total</b>	<b>\$ 6,136,000</b>	<b>\$ 10,510,000</b>	<b>\$ 6,532,000</b>	<b>\$ 3,533,000</b>	<b>\$ 4,551,000</b>	<b>\$ 5,180,000</b>	<b>\$ 6,995,800</b>	<b>\$ 5,779,500</b>	<b>\$ 5,401,000</b>	<b>\$ 11,803,000</b>

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	6	6	6	6	6	6	6	6	6	6
Parks and Recreation										
Acreage	150	150	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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
Building Permits Issued	81	96	77	57	111	107	116	131	107	126
Building Inspections Conducted	24	12	10	10	10	18	*	*	*	*
Police										
Physical Arrests	*	444	670	599	529	387	395	395	494	557
Parking Violations	*	0	4	0	0	1	0	0	0	9
Traffic Violations	*	1,760	1,882	2,551	2,010	1,438	3,376	3,376	3,236	2,916
Calls for Service	*	7,994	8,430	9,752	10,787	7,991	8,209	8,209	9,241	10,037
Streets **										
Street Resurfacing (Miles)	1	0	1	2	2	10	1	1	9	2
Potholes Repaired	1,100	1,200	1,215	1,350	1,500	1,620	1,740	1,200	2,000	4,500
Street Sweeping (Miles)	1,135	1,135	1,135	1,135	1,135	1,135	1,135	1,135	1,135	1,550
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

**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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 26, 2017.

**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 separately issued findings and recommendations letter that we consider to be significant deficiencies.

2016-001. Year-end Accounting

2007-001. 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 Arizona, PLLC

Flagstaff, Arizona

December 26, 2017



**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 fiscal year ended June 30, 2017, and have issued our report thereon dated December 26, 2017. 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 fiscal year ended June 30, 2017.

HintonBurdick Arizona, PLLC  
Flagstaff, Arizona  
December 26, 2017

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