

TOWN OF PINETOP-LAKESIDE, ARIZONA



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

Prepared by:

Department of Finance and Administration

TOWN OF PINETOP-LAKESIDE

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October 23, 2012

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

State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2012.

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

HintonBurdick, CPA's and Advisors, have issued an unqualified ("clean") opinion on the Town of Pinetop-Lakeside's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the Town

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

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

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

The Council is required to adopt an initial budget for the fiscal year no later than August 15 for the fiscal year beginning on July 1. This annual budget serves as the foundation for the Town of Pinetop-Lakeside's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the Town Manager. Any other budget amendments, such as transfers between funds, require Council action.

Local economy

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

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

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

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

During the past ten years, the Town's expenditures related to public safety have increased not only in amount, but also as a percentage of total expenditures in governmental funds (currently 41.9 percent, reflecting a ten-year increase of 3.8 percent). During this same ten-year period, charges for services

related to governmental funds have decreased not only in amount, but also as a percentage of total revenues in governmental funds (currently 0.98%, reflecting a ten-year decrease of 0.8%).

Long-term financial planning and major initiatives

Unrestricted fund balance in the general fund at year end was \$133,020. This amount was far below the policy guidelines set by the Council for budgetary and planning purposes (i.e., three months of general fund revenues, approximately \$1,130,000). The year-end amount is below the minimum target set by the policy guidelines because of a \$123,323 deficiency of revenues under expenditures during the year ended June 30, 2012. This was the fifth year of revenue shortfalls in spite of drastic cost-cutting measures, but it was also the smallest shortfall of the five.

The Town Council met in a special retreat in February, 2012 to review and amend the Strategic Management Plan for the Town. As part of its strategic plan, the Council envisions the beautification of White Mountain Boulevard, which will include new sidewalks, lighting fixtures, public art and benches.

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

The Town of Pinetop-Lakeside maintains a vehicle replacement policy which serves as its fleet replacement guide over a ten-year period. The fiscal year 2012-2013 Capital Improvement Program anticipates \$634,845 in capital projects including \$46,800 – the second in a series of three capital lease payments for Police cars acquired in FY2012 - in rolling stock replacement. Included in this \$634,845 is \$544,445 in infrastructure improvements. Because of fiscal constraints, the Town's 2012-13 machinery, equipment and vehicles program amounts to only \$43,600 for various pieces of equipment.

Relevant financial policies

The Town of Pinetop-Lakeside has adopted a comprehensive set of financial policies. During the current year, two of these policies were particularly relevant. The Town of Pinetop-Lakeside has a policy that requires the adoption of a balanced annual operating budget (i.e., estimated revenues equal to or in excess of appropriations). As a result of the economic downturn, however, estimated revenues were less than appropriations (\$4,067,129 v. \$4,519,750). In such cases, the policy allows for the appropriation of fund balance to close the gap. The amount necessary for this purpose was \$42,750 in the final adopted budget.

However, because of the greater than anticipated shortfall in revenues, and despite measures taken during the year to control expenditures, the Town of Pinetop-Lakeside ultimately had to spend \$115,606 to close the operating deficit for the year.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Pinetop-Lakeside for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the

first time that the Town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Town had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

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

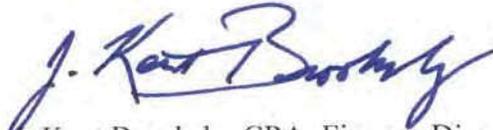
The Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2011. To qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device. This was the fourth consecutive year that the Town has achieved this award for budget preparation.

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

Respectfully submitted,



L. Kelly Udall, Manager



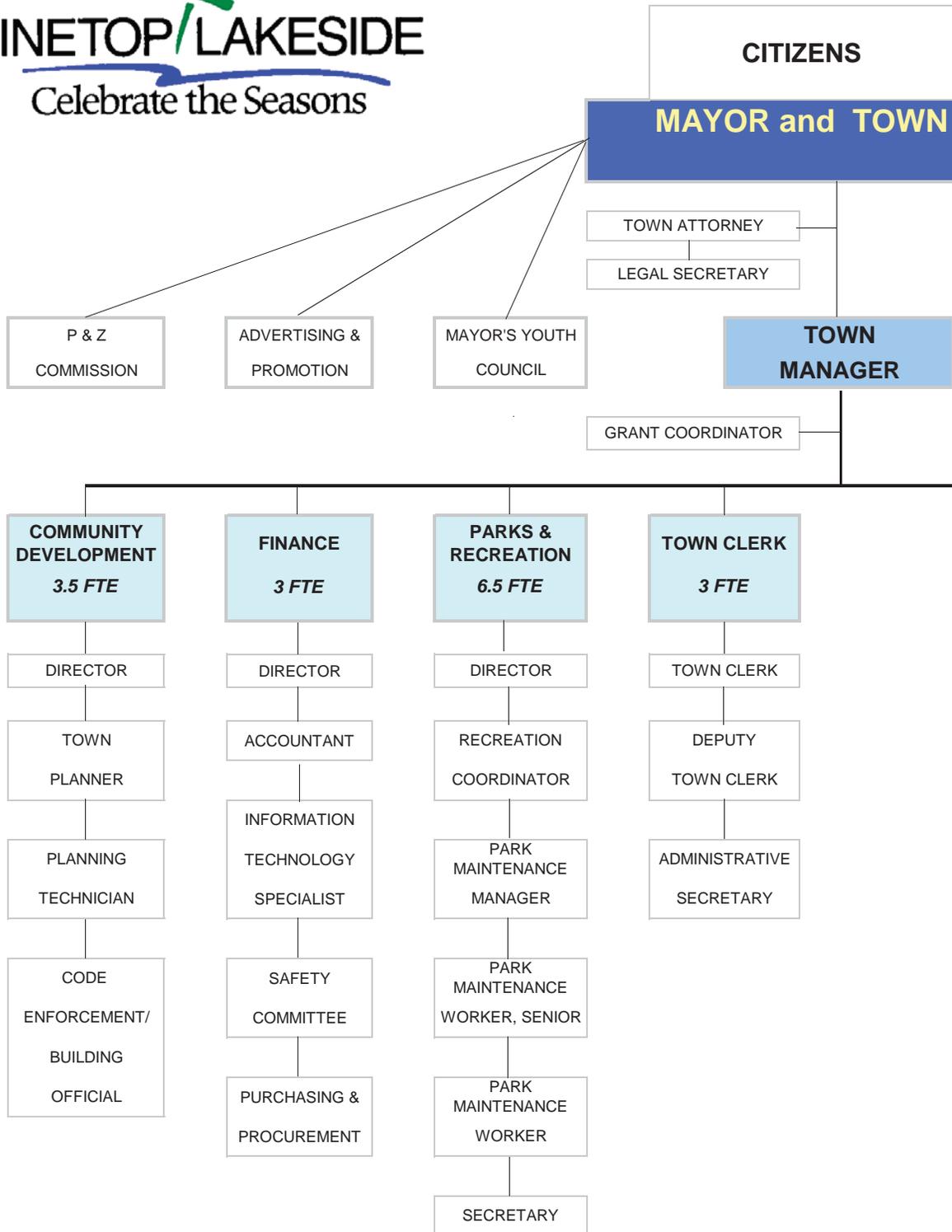
J. Kent Brooksby CPA, Finance Director

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

Position	Name
Mayor	Richie L. Crockett
Vice-Mayor	Stephanie Irwin
Council	Leslee Wessel
Council	Kim Webb
Council	Dara Vanesian
Council	Luke Smith
Council	Dennis Hughes
Attorney	W. Kent Foree
Manager	Kelly L. Udall
Town Clerk	LuAnne Frost
Finance Director	J. Kent Brooksby
Community Development Director	Paul Esparza
Library Director	Jeff Collins
Parks & Recreation Director	John Vuolo
Public Works Director	Tom Thomas
Police Chief	"Woody" Eldredge

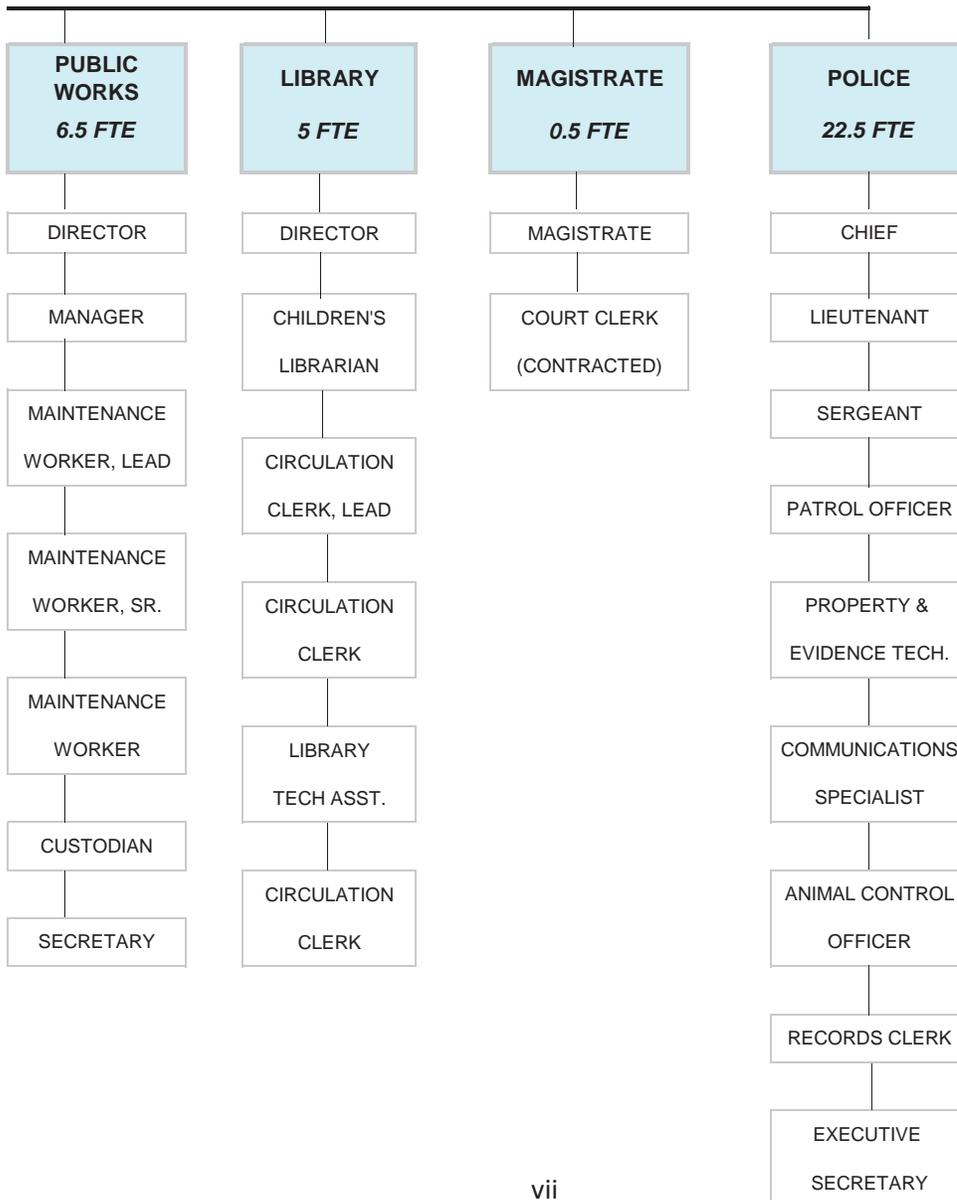
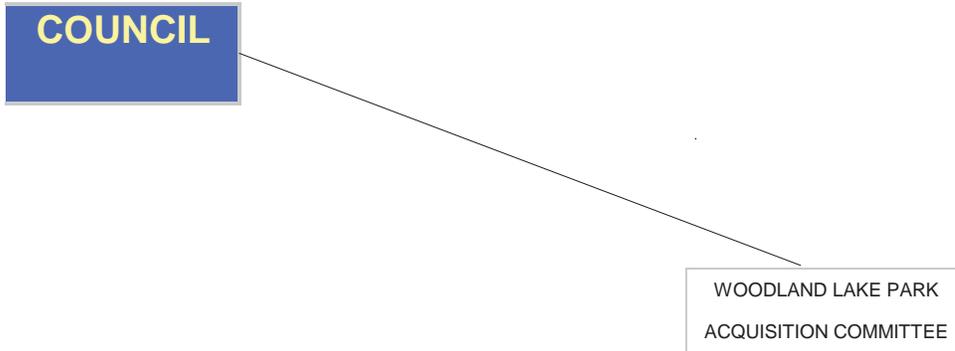


ORGANIZATION



Order of positions not representative of supervisory responsibility

CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Pinetop-Lakeside
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Linda C. Davidson

President

Jeffrey R. Enev

Executive Director

FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Pinetop-Lakeside's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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 as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparison for the general, highway user, recreation and tourism, and grants special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of the Town of Pinetop-Lakeside'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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the Public Safety Personnel Retirement System information on page 48 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pinetop-Lakeside, Arizona's financial statements as a whole. The introductory section, budgetary comparisons for the capital project funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparisons for the capital project funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.



HintonBurdick, PLLC
October 23, 2012

TOWN OF PINETOP-LAKESIDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year-Ended June 30, 2012

Our discussion and analysis of the Town of Pinetop-Lakeside's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Town's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The Town's net position increased by \$349,971 as a result of this year's operations.
- During the year, the Town had expenses that were \$349,971 less than the \$6,248,573 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$5,898,602 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 \$852,718, a decrease of \$307,680.
- The general fund reported a decline of \$123,322.

USING THIS ANNUAL REPORT

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

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* (page 12) presents information on all of the Town of Pinetop-Lakeside's assets and liabilities, with the difference between the two 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* (page 13) provides information about the activities of the Town as a whole and present a longer-term view of the Town's finances. It presents information showing how the government'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*.

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. Fund financial statements start on page 14. The Town of Pinetop-Lakeside, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Typically, municipal funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. All funds of the Town of Pinetop-Lakeside are categorized as governmental funds. For governmental activities, these statements tell how these services were financed in the short term as

well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

These financial statements are presented under the reporting model required by Governmental Accounting Standards Board (GASB) statement number 34. Comparative data is presented for fiscal year 2011.

Reporting the Town as a Whole

Our analysis of the Town as a whole begins on page 12. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These two statements report the Town's *net position* and changes in them. You can think of the Town's net position – the difference between assets and liabilities – as one way to measure the Town's financial health, or *financial position*. You will need to consider other non-financial factors, however, such as the condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Position and the Statement of Activities, Town activities are customarily divided into three types: Governmental activities, Business-like activities, and Component units. However, the Town of Pinetop-Lakeside does not operate any business-like activities and there are no separately reported component units.

- Governmental activities – All of the Town's basic services are reported here, including the police, public works, parks, library, and general administration. Sales taxes, franchise fees, and state and federal grants finance most of these activities.

Reporting the Town's Most Significant Funds

Our analysis of the Town's major funds begins on page 7. The fund statements begin on page 14 and provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes (like the Mountain Meadow Recreation Complex construction project) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's funds are all of the *governmental* type.

- Governmental funds – All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed *short-term* view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation statement at the bottom of the fund financial statements.

The Town as a Whole

The Town's combined net position increased from \$6,139,174 to \$6,489,145. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities.

Table 1
Net Position

	Governmental activities	
	6/30/2012	6/30/2011
Current and other assets	\$ 1,236,194	\$ 1,523,608
Capital assets	6,981,235	6,102,379
Total assets	<u>8,217,429</u>	<u>7,625,987</u>
Long-term liabilities outstanding	930,125	787,006
Other liabilities	798,159	699,807
Total liabilities	<u>1,728,284</u>	<u>1,486,813</u>
Net position:		
Net Investment in capital assets	5,880,494	5,218,619
Restricted	667,609	852,357
Unrestricted	(58,958)	68,198
Total net assets	<u>\$ 6,489,145</u>	<u>\$ 6,139,174</u>

Table 2
Changes in Net Position

	Governmental activities	
	6/30/2012	6/30/2011
Revenues:		
Program revenues:		
Charges for services	\$ 420,171	\$ 518,643
Operating grants and contributions	738,207	682,175
Capital grants and contributions	751,168	206,600
General revenues:		
Sales taxes	3,373,567	3,335,049
State shared revenues	909,148	939,971
Other taxes	50,930	52,327
Other general revenues	5,382	7,681
Total revenues	<u>6,248,573</u>	<u>5,742,446</u>
Expenses:		
General government	1,235,522	1,263,351
Public safety	2,091,653	2,038,235
Public works/streets	1,143,070	757,453
Culture and recreation	995,126	947,880
Economic development	394,438	439,196
Interest on long-term debt	38,793	52,853
Total expenses	<u>5,898,602</u>	<u>5,498,968</u>
Increase (Decrease) in net position	349,971	243,478
Net position, beginning	<u>6,139,174</u>	<u>5,895,696</u>
Net position, ending	<u>\$ 6,489,145</u>	<u>\$ 6,139,174</u>

Our analysis below separately considers the operations of government activities.

Governmental Activities

The cost of all governmental activities this year was \$5,898,602. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately financed for these activities through Town sales taxes and other revenues was \$4,339,027 because some of the cost was paid by those who directly benefited from the programs (\$420,171) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,489,375). Overall, the Town’s governmental program revenues, including intergovernmental aid and fees for services, increased in Fiscal Year 2012. The Town paid for the remaining “public benefit” portion of governmental activities with \$3,373,567 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest. Sales tax collections were lower than budgeted due to the continued recession.

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

**Table 3
Governmental Activities**

	Total Cost of Services 2012	Net Per Capita Cost of Services 2012
Public Safety	\$ 2,091,653	\$488
Public Works/Streets	1,143,070	267
Parks and Recreation	995,126	232
All Others	<u>1,668,753</u>	390
Totals	<u>\$ 5,898,602</u>	

The Town’s Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$852,718 which is lower than last year’s total \$1,160,398.

- In the General Fund, local sales tax collections were far below estimates for the year, while the cost of basic goods and materials, such as gasoline, continued to climb. If not for transfers from the General Fund to the Parks and Acquisition and Development funds, the General Fund would have ended the year with a surplus. The primary reason for those interfund transfers was the debt service included in both funds.
- In the Highway Users Revenue Fund (HURF), the FY 2012 budget allowed for the use of \$326,060 in existing fund balance for street maintenance and rehabilitation. At the end of the year, only \$51,672 of fund balance had been utilized. Thus, HURF fund balance decreased, but not as much as had been budgeted.
- Development Impact fee fund balance decreased in accordance with Town Council direction. Recent changes in Arizona law regarding impact fees made the collection of future impact fees uncertain, so the Town Council directed staff to utilize existing fund balance as much as possible in FY 2012. The FY 2012 budget allocated \$370,270 in existing fund balance to this purpose, of which \$133,076 was utilized. So, even though fund balance decreased, this decrease was expected and authorized.
- All other changes in fund balance were immaterial.
- In January 2003, an additional 2 percent tax on restaurant and bar sales went into effect, with the proceeds of this new tax dedicated to the construction and maintenance of new recreational amenities, especially youth facilities. The revenues from this tax are used to fund the debt service and operations of the Mountain Meadow Recreation Complex and Woodland Lake Park.

- Each year, the State provides the Town with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the Town's roads. Historically, the Town receives about 85% of what the State promises. This year, these revenues totaled \$429,242.

General Fund Budgetary Highlights

The General Fund's revenues of \$ 4,128,176 were \$348,824 less than budgeted revenues of \$4,477,000. The General Fund's expenditures, including transfers, of \$4,251,498 were \$268,252 less than budgeted expenditures, including transfers, of \$4,519,750. The continuing recession drove economic activity even further down, which had a negative impact on tax revenues. Rising costs drove the cost of operations up, compounding the problem of decreasing revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2012, the Town had \$6,981,235 (net of depreciation) invested in a broad range of capital assets, including buildings, park facilities, police equipment, roads, and other assets (See Table 4 below). This amount represents a net increase of \$878,856 or 14.4 percent over last year.

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

	Governmental Activities 2012	Governmental Activities 2011
Land	\$1,044,564	\$944,564
Construction in Progress	31,256	0
Buildings and Improvements	2,926,268	2,747,203
Infrastructure	1,660,779	1,766,230
Equipment	<u>1,318,368</u>	<u>644,382</u>
Total	<u>\$6,981,235</u>	<u>\$6,102,379</u>

The Town's fiscal year 2013 capital budget calls for it to spend another \$634,845 for capital and infrastructure projects. Most of this is contingent on grant financing; if the grants are awarded, the projects will go forward. Recent changes in Arizona's development impact fee laws led the Town Council to ask that as much as possible of existing impact fee funds be expended in fiscal year 2013. More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

Debt

At year-end, the Town had \$1,377,655 in bonds and notes outstanding versus \$1,139,957 last year – an increase of 21 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities 2012	Governmental Activities 2011
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 540,000	\$ 875,000
Other long-term obligations	<u>837,655</u>	<u>264,957</u>
Totals	<u>\$1,377,655</u>	<u>\$1,139,957</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's elected and appointed officials considered many factors when setting the fiscal year 2013 budget. One of those factors is the economy. Arizona continues to feel the effects of the Great Recession because Arizona's economy has been driven by construction for the last few decades. As of this writing, construction has begun to slightly increase in the Town of Pinetop-Lakeside. In keeping with Town policy, projected revenues are kept roughly even with the prior year's actual receipts, modified for inflation. Economic uncertainty is driving the Town's economic decision making. Employees received no salary increases or cost of living adjustments to their salaries in FY 2013, for the fourth consecutive year.

If our estimates are accurate and realized, the Town's budgetary General Fund balance is expected to increase modestly by the close of FY 2013.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Director's Office at 1360 N. Niels Hansen Lane, Lakeside, Arizona 85929, or call 928-368-8696.

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BASIC FINANCIAL STATEMENTS

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Position
June 30, 2012

	Governmental Activities	Total
Assets		
Cash and cash equivalents	\$ 53,507	\$ 53,507
Investments	287,687	287,687
Receivables (net of allowance)	492,337	492,337
Prepays	31,496	31,496
Other assets	14,406	14,406
Temporarily restricted assets:		
Cash and investments	356,761	356,761
Capital assets (net of accumulated depreciation):		
Land	1,044,564	1,044,564
Buildings and improvements	847,308	847,308
Other improvements	2,078,960	2,078,960
Furniture, machinery & equipment	648,941	648,941
Vehicles	669,427	669,427
Infrastructure	1,660,779	1,660,779
Construction in progress	31,256	31,256
Total assets	<u>8,217,429</u>	<u>8,217,429</u>
Liabilities		
Accounts payable and other current liabilities	278,575	278,575
Unearned revenue	72,054	72,054
Noncurrent liabilities:		
Due within one year	447,530	447,530
Due in more than one year	930,125	930,125
Total liabilities	<u>1,728,284</u>	<u>1,728,284</u>
Net Position		
Net investment in capital assets	5,880,494	5,880,494
Restricted for:		
Capital projects	261,659	261,659
Public works/Streets	405,950	405,950
Unrestricted	(58,958)	(58,958)
Total net position	<u>\$ 6,489,145</u>	<u>\$ 6,489,145</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants &</u> <u>Contributions</u>	<u>Capital</u> <u>Grants &</u> <u>Contributions</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
General government	\$ 1,235,522	\$ 312,155	\$ 20,410	\$ 2,206	\$ (900,751)
Public safety	2,091,653	83,198	135,681	301,102	(1,571,672)
Public works/Streets	1,143,070	-	566,805	405,206	(171,059)
Culture and recreation	995,126	24,818	15,311	4,654	(950,343)
Economic development	394,438	-	-	38,000	(356,438)
Interest on long-term debt	38,793	-	-	-	(38,793)
Total governmental activities	5,898,602	420,171	738,207	751,168	(3,989,056)
General Revenues:					
Taxes:					
					3,373,567
					50,930
					334,597
					213,147
					361,404
					5,382
					-
					-
					<u>4,339,027</u>
					349,971
					<u>6,139,174</u>
					<u>\$ 6,489,145</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

Assets	<u>General Fund</u>	<u>Highway Users Revenue Fund</u>	<u>Recreation and Tourism Fund</u>	<u>Grants Fund</u>
Cash and Cash Equivalents	\$ -	\$ -	\$ 35,821	\$ -
Investments	287,687	-	-	-
Prepays	31,496	-	-	-
Receivables:				
Taxes	276,764	-	-	-
Intergovernmental	53,623	53,049	-	108,901
Due from Other Funds	-	297,446	-	-
Notes and Other Assets	14,406	-	-	-
Restricted Cash and Investments	-	95,102	-	-
	<u>663,976</u>	<u>445,597</u>	<u>35,821</u>	<u>108,901</u>
Total Assets	<u>\$ 663,976</u>	<u>\$ 445,597</u>	<u>\$ 35,821</u>	<u>\$ 108,901</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 67,535	\$ 39,647	\$ 15,228	\$ 29,796
Accrued Liabilities	31,905	-	-	-
Customer Deposits	93,778	-	-	-
Compensated Absences	32,847	-	-	-
Deferred Revenue	15,287	-	-	39,767
Due to Other Funds	258,108	-	-	39,338
	<u>499,460</u>	<u>39,647</u>	<u>15,228</u>	<u>108,901</u>
Total Liabilities	<u>499,460</u>	<u>39,647</u>	<u>15,228</u>	<u>108,901</u>
Fund Balances:				
Nonspendable:				
Prepays	31,496	-	-	-
Restricted for:				
Public safety	-	-	-	-
Highways and streets	-	405,950	-	-
Community and economic development	-	-	-	-
Other purposes	-	-	-	-
Committed to:				
Tourism and recreation	-	-	20,593	-
Unassigned	133,020	-	-	-
	<u>164,516</u>	<u>405,950</u>	<u>20,593</u>	<u>-</u>
Total fund balances	<u>164,516</u>	<u>405,950</u>	<u>20,593</u>	<u>-</u>
Total Liabilities and fund balances	<u>\$ 663,976</u>	<u>\$ 445,597</u>	<u>\$ 35,821</u>	<u>\$ 108,901</u>

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

Development Impact Fee Fund	Non-major Acquisition & Development Fund	Total Governmental Funds
\$ -	\$ 17,686	\$ 53,507
-	-	287,687
-	-	31,496
-	-	276,764
-	-	215,573
-	-	297,446
-	-	14,406
<u>261,659</u>	<u>-</u>	<u>356,761</u>
<u>\$ 261,659</u>	<u>\$ 17,686</u>	<u>\$ 1,533,640</u>
\$ -	\$ 686	\$ 152,892
-	-	31,905
-	-	93,778
-	-	32,847
-	17,000	72,054
<u>-</u>	<u>-</u>	<u>297,446</u>
<u>-</u>	<u>17,686</u>	<u>680,922</u>
-	-	31,496
14,952	-	14,952
131,391	-	537,341
59,602	-	59,602
55,714	-	55,714
-	-	20,593
<u>-</u>	<u>-</u>	<u>133,020</u>
<u>261,659</u>	<u>-</u>	<u>852,718</u>
<u>\$ 261,659</u>	<u>\$ 17,686</u>	<u>\$ 1,533,640</u>

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TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net position
June 30, 2012

Total fund balances - governmental funds	\$	852,718
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Governmental capital assets	\$	10,554,226
Accumulated depreciation		(3,572,991)
		6,981,235
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$	(365,000)
Loans payable		(175,000)
Leases payable		(560,741)
Compensated absences		(236,903)
Landfill closure payable		(7,164)
		(1,344,808)
Total net position - governmental activities	\$	6,489,145

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2012

REVENUES	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Grants Fund
Taxes	\$ 2,948,989	\$ -	\$ 424,579	\$ -
Franchise taxes	50,930	-	-	-
Intergovernmental revenue	712,279	642,388	-	566,006
Licenses, permits and fees	93,428	-	-	-
Charges for services	101,096	-	7,947	-
Fines and forfeitures	82,131	-	-	-
Interest	1,827	-	8	-
Lease income	22,275	-	-	-
Impact fees	-	-	-	-
Miscellaneous	115,221	11,770	250	-
Total Revenues	<u>4,128,176</u>	<u>654,158</u>	<u>432,784</u>	<u>566,006</u>
EXPENDITURES				
Current:				
General government	1,142,334	-	-	-
Public safety	1,896,599	-	-	319,093
Public works/streets	84,289	705,830	-	195,779
Tourism and recreation	383,490	-	450,857	13,134
Community and economic development	316,100	-	-	38,000
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	165,000	-
Interest	-	-	14,888	-
Total Expenditures	<u>3,822,812</u>	<u>705,830</u>	<u>630,745</u>	<u>566,006</u>
Excess of Revenues				
Over (Under) Expenditures	<u>305,364</u>	<u>(51,672)</u>	<u>(197,961)</u>	<u>-</u>
Other Financing Sources (Uses):				
Debt proceeds	-	-	-	-
Transfers in	-	-	198,351	-
Transfers out	(428,686)	-	-	-
Total Other Financing Sources (Uses)	<u>(428,686)</u>	<u>-</u>	<u>198,351</u>	<u>-</u>
Net change in fund balances	(123,322)	(51,672)	390	-
Fund Balances, Beginning of Year	<u>287,838</u>	<u>457,622</u>	<u>20,203</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 164,516</u>	<u>\$ 405,950</u>	<u>\$ 20,593</u>	<u>\$ -</u>

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

Development Impact Fee Fund	Non-major Acquisition & Development Fund	Total Governmental Funds
\$ -	\$ -	\$ 3,373,568
-	-	50,930
-	-	1,920,673
-	-	93,428
-	-	109,043
-	-	82,131
3,439	108	5,382
-	-	22,275
13,102	-	13,102
-	-	127,241
<u>16,541</u>	<u>108</u>	<u>5,797,773</u>
-	-	1,142,334
-	-	2,215,692
-	-	985,898
-	-	847,481
-	40,636	394,736
103,202	609,672	712,874
46,415	170,000	381,415
-	23,905	38,793
<u>149,617</u>	<u>844,213</u>	<u>6,719,223</u>
<u>(133,076)</u>	<u>(844,105)</u>	<u>(921,450)</u>
-	613,770	613,770
-	230,335	428,686
-	-	(428,686)
-	844,105	613,770
(133,076)	-	(307,680)
<u>394,735</u>	<u>-</u>	<u>1,160,398</u>
<u>\$ 261,659</u>	<u>\$ -</u>	<u>\$ 852,718</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds		\$ (307,680)
<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 capital outlay exceeded depreciation in the current period.</p>		
Capital outlay	\$ 959,297	
Depreciation expense	<u>(528,799)</u>	430,498
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		450,800
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.		(2,442)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		388,354
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.		(613,770)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		4,211
Change in net position of governmental activities		<u><u>\$ 349,971</u></u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2012

REVENUES	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		(Negative)
Taxes:				
Taxes	\$ 3,391,200	\$ 3,391,200	\$ 2,948,989	\$ (442,211)
Franchise tax	45,000	45,000	50,930	5,930
Intergovernmental Revenue	694,380	694,380	712,279	17,899
Licenses and permits	119,100	119,100	93,428	(25,672)
Charges for services	116,200	116,200	101,096	(15,104)
Fines and Forfeitures	57,500	57,500	82,131	24,631
Interest	2,000	2,000	1,827	(173)
Lease income	17,820	17,820	22,275	4,455
Miscellaneous	33,800	33,800	115,221	81,421
	4,477,000	4,477,000	4,128,176	(348,824)
 EXPENDITURES				
Current:				
General Government:				
Administration	888,185	887,585	650,185	237,400
Finance	272,430	273,030	279,097	(6,067)
Legal	238,120	238,120	213,052	25,068
Public Safety:				
Police	1,702,710	1,702,710	1,752,264	(49,554)
Animal control	78,430	78,430	83,931	(5,501)
Magistrate	61,860	61,860	60,404	1,456
Public Works/Streets	80,590	80,590	84,289	(3,699)
Tourism and recreation	412,565	412,565	383,490	29,075
Community & economic development	333,200	333,200	316,100	17,100
	4,068,090	4,068,090	3,822,812	245,278
Excess of Revenues				
Over (Under) Expenditures	408,910	408,910	305,364	(103,546)
Other Financing Sources (Uses):				
Transfers out	(451,660)	(451,660)	(428,686)	22,974
Total Other Financing Sources (Uses)	(451,660)	(451,660)	(428,686)	22,974
Net change in fund balance	(42,750)	(42,750)	(123,322)	(80,572)
Fund Balance, Beginning of Year	287,838	287,838	287,838	-
Fund Balance, End of Year	\$ 245,088	\$ 245,088	\$ 164,516	\$ (80,572)

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Highway User Revenue Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 572,390	\$ 572,390	\$ 642,388	\$ 69,998
Miscellaneous	-	-	11,770	11,770
Total Revenue	<u>572,390</u>	<u>572,390</u>	<u>654,158</u>	<u>81,768</u>
EXPENDITURES:				
Current:				
Public Works:				
Administration	8,550	8,550	4,788	3,762
Street maintenance	617,850	617,850	527,324	90,526
Street rehabilitation	227,270	227,270	152,125	75,145
Maintenance yard	34,780	34,780	14,540	20,240
Utilities	10,000	10,000	7,053	2,947
Total Expenditures	<u>898,450</u>	<u>898,450</u>	<u>705,830</u>	<u>192,620</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(326,060)</u>	<u>(326,060)</u>	<u>(51,672)</u>	<u>274,388</u>
Fund Balance, Beginning of Year	<u>457,622</u>	<u>457,622</u>	<u>457,622</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 131,562</u>	<u>\$ 131,562</u>	<u>\$ 405,950</u>	<u>\$ 274,388</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Recreation & Tourism Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 486,660	\$ 486,660	\$ 424,579	\$ (62,081)
Intergovernmental revenue	15,000	15,000	-	(15,000)
Charges for services	5,000	5,000	7,947	2,947
Investment earnings	20	20	8	(12)
Miscellaneous	-	-	250	250
Total Revenue	<u>506,680</u>	<u>506,680</u>	<u>432,784</u>	<u>(73,896)</u>
EXPENDITURES:				
Current:				
Tourism and recreation	494,790	494,790	450,857	43,933
Debt Service:				
Principal	165,000	165,000	165,000	-
Interest	14,900	14,900	14,888	12
Total Expenditures	<u>674,690</u>	<u>674,690</u>	<u>630,745</u>	<u>43,945</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(168,010)</u>	<u>(168,010)</u>	<u>(197,961)</u>	<u>(29,951)</u>
Other Financing Sources (Uses):				
Transfers in	<u>168,010</u>	<u>168,010</u>	<u>198,351</u>	<u>30,341</u>
Total Other Financing Sources (Uses):	<u>168,010</u>	<u>168,010</u>	<u>198,351</u>	<u>30,341</u>
Net change in fund balance	-	-	390	390
Fund Balance, Beginning of Year	<u>20,203</u>	<u>20,203</u>	<u>20,203</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 20,203</u>	<u>\$ 20,203</u>	<u>\$ 20,593</u>	<u>\$ 390</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Grants Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 1,015,830	\$ 1,015,830	\$ 566,006	\$ (449,824)
Total Revenue	1,015,830	1,015,830	566,006	(449,824)
EXPENDITURES:				
Current:				
Public safety	487,270	487,270	319,093	168,177
Public works	163,700	163,700	195,779	(32,079)
Tourism and recreation	164,860	164,860	13,134	151,726
Economic development	200,000	200,000	38,000	162,000
Total Expenditures	1,015,830	1,015,830	566,006	449,824
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies

General

The accompanying financial statements include all activities of the Town of Pinetop-Lakeside, Arizona (the Town). The accounting policies of the Town conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The government is a municipal corporation governed by a council elected at large, and the council appoints the mayor from among the elected council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The financial statements include all funds and account groups that account for activities over which the Town's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component unit included in defining the Town's reporting entity. There are no discretely presented component units and one blended component unit.

Blended Component Unit included within the reporting entity:

Pinetop-Lakeside Municipal Property Corporation (MPC). The MPC, which 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The uses of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

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

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. 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, 2012

Note 1. Summary of Significant Accounting Policies, Continued

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 for those required to be accounted for in another fund.

The **Highway User Special Revenue Fund** is used to account for the Town's share of motor fuel tax revenues that are legally restricted for the maintaining, repairing and upgrading or construction of streets.

The **Recreation & 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.

The **Grant Fund** is used to account for various federal and state grants and other contributions that are restricted for a specific use.

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

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds."

Prepaid Items

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

Inventories

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

Capital Assets

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

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

Deferred Revenue

Deferred 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 deferred 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 deferred revenue is removed from the balance sheet and the revenue is recognized.

Compensated Absences

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

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When both committed, assigned, or unassigned resources are available for use, it is the Town's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Equity is classified in the government-wide financial statements as net position and is displayed in three components as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position is net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position is all other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority, the Town Council. A resolution by the Town Council is required to establish , modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. The Town Manager is authorized to assign amounts to a specific purpose in accordance with the Town’s budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 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 20.

Note 3. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 3. Stewardship, Compliance, and Accountability, Continued

5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year. The Town's budget includes \$264,837 for contingencies.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports on pages 21-24 and 50-51 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2012, if any.

Encumbrances

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

Taxes

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 4. Deposits and Investments

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2012, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$148,841. As of June 30, 2012, the Town's bank balance of \$234,846 was fully insured or collateralized.

Investments

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

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

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

As of June 30, 2012 the government had the following investments, ratings, and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Government Agencies (FHLMC, FNMA)	\$ 240,432	AAA	1-5
U.S. Government Agencies (FHLMC, FNMA)	220,447	AAA	6-10
Money Market Mutual Fund	49,531	N/A	less than 1
Arizona Local Government Investment Pool	<u>37,654</u>	(1)	27 days
Total Fair Value	<u>\$ 548,064</u>		

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 4. Deposits and Investments, Continued

Interest rate risk

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

Credit risk

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

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TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

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, 2012, interfund receivables and payables are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 258,108
Special Revenue Funds:		
HURF Fund	297,446	-
Grant Fund	-	39,338
	\$ 297,446	\$ 297,446

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, 2012, interfund transfers are as follows:

	Transfers In		
	Acquisition & Development	Recreation and Tourism	Total
<u>Transfers Out:</u>			
General Fund	\$ 230,335	\$ 198,351	\$ 428,686
	\$ 230,335	\$ 198,351	\$ 428,686

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Capital Assets

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

Primary Government Governmental Activities:	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012
Capital Assets not being Depreciated:				
Land	\$ 944,564	\$ 100,000	\$ -	\$ 1,044,564
Construction in progress	-	31,256	-	31,256
Total capital assets not being depreciated	<u>944,564</u>	<u>131,256</u>	<u>-</u>	<u>1,075,820</u>
Capital Assets being depreciated:				
Buildings & Improvements	1,104,114	380,000	(5,141)	1,478,973
Improvements other than buildings	3,035,751	-	-	3,035,751
Machinery & Equipment	1,110,464	358,636	(25,970)	1,443,130
Vehicles	898,923	540,205	-	1,439,128
Infrastructure	2,081,424	-	-	2,081,424
Total capital assets being depreciated	<u>8,230,676</u>	<u>1,278,841</u>	<u>(31,111)</u>	<u>9,478,406</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(598,174)	(36,190)	2,699	(631,665)
Improvements other than buildings	(794,488)	(162,303)	-	(956,791)
Machinery & Equipment	(700,189)	(119,970)	25,970	(794,189)
Vehicles	(664,816)	(104,885)	-	(769,701)
Infrastructure	(315,194)	(105,451)	-	(420,645)
Total accumulated depreciation	<u>(3,072,861)</u>	<u>(528,799)</u>	<u>28,669</u>	<u>(3,572,991)</u>
Total Capital Assets being depreciated, net	<u>5,157,815</u>	<u>750,042</u>	<u>(2,442)</u>	<u>5,905,415</u>
Governmental activities capital assets, net	<u>\$ 6,102,379</u>	<u>\$ 881,298</u>	<u>\$ (2,442)</u>	<u>\$ 6,981,235</u>

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

Governmental Activities:	
General government	\$ 49,602
Public safety	112,714
Public works/streets	201,956
Culture & recreation	164,527
Economic development	-
Total depreciation expense - governmental activities	<u>\$ 528,799</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 7. Long-Term Debt

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

Governmental Activities:	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Accrued compensated absences	\$ 257,468	\$ 29,907	\$ 17,625	\$ 269,750	\$ 32,847
Landfill monitoring costs	7,489	-	325	7,164	325
Total other long-term debt	<u>264,957</u>	<u>29,907</u>	<u>17,950</u>	<u>276,914</u>	<u>33,172</u>
Revenue Bonds:					
Municipal facilities series 1999	<u>535,000</u>	-	170,000	<u>365,000</u>	<u>180,000</u>
Loans Payable:					
GADA ball field loan	<u>340,000</u>	-	165,000	<u>175,000</u>	<u>175,000</u>
Capital Leases:					
Zions Bank building lease	-	480,000	6,614	473,386	16,568
Key Government Finance vehicle lease	-	133,770	46,415	87,355	44,565
Total capital leases	<u>-</u>	<u>613,770</u>	<u>53,029</u>	<u>560,741</u>	<u>61,133</u>
 Total general long-term debt	 <u>\$ 1,139,957</u>	 <u>\$ 643,677</u>	 <u>\$ 405,979</u>	 <u>\$ 1,377,655</u>	 <u>\$ 449,305</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 7. Long-Term Debt, Continued

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

The compensated absences represent the portion of employee vacation leave that will not be liquidated with current assets of the governmental fund types.

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

The following is a listing of bonds outstanding as of June 30, 2012:

Revenue Bonds:

Municipal Facilities Revenue Bonds, Series 1999 due in annual principal and interest installments, bearing interest at 3.25% to 4.5%, maturing July 1, 2014.	\$ 365,000
Less current portion	<u>(180,000)</u>
Total Revenue Bonds net of current portion	<u>\$ 185,000</u>

Revenue Bonds debt service maturities are as follows:

Year Ended	Principal	Interest	Total
<u>June 30,</u>			
2013	\$ 180,000	\$ 12,374	\$ 192,374
2014	<u>185,000</u>	<u>4,162</u>	<u>189,162</u>
Total	<u>\$ 365,000</u>	<u>\$ 16,536</u>	<u>\$ 381,536</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 7. Long-Term Debt, Continued

The following is a listing of loans outstanding as of June 30, 2012:

GADA loan payable, issued in fiscal year 2004 bearing interest at 4.25% to 5.00%. due in annual principal and interest installments ranging from \$179,437 to \$182,875, maturing in 2013.		\$	175,000
			175,000
Total Loans Payable		\$	175,000
Less current portion			(175,000)
Total Loans Payable net of current portion		\$	-

Loans payable debt service maturities are as follows:

Year Ended	Principal	Interest	Total
<u>June 30,</u> 2013	\$ 175,000	\$ 7,875	\$ 182,875
Total	\$ 175,000	\$ 7,875	\$ 182,875

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TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 8. Capital Leases Payable

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

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

June 30,	General Long-Term Debt
2013	\$ 80,047
2014	80,047
2015	33,632
2016	33,632
2017	33,632
2018-2022	168,160
2023-2027	168,160
2028-2032	154,147
Total remaining lease payments	751,457
Less amount representing interest	(190,716)
Present value of net remaining minimum lease payments	\$ 560,741

A summary of assets acquired through capital leases follows:

Governmental Activities	Cost	Accumulated Depreciation
Land	\$ 100,000	\$ -
Buildings & Improvements	480,000	(20,000)
Vehicles	133,770	(7,803)
Total	\$ 613,770	\$ (27,803)

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Municipal Facilities Revenue Bonds, Series 1999

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

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

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

Note 10. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 10. Retirement and Pension Plans, Continued

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

2010	0.0834	0.0066	0.004
2011	0.0901	0.0059	0.0025
2012	0.0987	0.0063	0.0024

Year Ended	Retirement	Health Benefit	Long-Term
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Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 18.07 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 1.61 percent of covered payroll.

Actuarial Methods and Assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 10. Retirement and Pension Plans, Continued

The PSPRS contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.5 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.5 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 26 years for unfunded actuarial accrued liability and 20 years for excess.

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

Annual Pension/OPEB Cost – During the year ended June 30, 2012, the Town’s annual pension cost of \$161,514 and the annual OPEB cost of \$10,758 was equal to the Town’s required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2010	\$ 102,918	100%	-
	2011	143,192	100%	-
	2012	150,729	100%	-
Health Insurance	2010	\$ 6,889	100%	-
	2011	10,607	100%	-
	2012	10,785	100%	-

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 10. Retirement and Pension Plans, Continued

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2011 (Latest actuarial date available) is as follows:

Actuarial accrued liability (AAL)	\$ 4,429,303
Actuarial value of plan assets	<u>2,055,888</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,373,415</u>
Funded ratio (actuarial value of plan assets/AAL)	46.4%
Covered payroll (active plan members)	\$ 635,758
UAAL as a percentage of covered payroll	373.3%

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

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$5,000,000 per occurrence on a claims made basis.

The Arizona Municipal Risk Retention Pool is structured such that members' premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 12. Contingencies

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Funding Progress
June 30, 2012

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2006 through June 30, 2012, based on actuarial valuations follows:

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 2006	\$ 2,042,717	\$ 3,001,273	\$ 958,556	68.1%	\$ 584,516	164.0%
2007	2,068,426	3,571,512	1,503,086	57.9%	711,817	211.2%
2008	2,116,088	3,257,110	1,141,022	65.0%	662,392	172.3%
2009 *	2,062,467	3,614,765	1,552,298	57.1%	652,721	237.8%
2010 *	2,118,960	3,836,022	1,717,062	55.2%	601,878	285.3%
2011 *	2,055,888	4,429,303	2,373,415	46.4%	635,758	373.3%
2012 *	**	**	**	**	**	**

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

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 2006	\$ -	\$ 63,519	\$ 63,519	0.0%	\$ 584,516	10.87%
2007	-	92,970	92,970	0.0%	711,817	13.06%
2008	-	86,563	86,563	0.0%	662,392	13.07%
2009 *	-	108,943	108,943	0.0%	652,721	16.69%
2010 *	-	111,939	111,939	0.0%	601,878	18.60%
2011 *	-	110,336	110,336	0.0%	635,758	17.36%
2012 *	**	**	**	**	**	**

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

** Information for fiscal year 2012 is not yet available.

Capital Project Funds Budget-and-Actual Reports

Major Governmental Fund

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.

Nonmajor Governmental Fund

Capital Projects Funds

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
DEVELOPMENT IMPACT FEE
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Impact fees	\$ 59,865	\$ 59,865	\$ 13,102	\$ (46,763)
Interest	1,980	1,980	3,439	1,459
Total Revenue	<u>61,845</u>	<u>61,845</u>	<u>16,541</u>	<u>(45,304)</u>
EXPENDITURES:				
Capital outlay	370,630	370,630	103,202	267,428
Debt service:				
Principal	<u>61,485</u>	<u>61,485</u>	<u>46,415</u>	<u>15,070</u>
Total Expenditures	<u>432,115</u>	<u>432,115</u>	<u>149,617</u>	<u>282,498</u>
Excess of Revenues Over (Under) Expenditures	<u>(370,270)</u>	<u>(370,270)</u>	<u>(133,076)</u>	<u>237,194</u>
Other Financing Sources (Uses):				
Operating Transfers in:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(370,270)</u>	<u>(370,270)</u>	<u>(133,076)</u>	<u>237,194</u>
Fund Balance, Beginning of Year	<u>394,735</u>	<u>394,735</u>	<u>394,735</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 24,465</u></u>	<u><u>\$ 24,465</u></u>	<u><u>\$ 261,659</u></u>	<u><u>\$ 237,194</u></u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
ACQUISITION & DEVELOPMENT
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 105	\$ 105	\$ 108	\$ 3
Miscellaneous	-	-	-	-
Total Revenue	<u>105</u>	<u>105</u>	<u>108</u>	<u>3</u>
EXPENDITURES:				
Current:				
Community and economic development	89,850	89,850	40,636	49,214
Capital outlay	-	-	609,672	(609,672)
Debt Service:				
Principal	170,000	170,000	170,000	-
Interest	23,905	23,905	23,905	-
Total Expenditures	<u>283,755</u>	<u>283,755</u>	<u>844,213</u>	<u>(560,458)</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(283,650)</u>	<u>(283,650)</u>	<u>(844,105)</u>	<u>(560,455)</u>
Other Financing Sources (Uses):				
Debt proceeds	-	-	613,770	613,770
Transfers in	283,650	283,650	230,335	(53,315)
Total Other Financing Sources (Uses):	<u>283,650</u>	<u>283,650</u>	<u>844,105</u>	<u>560,455</u>
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATISTICAL SECTION

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

Contents	Page
Financial Trends	53
<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	58
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity	60
<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.....	64
<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	65
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs</i>	

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

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 2,123,675	\$ 510,985	\$ 2,097,522	\$ 2,306,592	\$ 2,446,763	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494
Restricted	-	1,183,989	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609
Unrestricted	1,230,775	646,882	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)
Total governmental activities net position	\$ 3,354,450	\$ 2,341,856	\$ 3,738,299	\$ 4,177,211	\$ 4,677,442	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145
Primary government										
Invested in capital assets, net of related debt	\$ 2,123,675	\$ 510,985	\$ 2,097,522	\$ 2,306,592	\$ 2,446,763	\$ 3,645,436	\$ 5,211,655	\$ 5,251,690	\$ 5,218,619	\$ 5,880,494
Restricted	-	1,183,989	239,086	4,616	143,549	87,907	(193,631)	120,729	852,357	667,609
Unrestricted	1,230,775	646,882	1,401,691	1,866,003	2,087,130	1,607,277	1,016,611	523,277	68,198	(58,958)
Total primary government net position	\$ 3,354,450	\$ 2,341,856	\$ 3,738,299	\$ 4,177,211	\$ 4,677,442	\$ 5,340,620	\$ 6,034,635	\$ 5,895,696	\$ 6,139,174	\$ 6,489,145

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 1,349,131	\$ 1,478,855	\$ 1,062,943	\$ 1,155,805	\$ 1,278,191	\$ 1,064,940	\$ 1,201,412	\$ 1,194,493	\$ 1,263,351	\$ 1,235,522
Public safety	1,182,231	1,375,483	1,350,807	1,464,137	1,685,909	1,770,291	2,041,011	1,991,096	2,038,235	2,091,653
Public works/Streets	665,576	704,390	1,216,169	1,541,117	1,115,192	1,321,052	816,470	784,839	757,453	1,143,070
Culture and recreation	383,132	597,783	698,508	841,133	1,055,169	1,238,971	1,003,582	950,846	947,880	995,126
Economic development	726,704	551,709	442,894	816,522	636,314	875,855	927,805	647,267	439,196	394,438
Interest on long-term debt	142,916	159,202	223,317	110,037	109,043	103,544	87,580	68,112	52,853	38,793
Total governmental activities expenses	4,449,690	4,867,422	4,994,638	5,928,751	5,879,818	6,374,653	6,077,860	5,636,653	5,498,968	5,898,602
Total primary government expenses	\$ 4,449,690	\$ 4,867,422	\$ 4,994,638	\$ 5,928,751	\$ 5,879,818	\$ 6,374,653	\$ 6,077,860	\$ 5,636,653	\$ 5,498,968	\$ 5,898,602
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	115,382	226,193	498,267	584,839	502,021	300,060	277,154	244,658	443,713	312,155
Public safety	62,604	81,587	73,329	54,104	67,188	64,053	75,207	66,321	51,755	83,198
Public works/Streets	-	-	-	-	-	-	-	-	-	-
Culture and recreation	50,802	49,633	45,427	44,186	33,902	30,586	28,337	36,834	23,175	24,818
Operating grants and contributions	31,901	389,682	92,239	171,694	214,290	750,842	699,134	569,216	682,175	738,207
Capital grants and contributions	-	18,602	54,445	183,119	139,057	352,032	829,702	201,738	206,600	751,168
Total governmental activities program revenues	260,688	765,697	763,707	1,037,942	956,458	1,497,573	1,909,534	1,118,767	1,407,418	1,909,546
Total primary government program revenues	\$ 260,688	\$ 765,697	\$ 763,707	\$ 1,037,942	\$ 956,458	\$ 1,497,573	\$ 1,909,534	\$ 1,118,767	\$ 1,407,418	\$ 1,909,546

* Information not available

(continued)

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net (expense)/revenue										
Governmental activities	\$ (4,189,001)	\$ (4,101,725)	\$ (4,230,931)	\$ (4,890,809)	\$ (4,923,360)	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)
Total primary government net expense	\$ (4,189,001)	\$ (4,101,725)	\$ (4,230,931)	\$ (4,890,809)	\$ (4,923,360)	\$ (4,877,080)	\$ (4,168,326)	\$ (4,517,886)	\$ (4,091,550)	\$ (3,989,056)
General Revenues and Other										
Changes in Net Position										
Governmental activities:										
Taxes:										
Sales taxes	\$ 2,396,099	\$ 2,903,149	\$ 3,147,312	\$ 3,605,635	\$ 4,187,256	\$ 4,180,995	\$ 3,576,365	\$ 3,256,167	\$ 3,335,049	\$ 3,373,567
Franchise taxes	31,917	38,176	40,509	48,984	54,119	55,860	57,091	54,814	52,327	50,930
Gasoline tax	484,552	562,058	577,485	582,147	610,703	-	-	-	-	-
State revenue sharing	381,236	322,987	329,285	375,033	472,876	586,141	622,764	537,745	405,391	361,404
State sales taxes	280,140	301,354	331,838	382,949	395,872	382,780	331,381	305,650	319,406	334,597
Auto-in-lieu	198,567	198,675	205,007	229,725	248,658	248,521	238,361	216,864	215,174	213,147
Investment earnings	15,196	15,774	20,135	49,611	87,345	85,961	31,376	5,103	7,681	5,382
Other	571,681	57,041	994,020	55,637	86,185	-	5,003	2,604	-	-
Total governmental activities	4,359,389	4,399,214	5,645,591	5,329,721	6,143,014	5,540,258	4,862,341	4,378,947	4,335,028	4,339,027
Total Primary government	\$ 4,359,389	\$ 4,399,214	\$ 5,645,591	\$ 5,329,721	\$ 6,143,014	\$ 5,540,258	\$ 4,862,341	\$ 4,378,947	\$ 4,335,028	\$ 4,339,027

Change in Net Asset										
Governmental activities	\$ 170,388	\$ 297,489	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971
Total primary government	\$ 170,388	\$ 297,489	\$ 1,414,660	\$ 438,912	\$ 1,219,654	\$ 663,178	\$ 694,015	\$ (138,939)	\$ 243,478	\$ 349,971

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

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General fund										
Nonspendable		\$ 144,304	\$ 10,455	\$ 57,936	\$ 81,962	\$ 50,013	\$ 118,408	\$ 32,820	\$ 110,954	\$ 31,496
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	835,003	730,444	1,292,743	1,640,370	2,123,946	1,367,371	703,189	373,973	176,884	133,020
Total general fund	\$ 835,003	\$ 874,748	\$ 1,303,198	\$ 1,698,306	\$ 2,205,908	\$ 1,417,384	\$ 821,597	\$ 406,793	\$ 287,838	\$ 164,516

All other governmental funds

Restricted:										
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 18,497	\$ 36,390	\$ 45,779	\$ 46,248	\$ 58,764	\$ 14,952
Highways and streets	-	-	-	-	44,974	251,397	133,450	243,838	614,218	537,341
Community and economic development	-	-	-	-	28,220	46,205	45,260	53,373	54,474	59,602
Other	90,938	143,167	236,263	-	51,858	70,741	59,911	89,121	124,901	55,714
Committed for:										
Tourism and recreation	-	-	-	-	-	-	65,703	27,588	20,203	20,593
Unassigned, reported in:										
Special revenue funds	304,834	983,750	101,316	265,678	(6,606)	-	(193,631)	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
	\$ 395,772	\$ 1,126,917	\$ 337,579	\$ 265,678	\$ 136,943	\$ 404,733	\$ 156,472	\$ 460,168	\$ 872,560	\$ 688,202

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

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 2,864,913	\$ 2,903,149	\$ 3,147,312	\$ 3,605,636	\$ 4,187,256	\$ 4,180,994	\$ 3,576,365	\$ 3,256,167	\$ 3,335,050	\$ 3,373,568
Franchise taxes	31,917	38,176	40,509	48,984	54,119	55,860	57,092	54,814	52,327	50,930
Intergovernmental	1,085,322	1,792,771	1,589,275	1,924,667	1,941,087	2,029,959	2,240,232	1,810,130	1,666,312	1,920,673
Licenses, permits, and fees	152,440	160,332	308,265	466,493	370,663	179,177	116,741	101,349	106,442	93,428
Charges for services	46,058	102,421	120,809	73,439	80,375	123,241	110,771	130,385	109,367	109,043
Fines and forfeitures	162,604	35,080	69,239	49,620	63,665	59,492	71,407	63,116	49,720	82,131
Interest	9,996	15,774	20,136	49,610	87,345	85,960	31,376	5,103	7,681	5,382
Lease income	116,440	59,580	104,633	17,829	18,140	17,823	17,820	17,820	17,820	22,275
Impact fees	-	-	-	-	139,057	184,230	59,510	19,738	81,434	13,102
Other	150,388	89,309	19,900	76,348	157,763	121,094	490,561	39,091	316,291	127,241
Total Revenues	\$ 4,620,078	\$ 5,196,592	\$ 5,420,078	\$ 6,312,626	\$ 7,099,470	\$ 7,037,830	\$ 6,771,875	\$ 5,497,713	\$ 5,742,444	\$ 5,797,773
Expenditures										
Current:										
General government	\$ 914,142	\$ 1,269,340	\$ 1,009,181	\$ 1,136,972	\$ 1,297,984	\$ 1,198,102	\$ 1,215,854	\$ 1,159,361	\$ 1,135,419	\$ 1,142,334
Public safety	1,183,090	1,382,376	1,309,540	1,469,481	1,666,616	1,847,878	1,938,776	1,873,364	1,961,851	2,215,692
Public works/streets	859,679	705,664	1,178,023	1,444,619	1,441,777	1,672,565	1,879,964	612,841	600,760	985,898
Tourism and recreation	551,742	544,697	582,570	800,308	970,118	1,120,125	1,030,831	795,263	878,006	847,481
Community and economic development	542,290	596,510	424,171	814,428	634,330	870,400	924,902	597,683	437,464	394,736
Capital outlay	55,492	942,288	1,724,158	189,649	401,904	363,822	233,542	99,807	57,654	712,874
Debt service										
Principal	198,178	518,613	423,377	763,300	327,867	382,128	370,793	402,389	325,000	381,415
Interest and fiscal charges	145,076	159,202	181,576	151,778	109,043	103,544	87,580	68,112	52,853	38,793
Total expenditures	4,449,689	6,118,690	6,832,596	6,770,535	6,849,639	7,558,564	7,682,242	5,608,820	5,449,007	6,719,223
Revenues over (under) expenditures	170,388	(922,098)	(1,412,518)	(457,909)	249,831	(520,734)	(910,367)	(111,107)	293,437	(921,450)
Other finance sources (Uses)										
Proceeds of long-term debt issuance	-	1,539,378	-	-	129,036	-	66,319	-	-	613,770
Proceeds from sale of capital assets	-	153,610	1,203,329	781,113	-	-	-	-	-	-
Transfers in	43,046	28,370	468,700	486,342	410,100	952,259	984,673	533,849	451,603	428,686
Transfers out	(43,046)	(28,370)	(468,700)	(486,342)	(410,100)	(952,259)	(984,673)	(533,849)	(451,603)	(428,686)
Total other finance sources (uses)	-	1,692,988	1,203,329	781,113	129,036	-	66,319	-	-	613,770
Net change in fund balances	\$ 170,388	\$ 770,890	\$ (209,189)	\$ 323,204	\$ 378,867	\$ (520,734)	\$ (844,048)	\$ (111,107)	\$ 293,437	\$ (307,680)
Debt service as a percentage of noncapital expenditures	8.47%	15.13%	13.26%	16.29%	7.95%	8.18%	8.16%	9.22%	7.61%	7.87%

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

Fiscal Year	State Shared Sales Tax	City Sales Tax	Franchise Tax	Motor Fuel Tax	Vehicle License Tax	State Shared Income Tax
2003	\$ 280,140	\$ 2,476,535	\$ 31,917	\$ 484,552	\$ 198,567	\$ 381,236
2004	301,354	2,954,132	38,176	562,058	198,675	322,987
2005	331,838	3,202,086	40,509	577,485	205,007	329,285
2006	382,949	3,659,494	48,984	582,147	229,725	375,033
2007	395,872	3,963,230	54,119	610,703	248,658	472,876
2008	382,780	4,198,925	55,860	590,551	248,521	586,141
2009	331,381	3,606,796	57,092	533,436	238,361	622,764
2010	305,650	3,256,167	54,814	498,319	216,864	537,745
2011	319,406	3,335,049	52,327	513,738	215,174	405,391
2012	334,597	3,373,567	50,930	429,242	213,147	361,404

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

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

	Fiscal Year											
	2007		2008		2009		2010		2011		2012	
	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total
Communication & Utilities	223,129	5.3%	259,439	6.2%	251,314	7.0%	251,042	7.7%	264,629	7.9%	268,981	8.0%
Construction	584,984	13.8%	574,389	13.7%	339,124	9.5%	222,624	6.8%	270,420	8.1%	230,097	6.8%
Manufacturing	242,354	5.7%	195,198	4.6%	144,399	4.0%	113,564	3.5%	116,963	3.5%	114,541	3.4%
Retail	1,401,757	33.0%	1,454,697	34.7%	1,365,758	38.2%	1,238,356	38.0%	1,257,632	37.7%	1,299,885	38.5%
Real Estate Leasing	317,761	7.5%	290,776	6.9%	255,464	7.1%	210,426	6.5%	175,397	5.3%	179,001	5.3%
Restaurant & Bar	853,600	20.1%	787,298	18.8%	709,559	19.8%	717,512	22.0%	717,337	21.5%	718,311	21.3%
Accommodation	264,094	6.2%	259,806	6.2%	207,781	5.8%	211,801	6.5%	198,457	6.0%	193,127	5.7%
Services	177,038	4.2%	199,893	4.8%	167,253	4.7%	171,405	5.3%	159,191	4.8%	143,600	4.3%
All Other	183,725	4.3%	176,432	4.2%	135,713	3.8%	119,391	3.7%	175,024	5.2%	228,389	6.8%
Total	4,248,442	100.0%	4,197,928	100.0%	3,576,365	100.0%	3,256,122	100.0%	3,335,050	100.0%	3,375,932	#DIV/0!
	16.60%		-1.19%		-14.81%		-8.95%		2.42%		1.23%	
	up from prior year	down from prior year	up from prior year	up 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.

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

Fiscal Year	Governmental Activities							Per Capita ⁽¹⁾
	Revenue	General	Capital	Total	Percentage	Population	Income	
	Bonds	Obligation Debt	Leases	Government Debt	of Personal			
2003	\$ 1,795,000	\$ 1,064,798	\$ -	\$ 2,859,798	158.25%	3,875	\$ 6,537	
2004	3,000,000	822,844	104,378	3,927,222	203.15%	4,055	6,228	
2005	2,630,000	655,893	79,748	3,365,641	158.72%	4,165	5,938	
2006	2,365,000	202,226	54,166	2,621,392	115.94%	4,540	5,753	
2007	2,090,000	223,622	156,632	2,470,254	102.39%	4,758	5,518	
2008	1,805,000	329,688	89,390	2,224,078	87.58%	4,769	5,210	
2009	1,510,000	261,366	86,997	1,858,363	70.55%	4,805	6,397	
2010	1,200,000	-	-	1,200,000	43.75%	4,282 *	5,969	
2011	875,000	-	-	875,000	31.00%	4,282 *	5,654	
2012	540,000	276,914	560,741	1,377,655	47.44%	4,282 *	5,981	

* 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	\$ 26,200,000	21.4%	\$ 5,614,660
Pinetop-Lakeside Sanitary District	\$ -	79.0%	\$ -
Pinetop Fire District	\$ -	85.0%	\$ -
Lakeside Fire District	\$ 839,785	31.0%	\$ 260,333
Total direct and overlapping debt			\$ 5,874,993

(1) Includes general obligation bonds outstanding

Source: Navajo County Finance Department

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
2003	\$ 3,336,479	\$ 120,000	\$ 75,970	\$ 195,970	17.03
2004	3,777,148	120,000	71,410	191,410	19.73
2005	4,068,215	130,000	66,850	196,850	20.67
2006	4,647,201	135,000	61,650	196,650	23.63
2007	5,080,636	140,000	56,250	196,250	25.89
2008	5,416,367	145,000	50,370	195,370	27.72
2009	4,799,302	150,000	44,280	194,280	24.70
2010	4,316,426	155,000	37,830	192,830	22.38
2011	4,275,020	165,000	31,165	196,165	21.79
2012	4,282,714	170,000	23,905	193,905	22.09

GADA Loan

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2003	\$ -	\$ -	\$ -	-	
2004	3,777,148	110,000	28,603	138,603	27.25
2005	4,068,215	120,000	58,063	178,063	22.85
2006	4,647,201	130,000	52,663	182,663	25.44
2007	5,080,636	135,000	46,813	181,813	27.94
2008	5,416,367	140,000	40,738	180,738	29.97
2009	4,799,302	145,000	34,438	179,438	26.75
2010	4,316,426	155,000	28,275	183,275	23.55
2011	4,275,020	160,000	21,688	181,688	23.53
2012	4,282,714	165,000	14,888	179,888	23.81

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

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

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 83,086,139	\$ 83,086,139
Total assessed value	<u>\$ 83,086,139</u>	<u>\$ 83,086,139</u>
Legal debt margin:		
Debt limitation	\$ 16,617,228	\$ 4,985,168
Debt applicable to limitation:		
General Obligation Bonds	<u>-</u>	<u>-</u>
Total debt applicable to limitation	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 16,617,228</u>	<u>\$ 4,985,168</u>
Total debt applicable to the limit as a percentage of the limit	0%	0%

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

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

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

Calendar Year	Town of Pinetop-Lakeside		Navajo County		Navajo County Per Capita Personal Income		Pinetop-Lakeside		Unemployment Averages (3)	
	Population (1)	Population (1)	Personal Income (2) (in thousands)	County Per Capita Personal Income	Pinetop-Lakeside Per Capita Income (4)	Pinetop-Lakeside Public School Enrollment (5)	Town of Pinetop-Lakeside	Navajo County	State of Arizona	
2003	3,875 *	103,220	1,807,125	\$ 17,508	\$ 20,283	Not Available	4.1%	8.6%	5.7%	
2004	3,972 *	105,020	1,933,211	\$ 18,408	\$ 21,203	2,576	4.0%	8.4%	5.0%	
2005	4,088 *	106,968	2,120,553	\$ 19,824	\$ 22,122	2,680	3.8%	8.0%	4.7%	
2006	4,333 *	109,000	2,260,966	\$ 20,743	\$ 23,044	2,690	3.5%	7.2%	4.1%	
2007	4,486 *	110,999	2,412,656	\$ 21,736	\$ 23,963	2,690	3.0%	6.2%	3.7%	
2008	4,503 *	112,348	2,539,509	\$ 22,604	\$ 24,883	2,617	4.4%	9.8%	6.0%	
2009	4,522 *	112,975	2,634,137	\$ 23,316	\$ 25,509	2,600	6.6%	15.2%	9.9%	
2010	4,282	97,470	2,742,716	\$ 28,139	\$ 26,720	2,462	7.8%	16.0%	10.5%	
2011	4,300 *	101,369	2,822,255	\$ 27,841	\$ 27,645	2,344	7.7%	16.0%	9.5%	
2012	4,320 *	103,396	2,904,100	\$ 28,087	\$ 28,561	2,308	8.2%	15.1%	8.3%	

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

* Population estimated except for 2010 Census.

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

(3) Source: WWW.AZSTATS.GOV

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

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

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

Function	Full-time Equivalent Employees									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	16	16	16	17	18	18	18	14	14	12
Public Safety										
Officers	14	14	14	14	14	14	14	14	15	17
Civilians	10	10	10	10	10	10	9.5	7.5	7.5	7.5
Streets	6	6	6	6	6	6	5	6.5	6.5	6.5
Parks and Recreation	7	7	7	8	8	8	7	6.5	6.5	6.5
Library	4	4	5	5	5	5	5	5	5	5
Total	57	57	58	60	61	61	58.5	53.5	54.5	54.5

Source: Town of Pinetop-Lakeside, Arizona

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Building Permits										
Residential	52	80	93	162	98	36	23	10	9	9
Commercial	5	8	14	9	11	5	1	2	1	1
Value of Construction										
Residential	\$ 8,845,000	\$12,719,000	\$18,317,000	\$39,137,000	\$27,796,000	\$12,055,000	\$6,039,000	\$ 8,845,000	\$ 8,845,000	\$8,845,000
Commercial	1,497,000	4,843,000	4,166,000	3,232,000	3,695,000	22,688,000	97,000	6,900,000	2,783,000	988,000
Total	\$10,342,057	\$17,562,088	\$22,483,107	\$42,369,171	\$31,491,109	\$34,743,041	\$6,136,024	\$15,745,012	\$11,628,010	\$9,833,010

*2011 is the most recent completed year of record keeping

Source: Town of Pinetop-Lakeside Building Department

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

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	45	45	45	45	45	45	45	45	45	45
Highways (Miles)	5	5	5	5	5	5	5	5	5	5
Traffic lights	5	5	6	6	6	6	6	6	6	6
Parks and Recreation										
Acreage	534	684	684	150	150	150	150	150	150	150
Playgrounds	2	3	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	2	4	4	4	4	4	4	4	4	4
Football and Soccer Fields	1	5	5	5	5	5	5	5	5	5

Source: Town of Pinetop-Lakeside, Arizona

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. 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.

Internal Control over Financial Reporting

Management of the Town of Pinetop-Lakeside, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the schedule of findings and recommendations dated October 23, 2012, that we consider to be significant deficiencies in internal control over financial reporting.

07-01. Segregation of Duties

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.

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*.

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated October 23, 2012.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
October 23, 2012



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

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. Our audit also included test work on the Town of Pinetop-Lakeside's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Town of Pinetop-Lakeside complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.

HintonBurdick, PLLC

HintonBurdick, PLLC
October 23, 2012