

TOWN OF PINETOP-LAKESIDE, ARIZONA



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2020

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

Prepared by:

Department of Finance and Administration

TOWN OF PINETOP-LAKESIDE

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February 2, 2020

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

We are pleased to submit to you the 2020 Comprehensive Annual Financial Report (CAFR) for the Town of Pinetop-Lakeside, Arizona (the Town) in accordance with the Arizona Revised Statutes, Section 9-481.

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

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

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

An independent firm of certified public accountants, Hinton Burdick, PLLC, whose report is included herein, has examined the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2020, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the financial statements for the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2020, are fairly presented, in all material respects, and are in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

Profile of the Town

The Town of Pinetop-Lakeside, incorporated in 1984, has a Council-Manager form of government with a seven member Town Council consisting of a Mayor and six Council Members. The current Mayor was directly elected by the voters, and her initial two-year term began in November 2018. She was elected to another two year term subsequent to this fiscal year end. Council members serve four-year terms, with three or four members elected every two years. The Town Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of Town Manager, Town Attorney, Magistrate Judge, and Town Clerk. The Town Manager is responsible for carrying out the policies and enforcing the ordinances of the Town Council, as well as overseeing the day-to-day operations of the Town.

The Town of Pinetop-Lakeside is located in Navajo County in the eastern part of the State of Arizona. It currently occupies 11.3 square miles and serves a population of 4,463 (estimated). The Town of Pinetop-Lakeside is empowered to levy a property tax on real property located within its boundaries, and to extend its corporate limits by annexation. The Town has chosen not to levy a property tax since incorporation.

The Town's economy is primarily tourism focused with the majority of local operating revenue being generated through sales and bed taxes. Prior to this year, both statewide and nationally, economic conditions had steadily improved and this had been felt in Pinetop-Lakeside. During this fiscal year, large parts of the country suffered huge economic losses because of the global pandemic. However, we did not experience this in the Town. Due to the pandemic and travel restrictions, Arizonans stayed closer to home and more people than ever came to visit us throughout the summer.

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

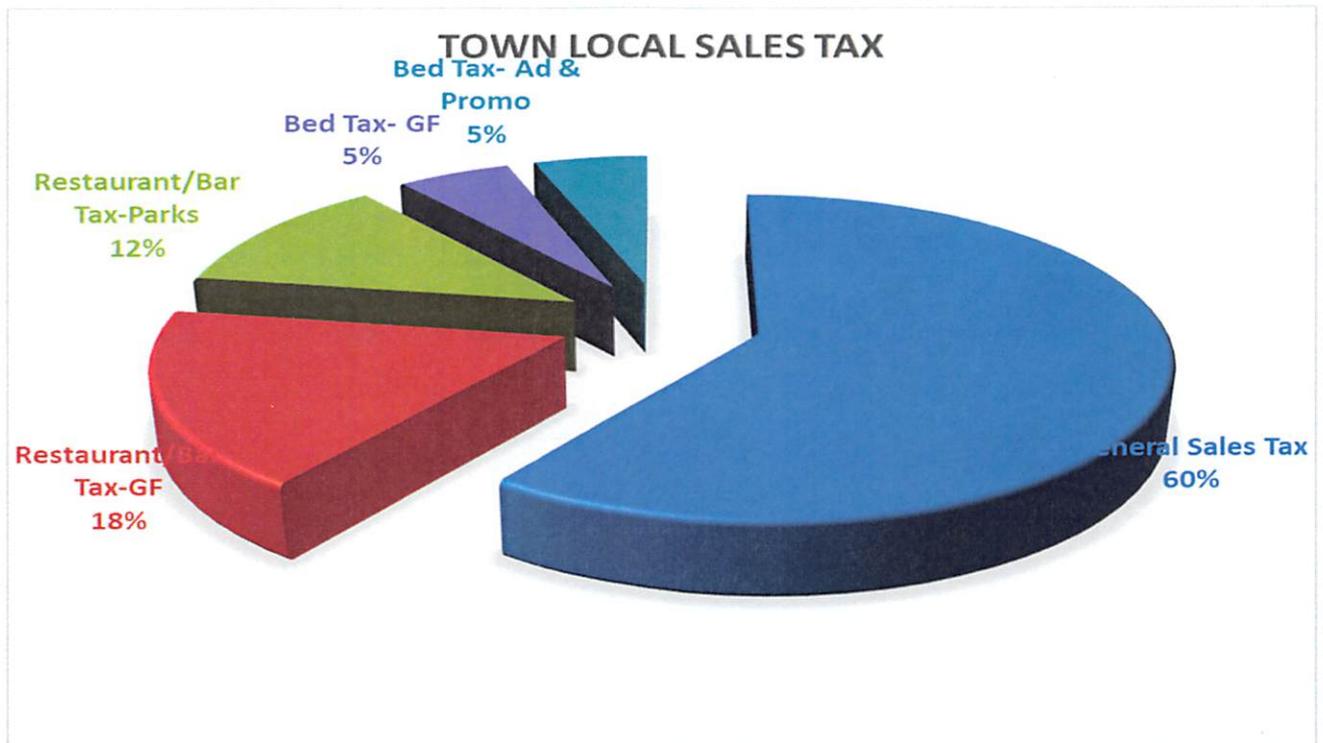
The Town Council is required to adopt an initial budget for the fiscal year no later than the third Monday in July for the fiscal year beginning on July 1. This annual budget serves as the foundation for the Town of Pinetop-Lakeside's financial planning and control. The budget is prepared by fund, function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

Local economy

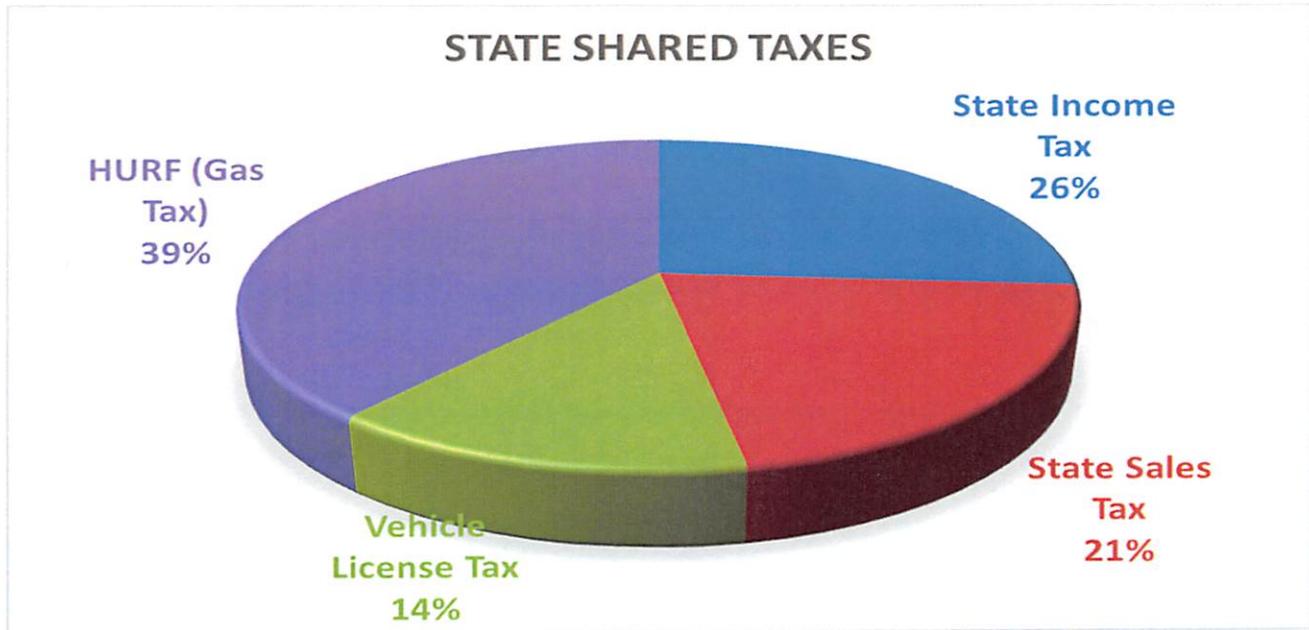
The Town of Pinetop-Lakeside is a rural area depending heavily on the tourist trade. Major industries located within the Town's boundaries or in close proximity include a hospital, manufacturing, retail stores, several medical and legal practices, financial institutions and insurance companies. The Blue Ridge Unified School District also has a significant economic presence, employing teachers, professionals, and support staff. There is a heavy reliance on Sales tax and the economy is heavily driven by tourism and the generation of sales taxes from tourism related activities. Overall, sales tax revenues for this year comprised

approximately 44% of the Town's revenues. This percentage dropped by 20% this year due to a \$1.6M donation received to purchase Woodland Lake Park.

The Town's sales tax rate is 3.00%, with general capital projects being funded from an annually adjusted transfer at levels necessary to support needed projects and allowing for allocation of funds to the most fundamental areas of service. The Town also has a 3% Bed tax (occupancy) which is allocated to the Tourism Advertising and Promotion Fund and a 2.0% Restaurant/Bar tax which is allocated to the Parks Fund.



State shared revenues received by the Town of Pinetop-Lakeside include allocations of the State-collected sales, income, and gas and motor vehicle in-lieu taxes. The sales, income and vehicle taxes are placed in the Town's General Fund, where it is used to support the Town's day-to-day activities. The gas taxes are placed into the Streets Fund, where it is used for the Town's construction and maintenance of streets and roads. The gas tax is restricted to this type of fund. State shared revenues comprised approximately 12% of the Town's revenues this fiscal year.



Because of its location in a region with a narrow economic base, unemployment has been relatively stable. However, the Town as well as the rest of the country, has seen a significant increase in the unemployment rate due to the global pandemic which began at the start of 2020. Currently, the unemployment rate is estimated to be 8.7%.

Median household incomes within the Town of Pinetop-Lakeside are slightly higher than for the state as a whole, and higher than the rest of Navajo County. According to the year 2010 census, the town’s median family income was \$52,123; the county’s was \$34,547, while the state’s was \$51,477. The Town’s population recently increased from 3,582 in 2000 to 4,282 on the Census of 2010 – 20% growth over 10 years. Due to the softening of the housing market nationwide in 2009, home construction in Pinetop-Lakeside had been nearly at a standstill since that time. However, the Town has seen a significant jump in the amount of both residential and commercial construction in the last few years. The median price of a single-family home in the vicinity of the Town of Pinetop-Lakeside was \$200,550.

Long-term financial planning and major initiatives

In reviewing the long-term fiscal outlook for the Town, it is evident that the Town will need to provide new funding or reallocation of sources in order to balance demands for services. Council and Staff have begun the process of evaluating and prioritizing capital and programming needs and identifying possible funding strategies for those priorities. A five-year Capital Improvement Plan to maintain our infrastructure and update our equipment has been laid out by staff and presented to Council. The Town had recognized two major issues that needed to be addressed: (1) the need for an adequate Town Hall building, and (2) the need to address our deteriorating streets. These issues were both addressed during the 2017-2018 fiscal year. First, the Town sold revenue bonds and bought a new Town Hall building in December 2017. Second, the Town increased the sales tax (or TPT) rate on most items from 2.5% to 3.0%. The increase of .5% was dedicated to the Streets Fund to address deteriorating roads. Currently, our most pressing need is to plan for a new or renovated Police Department facility. The Town is working to address this now and is considering issuing new debt for this project.

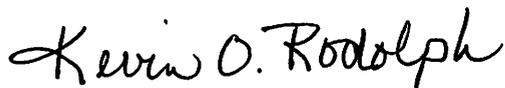
The Town staff and elected officials have worked cooperatively to implement the most efficient operations for the Town as possible. The Town of Pinetop-Lakeside maintains a five-year Capital Improvement Program which serves as its planning document to ensure that its facilities, equipment, and infrastructure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

Relevant financial policies

The Town of Pinetop-Lakeside has adopted a comprehensive set of financial policies. During the last few years, these policies were particularly relevant. The Town of Pinetop-Lakeside has a policy that requires the adoption of a balanced annual operating budget (i.e., estimated revenues equal to or in excess of appropriations). When estimated revenues are less than appropriations, the policy allows for the appropriation of fund balance to close the gap. In addition to the budget balancing strategies, forward looking revenue projections are conservatively estimated anticipating impacts to tourism related revenues. The forecasts are prepared to examine the Town's ability to absorb operating costs due to changes in the economy, service demands and capital improvements.

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

Respectfully submitted,

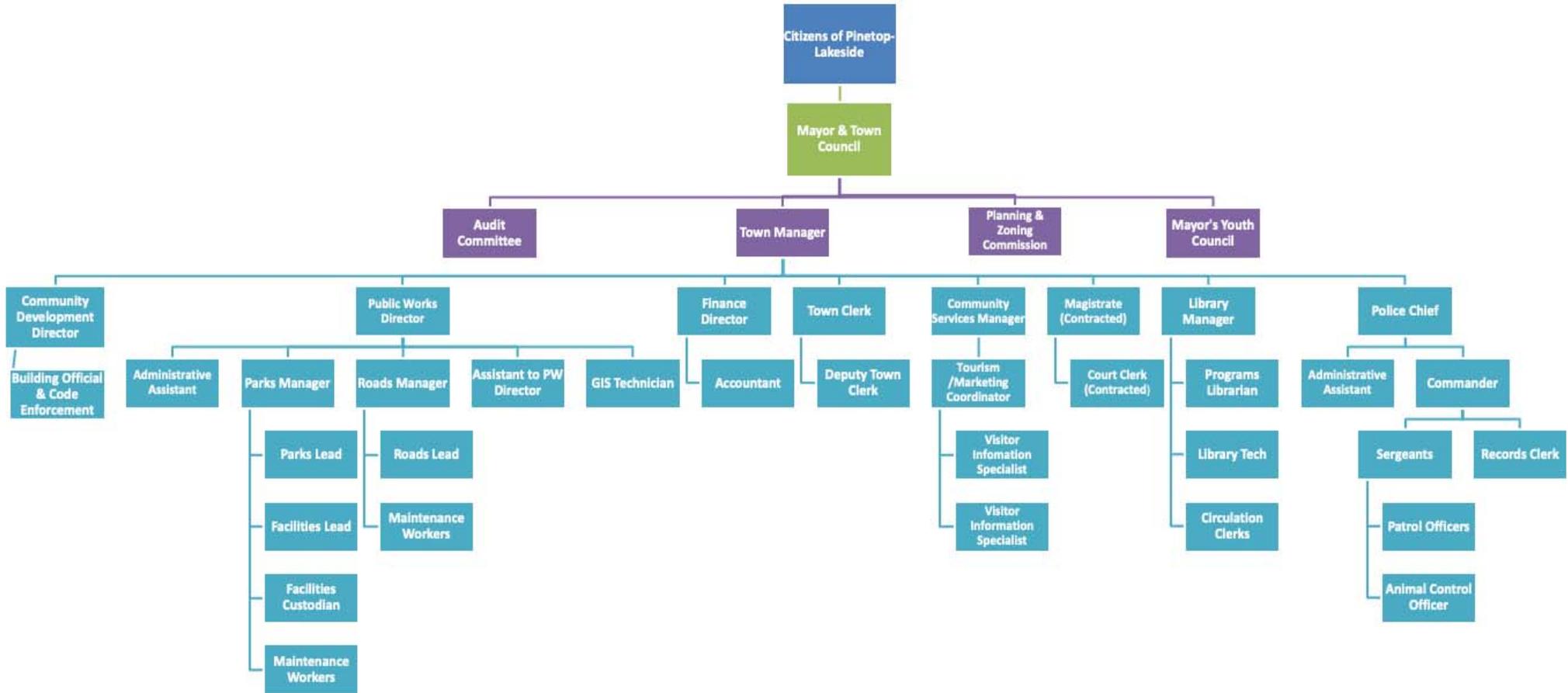


Kevin O. Rodolph, CPA
Finance Director

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

Position	Name
Mayor	Stephanie Irwin
Vice-Mayor	Jerry Smith
Council	Carla Bowen
Council	Kathy Dahnk
Council	Mazie Hastings
Council	Lynn Krigbaum
Council	Jim Snitzer
Attorney	Sims Mackin, LTD.
Town Manager	Keith Johnson
Town Clerk	Jill Akins
Finance Director	Kevin Rodolph
Community Development Director	Cody Blake
Library Manager	Kendra Abel
Community Services Manager	Anthony Alba
Public Works Director	Kenneth M. Patterson
Police Chief	Daniel Barnes



FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside, Arizona, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021, on our consideration of the Town of Pinetop-Lakeside, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pinetop-Lakeside, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Gilbert, Arizona
January 11, 2021

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TOWN OF PINETOP-LAKESIDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year-Ended June 30, 2020

As management of the Town of Pinetop-Lakeside, we are proud to offer the Town's financial statements. This is a narrative of our discussion and analysis of the Town of Pinetop-Lakeside's financial performance and provides an overview of the Town's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Town's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The Town's total net position increased by \$2,584,613 due mainly to this year's operations.
- During the year, the Town had expenses that were \$2,553,994 less than the \$10,882,227 generated in tax and other revenues for governmental programs.
- For business activities during the year, the Town had expenses that were \$30,619 less than the revenue (including transfers) of \$192,450.
- Total cost of all the Town's programs was \$8,386,426 including one business-type activity program added last year for solid waste.
- At the end of the current fiscal year, the Town of Pinetop-Lakeside's governmental funds reported combined ending fund balances of \$1,869,936 an increase of \$72,739.
- The general fund reported an increase of \$214,359.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Pinetop-Lakeside's finances, in a manner similar to a private-sector business. The *statement of net position* presents financial information on all of the Town of Pinetop-Lakeside's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Pinetop-Lakeside is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town of Pinetop-Lakeside that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Pinetop-Lakeside include general government, public safety, public works/streets, culture and recreation, and economic development. The business-type activities of the Town of Pinetop-Lakeside include a solid waste operation.

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Pinetop-Lakeside, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Pinetop-Lakeside can be divided into two categories: governmental funds and proprietary funds.

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

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

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

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

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds. The Town of Pinetop-Lakeside maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Pinetop-Lakeside uses enterprises funds to account for its solid waste operation. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste operation, which is considered to be a major fund of the Town of Pinetop-Lakeside.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 23 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Pinetop-Lakeside’s pension and OPEB plans and major special revenue funds. Required supplementary information can be found beginning on page 56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the budgetary comparison schedule for the major capital projects funds. These combining and individual fund statements and schedules can be found beginning on page 74 of this report.

The Town as a Whole

Net position may serve over time as a useful indicator of the Town’s financial position. The Town’s combined net position increased from \$1,351,224 to \$3,935,837 as shown in the following condensed Statement of Net Position as of June 30, 2020. Our analysis below focuses on the Net Position and Changes in Net Position of the Town’s governmental activities.

**Town of Pinetop-Lakeside
Net Position**

	Governmental activities		Business-type activities		Total	
	06/30/20	06/30/19	06/30/20	06/30/19	06/30/20	06/30/19
Current and other assets	\$ 2,371,178	\$ 2,325,419	\$ 100	\$ 583	\$ 2,371,278	\$ 2,326,002
Capital assets	12,305,818	9,401,059	224,300	210,636	12,530,118	9,611,695
Total assets	<u>14,676,996</u>	<u>11,726,478</u>	<u>224,400</u>	<u>211,219</u>	<u>14,901,396</u>	<u>11,937,697</u>
Deferred outflows of resources	1,449,188	1,436,651	-	-	1,449,188	1,436,651
Long-term liabilities outstanding	11,167,480	10,642,174	196,135	192,016	11,363,615	10,834,190
Other liabilities	537,241	565,403	10,276	31,833	547,517	597,236
Total liabilities	<u>11,704,721</u>	<u>11,207,577</u>	<u>206,411</u>	<u>223,849</u>	<u>11,911,132</u>	<u>11,431,426</u>
Deferred inflows of resources	503,615	591,698	-	-	503,615	591,698
Net position:						
Net investment in capital						
assets	9,923,564	6,824,075	32,727	636	9,956,291	6,824,711
Restricted	475,779	757,621	-	-	475,779	757,621
Unrestricted	<u>(6,481,495)</u>	<u>(6,217,842)</u>	<u>(14,738)</u>	<u>(13,266)</u>	<u>(6,496,233)</u>	<u>(6,231,108)</u>
Total net position	<u>\$ 3,917,848</u>	<u>\$ 1,363,854</u>	<u>\$ 17,989</u>	<u>\$ (12,630)</u>	<u>\$ 3,935,837</u>	<u>\$ 1,351,224</u>

Governmental Activities

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

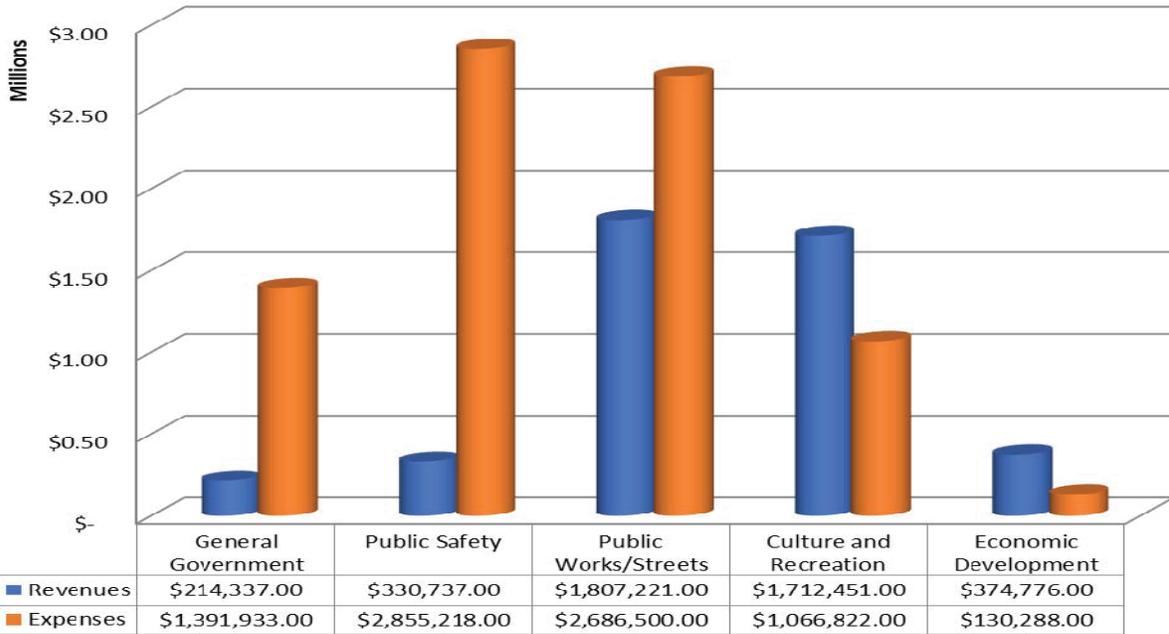
**Town of Pinetop-Lakeside
Changes in Net Position**

	Governmental activities		Business-type activities		Total	
	06/30/20	06/30/19	06/30/20	06/30/19	06/30/20	06/30/19
Revenues:						
Program revenues:						
Charges for services	\$ 291,643	\$ 400,219	\$ 88,812	\$ 464	\$ 380,455	\$ 400,683
Operating grants and contributions	1,324,480	862,794	-	-	1,324,480	862,794
Capital grants and contributions	2,823,399	65,805	-	-	2,823,399	65,805
General revenues:						
Sales taxes	4,863,571	4,919,136	-	-	4,863,571	4,919,136
State shared revenues	1,334,927	1,262,181	-	-	1,334,927	1,262,181
Other taxes	242,871	231,637	-	-	242,871	231,637
Other general revenues	1,336	2,189	-	206	1,336	2,395
Total revenues	<u>10,882,227</u>	<u>7,743,961</u>	<u>88,812</u>	<u>670</u>	<u>10,971,039</u>	<u>7,744,631</u>
Expenses:						
General government	1,391,933	1,425,548	-	-	1,391,933	1,425,548
Public safety	2,855,218	2,892,140	-	-	2,855,218	2,892,140
Public works/streets	2,686,500	2,258,835	-	-	2,686,500	2,258,835
Culture and recreation	1,066,822	1,067,555	-	-	1,066,822	1,067,555
Economic development	130,288	101,962	-	-	130,288	101,962
Interest on long-term debt	93,834	100,160	-	-	93,834	100,160
Solid waste	-	-	161,831	17,438	161,831	17,438
Total expenses	<u>8,224,595</u>	<u>7,846,200</u>	<u>161,831</u>	<u>17,438</u>	<u>8,386,426</u>	<u>7,863,638</u>
Increase (Decrease) in net position before transfers	2,657,632	(102,239)	(73,019)	(16,768)	2,584,613	(119,007)
Transfers	(103,638)	(4,138)	103,638	4,138	-	-
Increase (Decrease) in net position	2,553,994	(106,377)	30,619	(12,630)	2,584,613	(119,007)
Net position, beginning	<u>1,363,854</u>	<u>1,470,231</u>	<u>(12,630)</u>	<u>-</u>	<u>1,351,224</u>	<u>1,470,231</u>
Net position, ending	<u>\$ 3,917,848</u>	<u>\$ 1,363,854</u>	<u>\$ 17,989</u>	<u>\$ (12,630)</u>	<u>\$ 3,935,837</u>	<u>\$ 1,351,224</u>

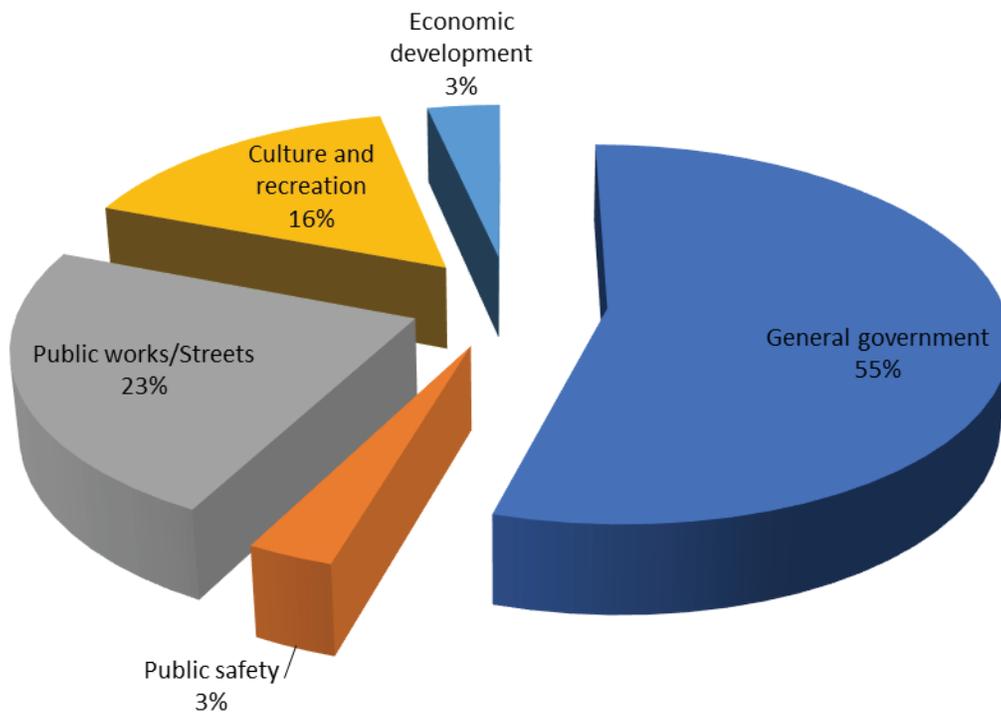
Total resources available during the year to finance governmental operations were \$12.2 million consisting of net position at July 1, 2019 of \$1,363,854, general revenues of \$6.4 million, and program revenues of \$4.4 million. Total Government Activities during the year were \$8.2 million; thus Governmental Net Position increased by \$2,553,994.

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

Expenses and Program Revenues - Governmental Activities



Revenue By Source - Governmental Activities



The following table presents the cost of each of the Town’s largest programs – police, public works, and general government – as well as each program’s net cost (total cost less revenues generated by the activities). The net per capita cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions, based on the Town’s official population of 4,463. It is important to remember that the Town of Pinetop-Lakeside has no property tax, so it is dependent primarily on local sales taxes for revenues. This being the case, “the taxpayers” includes all visitors who shop in our Town.

Governmental Activities

	Total Cost of Services 2020	Net Per Capita Cost of Services 2020
Public Safety	\$ 2,855,218	\$640
Public Works/Streets	2,686,500	602
General Government	1,391,933	312
All Others	1,290,944	289
Totals	\$ 8,224,595	

The Town’s Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$1,869,936 which increased from last year’s total by \$72,739. The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

- The General Fund is the chief operating fund to the Town of Pinetop-Lakeside. At the end of the current fiscal year, the General fund had a surplus in operations of \$214,359.
- The Highway Users Revenue Fund (HURF) had a deficit in operations of (\$316,672) during 2020. This was due in large part by a significant flood event that occurred in the Town in August 2019. The fund balance at year end remains positive at \$285,533. HURF funds are restricted for road and street construction and improvements.
- The Recreation and Tourism Fund had a surplus in operations of \$73,318 for the year. The revenue in this fund is provided by our special, incremental sales taxes which are an additional 3% levied on hotels/motels, and 2% levied on restaurant and bar sales.
- The Capital Projects Fund had a surplus in operations of \$16,225 for the year. Revenue recognized in this fund is mostly transfers from other funds, so changes in fund balance will be minimal.
- In January 2003, an additional 2 percent tax on restaurant and bar sales went into effect, with the proceeds of this new tax dedicated to the construction and maintenance of new recreational amenities, especially youth facilities. The revenues from this tax were used to fund the debt service and operations of the Mountain Meadow Recreation Complex and Woodland Lake Park.

General Fund Budgetary Highlights

The General Fund's revenues of \$5,192,072 were (\$143,227) less than budgeted revenues of \$5,335,299. The General Fund's expenditures, \$4,977,713 (including transfers) were 89% of budgeted expenditures and transfers of \$5,567,910 a variance of \$590,197. Last year, the Town ramped up marketing and tourism efforts. This has paid off in that the Town held steady this year when large parts of the country suffered huge economic declines due to the COVID pandemic which began in March.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2020, the Town had \$12,305,818 (net of depreciation) invested in a broad range of capital assets, including buildings, park facilities, police equipment, roads, and other assets (See Table below), in Governmental Activities. The Town also had \$224,300 invested in capital assets in our new, Business-type Activity which is our solid waste operations.

Capital Assets at Year-End

	Governmental Activities	Business-type Activities
	2020	2020
Land	\$2,670,721	\$54,550
Construction in Progress	830,332	-
Buildings and Improvements	2,561,575	52,465
Infrastructure	4,842,221	-
Equipment	<u>1,400,969</u>	<u>117,285</u>
Total	<u>\$12,305,818</u>	<u>\$224,300</u>

Debt

At year-end, the Town had \$11.2 million in long-term obligations in Governmental Activities and \$200,000 in Business-type Activities as shown in the table below.

Outstanding Debt at Year-End

	Governmental Activities	Business-type Activities
	2020	2020
Revenue bonds and notes (backed by specific tax and fee revenues)	\$1,900,831	\$196,135
Other long-term obligations	<u>9,266,649</u>	-
Totals	<u>\$11,167,480</u>	<u>\$196,135</u>

Other obligations include accrued vacation, sick leave, net pension/OPEB liabilities and capital leases. More detailed information is presented in Notes 7, 8 and 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town of Pinetop-Lakeside, Arizona as well as other Arizona cities and towns, remains dependent on State shared revenues and Local sales taxes for resources. These revenue sources are economically sensitive taxes and subject to up turns and slowdowns in the economy and legislative appropriations. The Town is committed to creating and maintaining a cash reserve for general fund operations, both for financial stability and in anticipation of the capital and operational needs of the community. During this fiscal year, large parts of the country suffered huge economic losses because of the global pandemic. However, we did not experience this in the Town. Because of the pandemic, Arizonans seemed to stay closer to home, and more people than ever came to visit us throughout the summer. New home construction is in full swing as well. However, due to economic uncertainties, the Town cut back on some planned expenditures as a precaution. This coupled with our strong tourism revenue led us to increase our overall fund balance by \$72,739.

The Town's elected and appointed officials consider many factors when setting the fiscal year budgets. Local sales tax collection in the Town of Pinetop-Lakeside remains strong as compared to the prior years. In keeping with Town policy, projected revenues are kept roughly even with the prior year's actual receipts, modified for inflation and other anticipated factors.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about this report, or requests for additional financial information should be addressed to: Town of Pinetop-Lakeside, Finance Department, 325 W. White Mountain Blvd, Lakeside, Arizona 85929, or call 928-368-8696. Or visit our website at: www.pinetoplakesideaz.gov

BASIC FINANCIAL STATEMENTS

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Position
June 30, 2020

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,585,120	\$ 100	\$ 1,585,220
Receivables (net of allowance)	720,587	-	720,587
Other assets	60,679	-	60,679
Net pension/OPEB asset	4,792	-	4,792
Capital assets (net of accumulated depreciation):			
Land	2,670,721	54,550	2,725,271
Buildings and improvements	2,561,575	6,825	2,568,400
Other improvements	1,694,596	45,640	1,740,236
Furniture, machinery & equipment	738,410	86,077	824,487
Vehicles	662,559	31,208	693,767
Infrastructure	3,147,625	-	3,147,625
Construction in progress	830,332	-	830,332
Total assets	<u>14,676,996</u>	<u>224,400</u>	<u>14,901,396</u>
Deferred outflows			
Deferred outflows related to pensions	<u>1,449,188</u>	<u>-</u>	<u>1,449,188</u>
Liabilities			
Accounts payable and other current liabilities	356,376	7,336	363,712
Unearned revenue	35,000	-	35,000
Accrued interest payable	40,791	2,940	43,731
Deposits payable	105,074	-	105,074
Noncurrent liabilities:			
Due within one year	233,974	19,009	252,983
Due in more than one year	2,346,766	177,126	2,523,892
Net pension and OPEB liabilities	<u>8,586,740</u>	<u>-</u>	<u>8,586,740</u>
Total liabilities	<u>11,704,721</u>	<u>206,411</u>	<u>11,911,132</u>
Deferred inflows			
Deferred inflows related to pensions	<u>503,615</u>	<u>-</u>	<u>503,615</u>
Net Position			
Net investment in capital assets	9,923,564	32,727	9,956,291
Restricted for:			
Capital projects	178,364	-	178,364
Public works/Streets	285,533	-	285,533
Grants/Other	11,882	-	11,882
Unrestricted	<u>(6,481,495)</u>	<u>(14,738)</u>	<u>(6,496,233)</u>
Total net position (deficit)	<u>\$ 3,917,848</u>	<u>\$ 17,989</u>	<u>\$ 3,935,837</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Activities
For the Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total Governmental Activities	Total Business-type Activities	Total
Governmental activities:							
General government	\$ 1,391,933	\$ 205,337	\$ -	\$ 9,000	\$ (1,177,596)	\$ -	\$ (1,177,596)
Public safety	2,855,218	57,172	87,674	185,891	(2,524,481)	-	(2,524,481)
Public works/Streets	2,686,500	-	849,976	957,245	(879,279)	-	(879,279)
Culture and recreation	1,066,822	29,134	12,054	1,671,263	645,629	-	645,629
Economic development	130,288	-	374,776	-	244,488	-	244,488
Interest on long-term debt	93,834	-	-	-	(93,834)	-	(93,834)
Total governmental activities	<u>8,224,595</u>	<u>291,643</u>	<u>1,324,480</u>	<u>2,823,399</u>	<u>(3,785,073)</u>	<u>-</u>	<u>(3,785,073)</u>
Business-type activities:							
Solid waste	161,831	88,812	-	-	-	(73,019)	(73,019)
Total business-type activities	<u>161,831</u>	<u>88,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73,019)</u>	<u>(73,019)</u>
Total primary government	<u>\$ 8,386,426</u>	<u>\$ 380,455</u>	<u>\$ 1,324,480</u>	<u>\$ 2,823,399</u>	<u>(3,785,073)</u>	<u>(73,019)</u>	<u>(3,858,092)</u>
General Revenues:							
Taxes:							
City sales tax					4,863,571	-	4,863,571
Franchise tax					242,871	-	242,871
State sales tax (unrestricted)					458,196	-	458,196
Auto lieu tax (unrestricted)					303,481	-	303,481
State revenue sharing (unrestricted)					573,250	-	573,250
Unrestricted investment earnings					1,336	-	1,336
Transfers					(103,638)	103,638	-
Total general revenues & transfers					<u>6,339,067</u>	<u>103,638</u>	<u>6,442,705</u>
Change in net position					2,553,994	30,619	2,584,613
Net position - beginning					<u>1,363,854</u>	<u>(12,630)</u>	<u>1,351,224</u>
Net position - ending					<u>\$ 3,917,848</u>	<u>\$ 17,989</u>	<u>\$ 3,935,837</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2020

Assets	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Grants Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 639,424	\$ 130,708	\$ 469,781	\$ 6,564	\$ 110,758	\$ 227,885	\$ 1,585,120
Receivables:							
Taxes	321,960	-	-	-	-	-	321,960
Intergovernmental	59,261	184,540	-	154,826	-	-	398,627
Notes and Other Assets	-	-	60,679	-	-	-	60,679
Total Assets	\$ 1,020,645	\$ 315,248	\$ 530,460	\$ 161,390	\$ 110,758	\$ 227,885	\$ 2,366,386
Liabilities							
Accounts Payable	\$ 106,050	\$ 8,996	\$ 2,906	\$ 95,925	\$ 2,060	\$ 4,385	\$ 220,322
Accrued Wages and Benefits	113,054	20,719	2,254	-	-	-	136,027
Accrued Liabilities	27	-	-	-	-	-	27
Unearned Revenue	-	-	-	-	-	35,000	35,000
Deposits	105,074	-	-	-	-	-	105,074
Total Liabilities	324,205	29,715	5,160	95,925	2,060	39,385	496,450
Fund Balances							
Restricted for:							
Public safety	-	-	-	-	-	15,531	15,531
Highways and streets	-	285,533	-	-	-	38,953	324,486
Tourism and recreation	-	-	-	11,882	-	-	11,882
Community and economic development	-	-	-	-	-	123,880	123,880
Committed to:							
Tourism and recreation	-	-	525,300	-	-	-	525,300
Assigned to:							
Community and economic development	-	-	-	-	-	10,136	10,136
Highways and streets	-	-	-	51,678	-	-	51,678
Other purposes	-	-	-	1,905	108,698	-	110,603
Unassigned	696,440	-	-	-	-	-	696,440
Total fund balances	696,440	285,533	525,300	65,465	108,698	188,500	1,869,936
Total Liabilities and Fund Balances	\$ 1,020,645	\$ 315,248	\$ 530,460	\$ 161,390	\$ 110,758	\$ 227,885	\$ 2,366,386

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2020

Total fund balances - governmental funds	\$	1,869,936
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Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental capital assets	\$	19,370,440	
Accumulated depreciation		(7,064,622)	
			12,305,818

Net OPEB asset is not an available resource and, therefore is not reported in the funds.

4,792

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

Deferred outflows	\$	1,449,188	
Deferred inflows		(503,615)	
			945,573

Interest payable on long-term debt does not require current financial resources and therefore, is not reported as a liability in the governmental funds balance sheet.

(40,791)

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

Bonds payable	\$	(1,825,000)	
Bond premium		(75,831)	
Leases payable		(481,423)	
Compensated absences		(193,927)	
Net pension/OPEB liabilities		(8,586,740)	
Landfill closure payable		(4,559)	
			(11,167,480)

Total net position - governmental activities

\$ 3,917,848

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2020

REVENUES	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Grants Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
Taxes	\$ 3,608,091	\$ 716,708	\$ 842,253	\$ -	\$ -	\$ -	\$ 5,167,052
Franchise taxes	242,871	-	-	-	-	-	242,871
Intergovernmental revenue	1,031,447	979,655	-	1,424,029	-	-	3,435,131
Licenses, permits and fees	217,300	-	-	-	-	-	217,300
Charges for services	30,693	-	1,940	-	-	-	32,633
Fines and forfeitures	33,231	-	-	-	-	-	33,231
Interest	1,307	-	5	-	19	5	1,336
Donations	-	-	-	-	1,635,000	-	1,635,000
Impact fees	-	-	-	-	-	90,541	90,541
Miscellaneous	27,132	-	-	-	-	-	27,132
Total Revenues	<u>5,192,072</u>	<u>1,696,363</u>	<u>844,198</u>	<u>1,424,029</u>	<u>1,635,019</u>	<u>90,546</u>	<u>10,882,227</u>
EXPENDITURES							
Current:							
General government	1,151,461	-	-	-	-	-	1,151,461
Public safety	2,109,345	-	-	279,153	-	-	2,388,498
Public works/streets	915,312	1,723,987	-	1,224,412	-	-	3,863,711
Tourism and recreation	339,298	-	616,662	1,995	-	-	957,955
Community and economic development	117,434	-	-	-	-	-	117,434
Capital outlay	-	16,407	-	-	1,861,609	57,159	1,935,175
Debt Service:							
Principal	-	-	-	-	191,922	-	191,922
Interest	-	-	-	-	98,644	-	98,644
Bond issuance costs	-	-	-	-	1,050	-	1,050
Total Expenditures	<u>4,632,850</u>	<u>1,740,394</u>	<u>616,662</u>	<u>1,505,560</u>	<u>2,153,225</u>	<u>57,159</u>	<u>10,705,850</u>
Excess of Revenues Over (Under) Expenditures	<u>559,222</u>	<u>(44,031)</u>	<u>227,536</u>	<u>(81,531)</u>	<u>(518,206)</u>	<u>33,387</u>	<u>176,377</u>
Other Financing Sources (Uses):							
Transfers in	-	-	-	133,653	534,431	-	668,084
Transfers out	(344,863)	(272,641)	(154,218)	-	-	-	(771,722)
Total Other Financing Sources (Uses)	<u>(344,863)</u>	<u>(272,641)</u>	<u>(154,218)</u>	<u>133,653</u>	<u>534,431</u>	<u>-</u>	<u>(103,638)</u>
Net change in fund balances	214,359	(316,672)	73,318	52,122	16,225	33,387	72,739
Fund Balances, Beginning of Year	<u>482,081</u>	<u>602,205</u>	<u>451,982</u>	<u>13,343</u>	<u>92,473</u>	<u>155,113</u>	<u>1,797,197</u>
Fund Balances, End of Year	<u>\$ 696,440</u>	<u>\$ 285,533</u>	<u>\$ 525,300</u>	<u>\$ 65,465</u>	<u>\$ 108,698</u>	<u>\$ 188,500</u>	<u>\$ 1,869,936</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2020

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

Net change in fund balances - total governmental funds	\$	72,739
<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. The following is the difference between depreciation expense and capital outlay in the current period.</p>		
Capital outlay	\$	3,601,545
Depreciation expense		<u>(696,786)</u>
		2,904,759
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		192,247
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		2,808
Accrued Interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.		3,052
<p>Pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the net pension/OPEB liability is measured a year before the Town's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the statement of activities.</p>		
Pension/OPEB contribution	\$	544,200
Pension/OPEB expense		<u>(1,155,654)</u>
		(611,454)
Compensated absences 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.		(10,157)
Change in net position of governmental activities	<u>\$</u>	<u>2,553,994</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Position
Proprietary Fund
June 30, 2020

Assets	Solid Waste Fund
Current assets:	
Cash and cash equivalents	\$ 100
Total current assets	100
Noncurrent assets:	
Capital assets:	
Land	54,550
Buildings and improvements	7,356
Improvements other than buildings	48,254
Machinery and equipment	92,518
Vehicles	35,000
Less accumulated depreciation	(13,378)
Total noncurrent assets	224,300
Total assets	224,400
Liabilities	
Current liabilities:	
Accounts payable	4,883
Accrued wages and benefits	2,453
Accrued interest	2,940
Compensated absences - current	456
Leases payable - current	18,553
Total current liabilities	29,285
Noncurrent liabilities:	
Compensated absences	4,106
Leases payable	173,020
Total noncurrent liabilities	177,126
Total liabilities	206,411
Net Position	
Net investment in capital assets	32,727
Unrestricted	(14,738)
Total net position	\$ 17,989

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2020

	Solid Waste Fund
Operating revenues:	
Charges for services	\$ 88,812
Total revenue	88,812
Operating expenses:	
Salaries	60,745
Benefits	33,596
Services and supplies	47,144
Depreciation	12,443
Total operating expenses	153,928
Operating income (loss)	(65,116)
Nonoperating revenues (expenses):	
Interest expense	(7,903)
Total nonoperating revenues(expenses)	(7,903)
Income (loss) before contributions and transfers	(73,019)
Transfers in	103,638
Change in net position	30,619
Net position (deficit) - beginning	(12,630)
Net position - ending	\$ 17,989

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2020

	Solid Waste Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 88,812
Cash paid to suppliers	(52,951)
Cash paid to employees	(87,326)
Net cash flows from operating activities	(51,465)
Cash Flows From Noncapital Financing Activities:	
Transfers from other funds	103,638
Net cash flows from noncapital financing activities	103,638
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(26,107)
Principal paid on long-term debt	(18,427)
Interest paid	(8,122)
Net cash flows from capital and related financing activities	(52,656)
Net change in cash and cash equivalents	(483)
Cash and cash equivalents, beginning of year	583
Cash and cash equivalents, end of year	\$ 100
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net operating income (loss)	\$ (65,116)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation/amortization	12,443
Changes in operating assets and liabilities:	
Increase/(decrease) in accounts payable	(5,807)
Increase/(Decrease) in accrued liabilities	7,015
Net cash flows from operating activities	\$ (51,465)

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting entity

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

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

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation – fund financial statements

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

The Town reports the following major governmental funds:

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

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

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

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

The **Capital Projects Fund** is used to account for major capital asset purchases and capital projects.

The Town reports the following major enterprise funds:

The **Solid Waste Fund** is used to account for the recycling and trash collection center activity.

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

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

Measurement focus and basis of accounting

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

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

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

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

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

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

Deposits and investments

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

Prepaid items

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

Inventories

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

Capital assets

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

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

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Unearned revenue

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

Deferred outflows/inflows of resources

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

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

Pensions and other postemployment benefits

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

Net position flow assumption

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Fund balance flow assumptions

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

Fund balance policies

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

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

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

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Sick leave is accrued for employees with ten years of service. All vacation pay is accrued when incurred in the government-wide financial statement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

Proprietary funds operating and nonoperating revenues and expenses

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

Tax Abatements

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

Use of estimates

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 17.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 19.

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, 2020

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 made during the year. The Town's budget includes \$220,000 for contingencies.

Expenditures over Appropriations

The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the funds which incurred an excess of expenditures/expenses over appropriations for the fiscal year ended June 30, 2020, 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, 2020

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, 2020, cash on hand was \$921, and the carrying amount of the Town's deposits was \$970,318. As of June 30, 2020, the Town's bank balance of \$1,816,249 was fully insured or collateralized.

Investments

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

The LGIP is not registered with the SEC as an investment company. The State Board of Investments provides oversight for the State Treasurer's investment pools. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

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, 2020 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>
Wells Fargo Bank			
Certificate of Deposit	\$ 473,185	N/A	less than 1
U.S. Treasury Securites	89,475	(1)	0.15
Arizona Local Government			
Investment Pool	<u>51,322</u>	(2)	0.13
Total Fair Value	<u>\$ 613,982</u>		

(1) The Town's investment in the U.S. Treasury Securities was rated AAA from Moody's.

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 4. Deposits and Investments, Continued

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

The Town has the following recurring fair value measurements as of June 30, 2020:

- U.S. Treasury Securities are valued using quoted market prices (Level 1 inputs).
- Arizona Local Governmental Investment Pool is valued using inputs other than quoted prices, that are observable (Level 2 inputs).

Interest rate risk

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

Credit risk

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 5. Interfund Receivables, Payables and Transfers

As of June 30, 2020, interfund transfers are as follows:

	Transfers In			
Transfers Out	Capital Projects Fund	Grants Fund	Solid Waste	Total
General Fund	\$ 208,225	\$ 43,770	\$ 92,868	\$ 344,863
HURF Fund	178,633	88,623	5,385	272,641
Recreation Fund	147,573	1,260	5,385	154,218
	\$ 534,431	\$ 133,653	\$ 103,638	\$ 771,722

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 6. Capital Assets

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

	<u>Balance</u> <u>06/30/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/20</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,035,721	\$ 1,635,000	\$ -	\$ 2,670,721
Construction in progress	199,984	1,224,412	(594,064)	830,332
Total capital assets not being depreciated	<u>1,235,705</u>	<u>2,859,412</u>	<u>(594,064)</u>	<u>3,501,053</u>
Capital Assets being Depreciated:				
Buildings & Improvements	3,468,175	30,531	(281,117)	3,217,589
Improvements other than buildings	3,781,817	95,749	-	3,877,566
Machinery & Equipment	1,925,051	142,401	(49,498)	2,017,954
Vehicles	1,699,760	163,710	-	1,863,470
Infrastructure	3,989,002	903,806	-	4,892,808
Total capital assets being depreciated	<u>14,863,805</u>	<u>1,336,197</u>	<u>(330,615)</u>	<u>15,869,387</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(859,947)	(77,184)	281,117	(656,014)
Improvements other than buildings	(2,035,727)	(147,243)	-	(2,182,970)
Machinery & Equipment	(1,212,807)	(116,235)	49,498	(1,279,544)
Vehicles	(1,077,501)	(123,410)	-	(1,200,911)
Infrastructure	(1,512,469)	(232,714)	-	(1,745,183)
Total accumulated depreciation	<u>(6,698,451)</u>	<u>(696,786)</u>	<u>330,615</u>	<u>(7,064,622)</u>
Total Capital Assets being depreciated, net	<u>8,165,354</u>	<u>639,411</u>	<u>-</u>	<u>8,804,765</u>
Governmental activities capital assets, net	<u>\$ 9,401,059</u>	<u>\$ 3,498,823</u>	<u>\$ (594,064)</u>	<u>\$12,305,818</u>

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

Governmental Activities:	
General government	\$ 72,257
Public safety	109,166
Public works/streets	357,658
Culture & recreation	157,705
Total depreciation expense - governmental activities	<u>\$ 696,786</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 6. Capital Assets, Continued

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

Business-Type Activities:	Balance 06/30/19	Additions	Retirements	Balance 06/30/20
Capital Assets not being Depreciated:				
Land	\$ 54,550	\$ -	\$ -	\$ 54,550
Total capital assets not being depreciated	<u>54,550</u>	<u>-</u>	<u>-</u>	<u>54,550</u>
Capital Assets being Depreciated:				
Buildings & Improvements	7,356	-	-	7,356
Improvements other than buildings	48,254	-	-	48,254
Machinery & Equipment	66,411	26,107	-	92,518
Vehicles	35,000	-	-	35,000
Total capital assets being depreciated	<u>157,021</u>	<u>26,107</u>	<u>-</u>	<u>183,128</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(41)	(490)	-	(531)
Improvements other than buildings	(201)	(2,413)	-	(2,614)
Machinery & Equipment	(401)	(6,040)	-	(6,441)
Vehicles	(292)	(3,500)	-	(3,792)
Total accumulated depreciation	<u>(935)</u>	<u>(12,443)</u>	<u>-</u>	<u>(13,378)</u>
Total Capital Assets being depreciated, net	<u>156,086</u>	<u>13,664</u>	<u>-</u>	<u>169,750</u>
Business-type activities capital assets, net	<u>\$ 210,636</u>	<u>\$ 13,664</u>	<u>\$ -</u>	<u>\$ 224,300</u>

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

Business-Type Activities:	
Solid waste	<u>\$ 12,443</u>
Total depreciation expense - business-type activities	<u>\$ 12,443</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 7. Long-Term Liabilities

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

Governmental Activities:	Balance 06/30/19	Additions	Retirements	Balance 06/30/20	Current Portion
Accrued compensated absences	\$ 183,770	\$ 10,157	\$ -	\$ 193,927	\$ 19,393
Net pension/OPEB liabilities	7,876,536	770,328	60,124	8,586,740	-
Capital leases	623,345	-	141,922	481,423	146,447
Landfill monitoring costs	4,884	-	325	4,559	325
Total other long-term liabilities	<u>8,688,535</u>	<u>780,485</u>	<u>202,371</u>	<u>9,266,649</u>	<u>166,165</u>
Public Offering Revenue Bonds:					
Pledged revenue bonds, series 2017	1,875,000	-	50,000	1,825,000	55,000
Bond premium	78,639	-	2,808	75,831	2,809
Net bonds payable	<u>1,953,639</u>	<u>-</u>	<u>52,808</u>	<u>1,900,831</u>	<u>57,809</u>
Total governmental activities long-term liabilities	<u>\$ 10,642,174</u>	<u>\$ 780,485</u>	<u>\$ 255,179</u>	<u>\$ 11,167,480</u>	<u>\$ 223,974</u>
Business Type Activities:					
Accrued compensated absences	\$ -	\$ 4,562	-	\$ 4,562	\$ 456
Capital leases	210,000	-	18,427	191,573	18,553
Total business type long-term liabilities	<u>\$ 210,000</u>	<u>\$ 4,562</u>	<u>\$ 18,427</u>	<u>\$ 196,135</u>	<u>\$ 19,009</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 7. Long-Term Liabilities, Continued

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

The City has no unused lines of credit as of June 30, 2020.

Other than pledged revenues for the series 2017 revenue bonds as noted in the schedule on the following page, none of the City's bonds contain pledged assets, finance related events of default finance related termination events, acceleration clauses, and/or subjective acceleration clauses.

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

Net pension liabilities consist of Arizona State Retirement System and Public Safety Personnel Retirement System liabilities. See footnote 9 for more information. Each governmental funds' liability for net pension liabilities is liquidated by the respective fund, the majority of which is the general fund.

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

Revenue Bonds:

Pledged Revenue and Revenue Refunding Bonds, Series 2017 due in annual principal and semi-annual interest installments, bearing interest at 3% to 4%, maturing July 1, 2047.	\$ 1,825,000
Bond premiums	<u>75,831</u>
Total bonds payable	1,900,831
Less: current portion	<u>(57,809)</u>
Total Revenue Bonds net of current portion	<u><u>\$ 1,843,022</u></u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 7. Long-Term Liabilities, Continued

Revenue Bonds debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2021	\$ 55,000	\$ 68,125	\$ 123,125
2022	55,000	66,200	121,200
2023	55,000	64,000	119,000
2024	60,000	61,700	121,700
2025	60,000	59,300	119,300
2026-2030	340,000	257,300	597,300
2031-2035	330,000	185,900	515,900
2036-2040	290,000	128,700	418,700
2041-2045	345,000	72,188	417,188
2046-2047	235,000	12,512	247,512
Total	<u>\$ 1,825,000</u>	<u>\$ 975,925</u>	<u>\$ 2,800,925</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 8. Capital Leases Payable

The Town entered into lease agreements, which are considered capital leases in accordance with Generally Accepted Accounting Principles. The following is an annual schedule of future minimum lease payments with the interest of 3.2-6.99%, together with the present value of the net minimum lease payments:

June 30,	Governmental Activities	Business-Type Activities
2021	\$ 166,701	\$ 26,551
2022	170,510	26,551
2023	155,231	26,551
2024	12,801	26,551
2025	12,803	26,551
2026-2030	-	68,135
2031-2034	-	41,584
Total remaining lease payments	518,046	242,474
Less amount representing interest	<u>(36,623)</u>	<u>(50,901)</u>
Present value of net remaining minimum lease payments	<u>\$ 481,423</u>	<u>\$ 191,573</u>

A summary of assets acquired through capital leases follows:

Governmental Activities	<u>Cost</u>	<u>Accumulated Depreciation</u>
Machinery & equipment	\$ 927,945	\$ (318,723)
Total	<u>\$ 927,945</u>	<u>\$ (318,723)</u>
Business-Type Activities	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 54,550	\$ -
Buildings and improvements	7,356	(531)
Improvements other than buildings	48,254	(2,614)
Machinery & equipment	66,411	(4,829)
Vehicles	35,000	(3,792)
Total	<u>\$ 211,571</u>	<u>\$ (11,766)</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits

The Town contributes to the Arizona State Retirement System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2020, the Town reported the following aggregate amounts related to pensions for plans to which it contributes:

<u>Statement of Net Position and Statement of Activities</u>	<u>ASRS</u>	<u>PSPRS</u>	<u>Governmental Activities Total</u>
Net OPEB asset	\$ 4,792	\$ -	\$ 4,792
Net pension liabilities	2,472,243	6,018,029	8,490,272
Net OPEB liabilities	11,224	85,244	96,468
Deferred outflows of resources	446,978	1,002,210	1,449,188
Deferred inflows of resources	284,765	218,850	503,615
Pension/OPEB expense	332,761	811,756	1,144,517

The Town reported \$544,200 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – Town employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

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

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

* With actuarially reduced benefits.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members' annual covered payroll. In addition, the Town was required by statute to contribute at the actuarially determined rate of 10.41 percent (10.29 percent for retirement, 0.05 percent for health insurance premium benefit, and 0.07 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the ASRS would typically fill.

The Town's contributions for the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2020, were \$212,167, \$9,080, and \$3,150, respectively.

Liability – At June 30, 2020, the Town reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	\$ 2,472,243
Health insurance premium benefit	(4,792)
Long-term disability	11,224

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

The net asset and net liabilities were measured as of June 30, 2019. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019.

The Town's proportion of the net asset or net liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The Town's proportions measured as of June 30, 2019, and the change from its proportions measured as of June 30, 2018, were:

	Proportion June 30, 2018	Proportion June 30, 2019	Increase (decrease) from June 30, 2018
Pension	0.01817%	0.01699%	-0.00118%
Health insurance premium benefit	0.01851%	0.01734%	-0.00117%
Long-term disability	0.01821%	0.01723%	-0.00098%

Expense – For the year ended June 30, 2020, the Town recognized the following pension and OPEB expense:

	Pension/OPEB Expense
Pension	\$ 322,993
Health insurance premium benefit	6,043
Long-term disability	3,725

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

Deferred outflows/inflows of resources—At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-Term Disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,662	\$ 465	\$ -	\$ 5,728	\$ 1,326	\$ -
Changes of assumptions or other inputs	10,450	98,450	9,424	-	1,679	-
Net difference between projected and actual earnings on pension plan investments	-	55,567	-	6,232	-	239
Changes in proportion and differences between contributions and proportionate share of contributions	153,996	117,690	128	6	916	388
Contributions subsequent to the measurement date	212,167	-	9,080	-	3,150	-
Total	\$ 421,275	\$ 272,172	\$ 18,632	\$ 11,966	\$ 7,071	\$ 627

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30,	Pension	Health Insurance Premium Benefit	Long-term disability
2021	\$ 53,025	\$ (2,041)	\$ 368
2022	(120,300)	(2,040)	367
2023	(10,671)	619	601
2024	14,882	1,183	643
2025	-	(135)	554
Thereafter	-	-	761

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Totals	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

Sensitivity of the proportionate share of the net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the Town's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5 percent, as well as what the Town's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of			
Net pension liability	\$ 3,518,574	\$ 2,472,243	\$ 1,597,779
Net insurance premium benefit liability (asset)	24,274	(4,792)	(29,557)
Net long-term disability liability	12,422	11,224	10,063

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

Public Safety Personnel Retirement System (PSPRS)

Plan description – Town police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2018, participate in the agent plans, and those who became PSPRS members on or after July 1, 2018, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool) which are not further discussed because of their relative insignificant to the Town's financial statements.

The PSPRS issues a publically available financial report that includes financial statements and required supplementary information for the PSPRS plan. The report is available on the PSPRS website at www.psprs.com

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

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

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

Employees covered by benefit terms – At June 30, 2020, the following employees were covered by the agent plans’ benefit terms:

PSPRS - Police	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	13	13
Inactive employees entitled to but not yet receiving benefits	4	0
Active employees	7	7
Total	24	20

Contributions – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2020, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Active member - Pension	City - Pension	City-Health insurance premium
PSPRS Police	7.65-11.65%	48.00%	1.79%
PSPRS Tier 3 risk pool	10.01%	9.80%	0.21%

In addition, statute required the Town to contribute at the actuarially determined rate of 37.3% of the annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the PSPRS would typically fill and employees participating in the PSPRS Tier 3 Risk Pool in addition to the Town’s required contributions to the PSPRS Tier 3 Risk Pool.

The Town’s contributions to the plans for the year ended June 30, 2020 were:

	Pension	Health Insurance Premium Benefit
PSPRS	\$ 228,415	\$ 9,683
PSPRS Tier 3 risk pool	78,553	3,153

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

During the fiscal year 2020, the Town paid for PSPRS pension and OPEB contributions 100% from the general fund.

Liability – At June 30, 2020, the Town reported the following assets and liabilities.

	<u>Net pension (asset) liability</u>	<u>Net OPEB (asset) liability</u>
PSPRS Police	\$ 6,018,029	\$ 85,244

The net assets and net liabilities were measured as of June 30, 2019, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Investment rate of return	7.3%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price Inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	16%	4.75%
Total	<u>100.00%</u>	

Discount Rate – At June 30, 2019, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.30 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

Changes in the Net Pension/OPEB Liability

PSPRS-Police	Pension			Health insurance premium benefit		
	Increase (decrease)			Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019	\$ 7,688,799	\$ 2,504,345	\$ 5,184,454	\$ 231,947	\$ 83,456	\$ 148,491
Adjustment to beginning of year		(8,115)	8,115		8,115	(8,115)
Changes for the year:						
Service cost	131,207	-	131,207	2,925	-	2,925
Interest on total pension/OPEB liability	561,707	-	561,707	16,861	-	16,861
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	485,225	-	485,225	(64,572)	-	(64,572)
Changes of assumptions	198,620	-	198,620	3,167	-	3,167
Contributions - employer	-	370,470	(370,470)	-	9,226	(9,226)
Contributions - employee	-	49,158	(49,158)	-	-	-
Net investment income	-	135,005	(135,005)	-	4,362	(4,362)
Benefit payments, including refunds of employee contributions	(458,753)	(458,753)	-	(14,037)	(14,037)	-
Plan administrative expenses	-	(3,334)	3,334	-	(75)	75
Other changes*	-	-	-	-	-	-
Net changes	918,006	92,546	825,460	(55,656)	(524)	(55,132)
Balances at June 30, 2020	\$ 8,606,805	\$ 2,588,776	\$ 6,018,029	\$ 176,291	\$ 91,047	\$ 85,244

Sensitivity of the Town's net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the Town's net pension/OPEB (assets) liabilities calculated using the discount rate of 7.3 percent, as well as what the Town's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% Decrease (6.30%)	Discount Rate (7.30%)	1% Increase (8.30%)
PSPRS-Police			
Net pension (asset) / liability	\$ 7,101,170	\$ 6,018,029	\$ 5,133,034
Net OPEB (asset)/ liability	103,189	85,244	70,052

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 9. Pensions and Other Postemployment Benefits, Continued

Expense – For the year ended June 30, 2020, the Town recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	\$ 810,285	\$ 1,471

Deferred outflows/inflows of resources – At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

PSPRS - Police	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 355,811	\$ 168,775	\$ 10,931	\$ 48,429
Changes in assumptions	273,367	-	2,376	1,646
Net difference between projected and actual earnings on pension/OPEB plan investments	39,910	-	12	-
Contributions subsequent to the measurement date	306,967	-	12,836	-
Total	\$ 976,055	\$ 168,775	\$ 26,155	\$ 50,075

The amounts reported as deferred outflows of resources related to PSPRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year Ended June 30	PSPRS - Police	
	Pension	Health Insurance Premium Benefit
2021	\$ 318,307	\$ (12,392)
2022	179,473	(12,253)
2023	(7,216)	(12,438)
2024	9,749	327
2025	-	-
Thereafter	-	-

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2020

Note 10. Risk Management

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

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

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

Note 11. Contingencies

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

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

The COVID-19 outbreak has caused business disruptions and has had an economic impact on most of the United States. The Town may be impacted in some manner but the extent is uncertain and cannot be estimated at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2020

ASRS - Pension	Reporting Fiscal Year (Measurement Date)					
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.016990%	0.018170%	0.015230%	0.015500%	0.016210%	0.017325%
Proportionate share of the net pension liability (asset)	\$ 2,472,243	\$ 2,534,076	\$ 2,372,537	\$ 2,501,856	\$ 2,525,107	\$ 2,563,253
Covered payroll	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748	\$ 1,444,948	\$ 1,492,080	\$ 1,545,034
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	138.27%	146.10%	160.01%	173.15%	169.23%	165.90%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2020

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)			
	2020	2019	2018	2017
	(2019)	(2018)	(2017)	(2016)
Proportion of the net OPEB (asset)	0.017340%	0.018510%	0.015410%	0.015410%
Proportionate share of the net OPEB (asset)	\$ (4,792)	\$ (6,662)	\$ (8,389)	\$ 4,456
Covered payroll	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748	\$ 1,444,948
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.27%	-0.38%	-0.57%	0.31%
Plan fiduciary net position as a percentage of the total OPEB liability	101.62%	102.20%	103.57%	98.02%

ASRS - Long-term disability	Reporting Fiscal Year (Measurement Date)			
	2020	2019	2018	2017
	(2019)	(2018)	(2017)	(2016)
Proportion of the net OPEB (asset)	0.017230%	0.018210%	0.015280%	0.015280%
Proportionate share of the net OPEB (asset)	\$ 11,224	\$ 9,515	\$ 5,539	\$ 5,491
Covered payroll	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748	\$ 1,444,948
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.63%	0.55%	0.37%	0.38%
Plan fiduciary net position as a percentage of the total OPEB liability	72.85%	77.83%	84.44%	85.17%

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

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2020

PSPRS Police - Pension	Reporting Fiscal Year (Measurement Date)					
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability						
Service cost	\$ 131,207	\$ 134,501	\$ 160,918	\$ 118,486	\$ 125,205	\$ 117,492
Interest on total pension liability	561,707	561,746	516,687	505,576	485,413	362,813
Changes of benefit terms	-	-	134,635	(180,718)	-	227,203
Difference between expected and actual experience of the total net pension liability	485,225	(317,901)	37,688	111,434	22,866	277,339
Changes of assumptions	198,620	-	285,573	268,033	-	945,302
Benefit payments, including refunds of employee contributions	(458,753)	(426,912)	(413,682)	(376,953)	(369,607)	(374,824)
Net change in total pension liability	918,006	(48,566)	721,819	445,858	263,877	1,555,325
Total pension liability - beginning	7,688,799	7,737,365	7,015,546	6,569,688	6,305,811	4,750,486
Total pension liability - ending (a)	\$ 8,606,805	\$ 7,688,799	\$ 7,737,365	\$ 7,015,546	\$ 6,569,688	\$ 6,305,811
Plan fiduciary net position						
Contributions - employer	\$ 370,470	\$ 409,080	\$ 372,025	\$ 388,358	\$ 274,652	\$ 300,744
Contributions - employee	49,158	59,887	74,896	80,710	72,855	66,534
Net investment income	135,005	162,773	253,122	12,011	69,641	222,689
Benefit payments, including refunds of employee contributions	(458,753)	(426,912)	(413,682)	(376,953)	(369,607)	(374,824)
Hall/Parker Settlement	-	(117,844)	-	-	-	-
Administrative Expense	(3,334)	(3,177)	(2,640)	(2,129)	(2,081)	-
Other (net transfer)	-	28	25	89,353	(6,639)	40,316
Net change in plan fiduciary net position	92,546	83,835	283,746	191,350	38,821	255,459
Adjustment to beginning of year	(8,115)					
Plan fiduciary net position - beginning	2,504,345	2,420,510	2,136,764	1,945,414	1,906,593	1,651,134
Plan fiduciary net position - ending (b)	\$ 2,588,776	\$ 2,504,345	\$ 2,420,510	\$ 2,136,764	\$ 1,945,414	\$ 1,906,593
Net pension liability - ending (a) - (b)	\$ 6,018,029	\$ 5,184,454	\$ 5,316,855	\$ 4,878,782	\$ 4,624,274	\$ 4,399,218
Plan fiduciary net position as a percentage of the total pension liability	30.08%	32.57%	31.28%	30.46%	29.61%	30.24%
Covered payroll	\$ 443,934	\$ 680,329	\$ 704,852	\$ 621,324	\$ 682,144	\$ 655,491
Net pension liability as a percentage of covered payroll	1355.61%	762.05%	754.32%	785.22%	677.90%	671.13%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2020

PSPRS Police Health Insurance Premium Benefit	Reporting Fiscal Year (Measurement Date)		
	2020 (2019)	2019 (2018)	2018 (2017)
Total OPEB liability			
Service cost	\$ 2,925	\$ 3,061	\$ 3,806
Interest on total OPEB liability	16,861	15,292	15,533
Changes of benefit terms	-	-	78
Difference between expected and actual experience of the total net OPEB liability	(64,572)	18,922	539
Changes of assumptions or other inputs	3,167	-	(4,352)
Benefit payments	(14,037)	(20,882)	(10,517)
Net change in total OPEB liability	(55,656)	16,393	5,087
Total OPEB liability - beginning	231,947	215,554	210,467
Total OPEB liability - ending (a)	\$ 176,291	\$ 231,947	\$ 215,554
 Plan fiduciary net position			
Contributions - employer	\$ 9,226	\$ 2,998	\$ 8,978
Net investment income	4,362	-	10,095
Benefit payments	(14,037)	6,120	(10,517)
Administrative expense	(75)	(20,882)	(90)
Other changes	-	(93)	-
Net change in plan fiduciary net position	(524)	(11,857)	8,466
Adjustment to beginning of year	8,115		
Plan fiduciary net position - beginning	83,456	95,313	86,847
Plan fiduciary net position - ending (b)	\$ 91,047	\$ 83,456	\$ 95,313
 Net OPEB liability - ending (a) - (b)	\$ 85,244	\$ 148,491	\$ 120,241
 Plan fiduciary net position as a percentage of the total OPEB liability	51.65%	35.98%	44.22%
 Covered payroll	\$ 443,934	\$ 680,329	\$ 704,852
 Net OPEB (asset) liability as a percentage of covered payroll	19.20%	21.83%	17.06%

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

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Pension and OPEB Contributions
June 30, 2020

ASRS - Pension	Reporting Fiscal Year						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 212,167	\$ 200,356	\$ 196,898	\$ 160,163	\$ 157,461	\$ 162,602	\$ 167,106
Contributions in relation to the contractually required contribution	\$ (212,167)	\$ (200,356)	\$ (196,898)	\$ (160,163)	\$ (157,461)	\$ (162,602)	\$ (167,106)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,856,043	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748	\$ 1,444,948	\$ 1,492,080	\$ 1,545,034
Contributions as a percentage of covered payroll	11.43%	11.21%	11.35%	10.80%	10.90%	10.90%	10.82%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Pension and OPEB Contributions
June 30, 2020

ASRS - Health insurance premium benefit	Reporting Fiscal Year			
	2020	2019	2018	2017
Contractually required contribution	\$ 9,080	\$ 8,211	\$ 7,939	\$ 8,297
Contributions in relation to the contractually required contribution	(9,080)	(8,211)	(7,939)	(8,297)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,856,043	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748
Contributions as a percentage of covered payroll	0.49%	0.46%	0.46%	0.56%
ASRS - Long-term disability				
ASRS - Long-term disability	Reporting Fiscal Year			
	2020	2019	2018	2017
Contractually required contribution	\$ 3,150	\$ (2,863)	\$ 2,889	\$ 2,078
Contributions in relation to the contractually required contribution	(3,150)	2,863	(2,889)	(2,078)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,856,043	\$ 1,787,975	\$ 1,734,509	\$ 1,482,748
Contributions as a percentage of covered payroll	0.17%	-0.16%	0.17%	0.14%

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

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Pension and OPEB Contributions
June 30, 2020

PSPRS Police-Pensions	Reporting Fiscal Year						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 306,967	\$ 380,189	\$ 409,080	\$ 372,025	\$ 388,358	\$ 274,652	\$ 300,744
Contributions in relation to the actuarially determined contribution	\$ (306,967)	\$ (380,189)	\$ (409,080)	\$ (372,025)	\$ (388,358)	\$ (274,652)	\$ (300,744)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 694,678	\$ 443,934	\$ 680,329	\$ 704,852	\$ 621,324	\$ 682,144	\$ 655,491
Contributions as a percentage of covered payroll	44.19%	85.64%	60.13%	52.78%	62.50%	40.26%	45.88%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Pension and OPEB Contributions, Continued
June 30, 2020

PSPRS Police	Reporting Fiscal Year			
	2020	2019	2018	2017
Health Insurance Premium Benefit				
Actuarially determined contribution	\$ 12,836	\$ 12,081	\$ 2,998	\$ 8,978
Contributions in relation to the actuarially determined contribution	\$ (12,836)	\$ (12,081)	\$ (2,998)	\$ (8,978)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 694,678	\$ 443,934	\$ 680,329	\$ 704,852
Contributions as a percentage of covered payroll	1.85%	2.72%	0.44%	1.27%

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

See accompanying notes to pension/OPEB plan schedules.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Required Supplementary Information
Notes to the Pension/OPEB Plan Schedules
June 30, 2020

NOTE 1. Actuarially Determined Contribution Rates

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

Actuarial cost method	Entry Age Normal
Amortization Method	Level percent of pay, closed
Remaining Amortization Period as of the 2018 actuarial valuation	28 years for underfunded; 20 years for overfunded
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%-8.0% to 3.5%-7.5%. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5%. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF PINETOP-LAKESIDE, ARIZONA
Required Supplementary Information
Notes to the Pension/OPEB Plan Schedules
June 30, 2020

NOTE 2. Factors that Affect Trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS

General Fund

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

Special Revenue Funds

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

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share of motor fuel tax revenues which are set aside for the maintaining, repairing, and upgrading of streets.
- **Recreation and Tourism Fund** - This fund is used to account for revenues derived from specific taxes, grant or other restricted revenue sources. Town ordinances or Federal and state statutes specify the use and limitation of each revenue source
- **Grants Fund** – This fund is used to account for various federal and state grants and other contributions that are restricted for public safety, public works/streets, tourism and recreation, and community and economic development.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Budget and Actual
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes:				
Local sales tax	\$ 3,392,000	\$ 3,392,000	\$ 3,304,610	\$ (87,390)
Auto lieu tax	314,036	314,036	303,481	(10,555)
Franchise tax	225,000	225,000	242,871	17,871
Intergovernmental revenue	1,036,163	1,036,163	1,031,447	(4,716)
Licenses and permits	177,400	177,400	217,300	39,900
Charges for services	89,800	89,800	30,693	(59,107)
Fines and forfeitures	40,000	40,000	33,231	(6,769)
Interest	900	900	1,307	407
Miscellaneous	30,000	30,000	27,132	(2,868)
Total Revenues	<u>5,305,299</u>	<u>5,305,299</u>	<u>5,192,072</u>	<u>(113,227)</u>
EXPENDITURES:				
Current:				
General Government:				
General services	863,830	863,830	508,108	355,722
Town council	59,420	59,420	50,398	9,022
Town clerk	212,265	212,265	120,780	91,485
Town manager	197,580	197,580	198,213	(633)
Finance	283,900	283,900	273,962	9,938
Public Safety:				
Police	2,295,620	2,295,620	2,031,946	263,674
Magistrate	77,500	77,500	77,399	101
Public Works/Streets	920,275	920,275	915,312	4,963
Parks and recreation	384,075	384,075	339,298	44,777
Community & economic development	114,210	114,210	117,434	(3,224)
Total Expenditures	<u>5,408,675</u>	<u>5,408,675</u>	<u>4,632,850</u>	<u>775,825</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(103,376)</u>	<u>(103,376)</u>	<u>559,222</u>	<u>662,598</u>
Other Financing Sources (Uses):				
Sale of assets	30,000	30,000	-	(30,000)
Transfers out	(159,235)	(159,235)	(344,863)	(185,628)
Total Other Financing Sources (Uses)	<u>(129,235)</u>	<u>(129,235)</u>	<u>(344,863)</u>	<u>(215,628)</u>
Net change in fund balance	(232,611)	(232,611)	214,359	446,970
Fund Balance, Beginning of Year	<u>482,081</u>	<u>482,081</u>	<u>482,081</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 249,470</u>	<u>\$ 249,470</u>	<u>\$ 696,440</u>	<u>\$ 446,970</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Highway Users Revenue Fund
Special Revenue Fund
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Taxes	\$ 650,000	\$ 650,000	\$ 716,708	\$ 66,708
Intergovernmental revenue	848,099	848,099	979,655	131,556
Total Revenue	<u>1,498,099</u>	<u>1,498,099</u>	<u>1,696,363</u>	<u>198,264</u>
EXPENDITURES:				
Current:				
Public Works:				
Administration	27,025	27,025	26,871	154
Street maintenance	1,771,993	1,771,993	1,399,668	372,325
Street rehabilitation	35,000	35,000	279,541	(244,541)
Utilities	11,200	11,200	17,907	(6,707)
Capital Outlay	<u>8,000</u>	<u>8,000</u>	<u>16,407</u>	<u>(8,407)</u>
Total Expenditures	<u>1,853,218</u>	<u>1,853,218</u>	<u>1,740,394</u>	<u>112,824</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(355,119)</u>	<u>(355,119)</u>	<u>(44,031)</u>	<u>311,088</u>
Other Financing Sources (Uses):				
Sale of capital assets	25,000	25,000	-	(25,000)
Transfers out	<u>(175,890)</u>	<u>(175,890)</u>	<u>(272,641)</u>	<u>(96,751)</u>
Total Other Financing Sources (Uses):	<u>(150,890)</u>	<u>(150,890)</u>	<u>(272,641)</u>	<u>(121,751)</u>
Net change in fund balance	(506,009)	(506,009)	(316,672)	189,337
Fund Balance, Beginning of Year	<u>602,205</u>	<u>602,205</u>	<u>602,205</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 96,196</u>	<u>\$ 96,196</u>	<u>\$ 285,533</u>	<u>\$ 189,337</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Recreation and Tourism Fund
Special Revenue Fund
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 730,000	\$ 730,000	\$ 842,253	\$ 112,253
Charges for services	1,000	1,000	1,940	940
Interest earnings	-	-	5	5
Total Revenue	<u>731,000</u>	<u>731,000</u>	<u>844,198</u>	<u>113,198</u>
EXPENDITURES:				
Current:				
Tourism and recreation	647,180	647,180	616,662	30,518
Total Expenditures	<u>647,180</u>	<u>647,180</u>	<u>616,662</u>	<u>30,518</u>
Excess of Revenues				
Over (Under) Expenditures	<u>83,820</u>	<u>83,820</u>	<u>227,536</u>	<u>143,716</u>
Other Financing Sources (Uses):				
Sale of capital assets	5,000	5,000	-	(5,000)
Transfers out	<u>(441,480)</u>	<u>(441,480)</u>	<u>(154,218)</u>	<u>287,262</u>
Total Other Financing Sources (Uses):	<u>(436,480)</u>	<u>(436,480)</u>	<u>(154,218)</u>	<u>282,262</u>
Net change in fund balance	(352,660)	(352,660)	73,318	425,978
Fund Balance, Beginning of Year	<u>451,982</u>	<u>451,982</u>	<u>451,982</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 99,322</u>	<u>\$ 99,322</u>	<u>\$ 525,300</u>	<u>\$ 425,978</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Grants Fund
Special Revenue Fund
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 3,573,821	\$ 3,573,821	\$ 1,424,029	\$ (2,149,792)
Total Revenue	3,573,821	3,573,821	1,424,029	(2,149,792)
EXPENDITURES:				
Current:				
Public safety	381,000	381,000	279,153	101,847
Public works	2,126,821	2,126,821	1,224,412	902,409
Tourism and recreation	1,035,000	1,035,000	1,995	1,033,005
Economic development	31,000	31,000	-	31,000
Total Expenditures	3,573,821	3,573,821	1,505,560	2,068,261
Excess of Revenues Over (Under) Expenditures	-	-	(81,531)	(81,531)
Other Financing Sources (Uses):				
Transfers in	-	-	133,653	133,653
Total Other Financing Sources	-	-	133,653	133,653
Net change in fund balances	-	-	52,122	52,122
Fund Balance, Beginning of Year	13,343	13,343	13,343	-
Fund Balance, End of Year	\$ 13,343	\$ 13,343	\$ 65,465	\$ 52,122

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS

Capital Projects Funds

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

- **Capital Projects Fund** – This fund is used to account for major capital asset purchases and capital projects.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Capital Projects Fund
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Investment earnings	\$ -	\$ -	\$ 19	\$ 19
Donations	1,660,000	1,660,000	1,635,000	(25,000)
Total Revenue	<u>1,660,000</u>	<u>1,660,000</u>	<u>1,635,019</u>	<u>(24,981)</u>
EXPENDITURES:				
Capital Outlay	2,008,651	2,008,651	1,861,609	147,042
Debt Service:				
Principal	329,310	329,310	191,922	137,388
Interest	98,644	98,644	98,644	-
Bond issuance costs	-	-	1,050	(1,050)
Total Expenditures	<u>2,436,605</u>	<u>2,436,605</u>	<u>2,153,225</u>	<u>283,380</u>
Excess of Revenues Over (Under) Expenditures	<u>(776,605)</u>	<u>(776,605)</u>	<u>(518,206)</u>	<u>258,399</u>
Other Financing Sources (Uses):				
Transfers in	<u>776,605</u>	<u>776,605</u>	<u>534,431</u>	<u>(242,174)</u>
Total Other Financing Sources (Uses):	<u>776,605</u>	<u>776,605</u>	<u>534,431</u>	<u>(242,174)</u>
Net Change in Fund Balance	-	-	16,225	16,225
Fund Balance, Beginning of Year	<u>92,473</u>	<u>92,473</u>	<u>92,473</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 92,473</u></u>	<u><u>\$ 92,473</u></u>	<u><u>\$ 108,698</u></u>	<u><u>\$ 16,225</u></u>

SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS
AND BUDGETARY COMPARISON SCHEDULES

Non-major Governmental Funds

Capital Projects Funds

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

- **Development Impact Fees Capital Projects Fund** – This fund is used to account for Library, Parks, Police, Street, and General Government impact fees restricted or earmarked for development of the respective capital improvements.
- **Acquisition and Development Fund** – This fund is used for community and economic development projects, debt service on recreational facilities and the acquisition and construction of major capital facilities other than those funded by user fees and proprietary funds and trust funds.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2020

	<u>Development Impact Fee Fund</u>	<u>Acquisition & Development Fund</u>	<u>Total</u>
Assets			
Cash	\$ 182,749	\$ 45,136	\$ 227,885
Total Assets	<u>\$ 182,749</u>	<u>\$ 45,136</u>	<u>\$ 227,885</u>
Liabilities			
Accounts payable	\$ 4,385	\$ -	\$ 4,385
Unearned revenue	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Total Liabilities	<u>4,385</u>	<u>35,000</u>	<u>39,385</u>
Fund Balance			
Restricted for:			
Public Safety	15,531	-	15,531
Highways and streets	38,953	-	38,953
Community and economic development	123,880	-	123,880
Assigned for :			
Community and economic development	<u>-</u>	<u>10,136</u>	<u>10,136</u>
Total Fund Balances	<u>178,364</u>	<u>10,136</u>	<u>188,500</u>
Total Liabilities and Fund Balances	<u>\$ 182,749</u>	<u>\$ 45,136</u>	<u>\$ 227,885</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Fiscal Year Ended June 30, 2020

REVENUES	Development Impact Fee Fund	Acquisition & Development Fund	Total
Interest	\$ 4	\$ 1	\$ 5
Impact fees	90,541	-	90,541
Total Revenues	<u>90,545</u>	<u>1</u>	<u>90,546</u>
EXPENDITURES			
Current:			
Capital outlay	<u>57,159</u>	<u>-</u>	<u>57,159</u>
Total Expenditures	<u>57,159</u>	<u>-</u>	<u>57,159</u>
Excess of Revenues Over (Under) Expenditures	<u>33,386</u>	<u>1</u>	<u>33,387</u>
Fund Balances, Beginning of Year	<u>144,978</u>	<u>10,135</u>	<u>155,113</u>
Fund Balances, End of Year	<u>\$ 178,364</u>	<u>\$ 10,136</u>	<u>\$ 188,500</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Development Impact Fee Fund
Capital Projects Fund
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 32,000	\$ 32,000	\$ 90,541	\$ 58,541
Interest	-	-	4	4
Total Revenue	<u>32,000</u>	<u>32,000</u>	<u>90,545</u>	<u>58,545</u>
EXPENDITURES:				
Capital Outlay	<u>32,000</u>	<u>32,000</u>	<u>57,159</u>	<u>(25,159)</u>
Total Expenditures	<u>32,000</u>	<u>32,000</u>	<u>57,159</u>	<u>(25,159)</u>
Excess of Revenues Over (Under) Expenditures	-	-	33,386	33,386
Fund Balance, Beginning of Year	<u>144,978</u>	<u>144,978</u>	<u>144,978</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 144,978</u></u>	<u><u>\$ 144,978</u></u>	<u><u>\$ 178,364</u></u>	<u><u>\$ 33,386</u></u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Acquisition & Development
Capital Projects Fund
Budget and Actual
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Investment earnings	\$ -	\$ -	\$ 1	\$ 1
Total Revenue	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
EXPENDITURES:				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	-	-	1	1
Fund Balance, Beginning of Year	<u>10,135</u>	<u>10,135</u>	<u>10,135</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 10,135</u></u>	<u><u>\$ 10,135</u></u>	<u><u>\$ 10,136</u></u>	<u><u>\$ 1</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	81
<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	86
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity	88
<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.....	92
<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	93
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs</i>	

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Governmental activities										
Net investment in capital assets	\$ 5,218,619	\$ 5,880,494	\$ 6,005,581	\$ 5,734,415	\$ 5,295,494	\$ 5,572,726	\$ 5,143,699	\$ 6,325,201	\$ 6,824,075	\$ 9,923,564
Restricted	852,357	667,609	788,771	194,130	300,409	589,590	479,647	445,077	757,621	475,779
Unrestricted	68,198	(58,958)	(463,612)	171,629	(5,216,205)	(5,635,914)	(5,100,632)	(5,300,047)	(6,217,842)	(6,481,495)
Total governmental activities net position	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740	\$ 6,100,174	\$ 379,698	\$ 526,402	\$ 522,714	\$ 1,470,231	\$ 1,363,854	\$ 3,917,848
Business-type activities										
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 636	\$ 32,727
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	(13,266)	(14,738)
Total business-type activities net position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,630)	\$ 17,989
Primary government										
Net investment in capital assets	\$ 5,218,619	\$ 5,880,494	\$ 6,005,581	\$ 5,734,415	\$ 5,295,494	\$ 5,572,726	\$ 5,143,699	\$ 6,325,201	\$ 6,824,711	\$ 9,956,291
Restricted	852,357	667,609	788,771	194,130	300,409	589,590	479,647	445,077	757,621	475,779
Unrestricted	68,198	(58,958)	(463,612)	171,629	(5,216,205)	(5,635,914)	(5,100,632)	(5,300,047)	(6,231,108)	(6,496,233)
Total primary government net position	\$ 6,139,174	\$ 6,489,145	\$ 6,330,740	\$ 6,100,174	\$ 379,698	\$ 526,402	\$ 522,714	\$ 1,470,231	\$ 1,351,224	\$ 3,935,837

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

Expenses	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Governmental activities:										
General government	\$ 1,263,351	\$ 1,235,522	\$ 1,240,409	\$ 1,152,393	\$ 1,025,609	\$ 1,327,775	\$ 1,198,079	\$ 1,261,387	\$ 1,425,548	\$ 1,391,933
Public safety	2,038,235	2,091,653	2,239,765	2,362,975	2,655,844	2,490,393	2,363,177	2,829,418	2,892,140	2,855,218
Public works/Streets	757,453	1,143,070	790,877	943,183	823,575	1,002,330	1,490,644	2,019,910	2,258,835	2,686,500
Culture and recreation	947,880	995,126	1,132,279	1,282,073	1,001,255	967,222	866,281	689,889	1,067,555	1,066,822
Economic development	439,196	394,438	403,912	366,771	301,189	225,575	71,573	237,021	101,962	130,288
Interest on long-term debt	52,853	38,793	24,294	8,325	-	13,876	25,676	190,712	100,160	93,834
Total governmental activities expenses	<u>5,498,968</u>	<u>5,898,602</u>	<u>5,831,536</u>	<u>6,115,720</u>	<u>5,807,472</u>	<u>6,027,171</u>	<u>6,015,430</u>	<u>7,228,337</u>	<u>7,846,200</u>	<u>8,224,595</u>
Business-type activities:										
Solid waste	-	-	-	-	-	-	-	-	17,438	161,831
Total business-type activities expenses	<u>-</u>	<u>17,438</u>	<u>161,831</u>							
Total primary government expenses	<u>\$ 5,498,968</u>	<u>\$ 5,898,602</u>	<u>\$ 5,831,536</u>	<u>\$ 6,115,720</u>	<u>\$ 5,807,472</u>	<u>\$ 6,027,171</u>	<u>\$ 6,015,430</u>	<u>\$ 7,228,337</u>	<u>\$ 7,863,638</u>	<u>\$ 8,386,426</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 443,713	\$ 312,155	\$ 234,243	\$ 236,111	\$ 215,126	\$ 193,380	\$ 237,697	\$ 285,484	\$ 168,371	\$ 205,337
Public safety	51,755	83,198	91,322	75,839	52,519	62,000	61,207	75,810	181,360	57,172
Public works/Streets	-	-	-	-	-	-	-	-	-	-
Culture and recreation	23,175	24,818	23,237	22,517	40,966	32,307	37,748	46,515	50,488	29,134
Economic development	-	-	9,404	-	10	-	-	-	-	-
Operating grants and contributions	682,175	738,207	688,041	799,252	689,368	807,733	710,715	931,054	862,794	1,324,480
Capital grants and contributions	206,600	751,168	293,116	129,764	233,074	232,160	102,447	1,246,212	65,805	2,823,399
Total governmental activities program revenues	<u>1,407,418</u>	<u>1,909,546</u>	<u>1,339,363</u>	<u>1,263,483</u>	<u>1,231,063</u>	<u>1,327,580</u>	<u>1,149,814</u>	<u>2,585,075</u>	<u>1,328,818</u>	<u>4,439,522</u>
Business-type activities										
Charges for services:										
Solid waste	-	-	-	-	-	-	-	-	464	88,812
Total business-type activities program revenues	<u>-</u>	<u>464</u>	<u>88,812</u>							
Total primary government program revenues	<u>\$ 1,407,418</u>	<u>\$ 1,909,546</u>	<u>\$ 1,339,363</u>	<u>\$ 1,263,483</u>	<u>\$ 1,231,063</u>	<u>\$ 1,327,580</u>	<u>\$ 1,149,814</u>	<u>\$ 2,585,075</u>	<u>\$ 1,329,282</u>	<u>\$ 4,528,334</u>

(continued)

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net (expense)/revenue										
Governmental activities	\$ (4,091,550)	\$ (3,989,056)	\$ (4,492,173)	\$ (4,852,237)	\$ (4,576,409)	\$ (4,699,591)	\$ (4,865,616)	\$ (4,643,262)	\$ (6,517,382)	\$ (3,785,073)
Business-type activities	-	-	-	-	-	-	-	-	(16,974)	(73,019)
Total primary government net expense	<u>\$ (4,091,550)</u>	<u>\$ (3,989,056)</u>	<u>\$ (4,492,173)</u>	<u>\$ (4,852,237)</u>	<u>\$ (4,576,409)</u>	<u>\$ (4,699,591)</u>	<u>\$ (4,865,616)</u>	<u>\$ (4,643,262)</u>	<u>\$ (6,534,356)</u>	<u>\$ (3,858,092)</u>
General Revenues and Other										
Changes in Net Position										
Governmental activities:										
Taxes:										
Sales taxes	\$ 3,335,049	3,373,567	\$ 3,286,485	\$ 3,484,164	\$ 3,543,376	\$ 3,578,240	\$ 3,609,646	\$ 4,264,424	\$ 4,919,136	\$ 4,863,571
Franchise taxes	52,327	50,930	48,550	49,231	49,716	55,631	69,734	159,273	231,637	242,871
State revenue sharing	405,391	361,404	437,397	477,283	518,363	515,552	531,579	542,257	527,911	573,250
State sales taxes	319,406	334,597	350,490	372,717	391,327	404,308	397,955	410,416	439,263	458,196
Auto-in-lieu	215,174	213,147	210,755	218,764	225,562	245,717	258,797	277,435	295,007	303,481
Investment earnings	7,691	5,382	91	2,512	3,411	6,306	707	1,670	2,189	1,336
Other	-	-	-	-	-	40,541	(6,490)	49,518	(4,138)	(103,638)
Total governmental activities	<u>4,335,038</u>	<u>4,339,027</u>	<u>4,333,768</u>	<u>4,604,671</u>	<u>4,731,755</u>	<u>4,846,295</u>	<u>4,861,928</u>	<u>5,704,993</u>	<u>6,411,005</u>	<u>6,339,067</u>
Business-type activities:										
Investment earnings	-	-	-	-	-	-	-	-	206	-
Other	-	-	-	-	-	-	-	-	4,138	103,638
Total business-type activities	<u>-</u>	<u>4,344</u>	<u>103,638</u>							
Total primary government	<u>\$ 4,335,038</u>	<u>\$ 4,339,027</u>	<u>\$ 4,333,768</u>	<u>\$ 4,604,671</u>	<u>\$ 4,731,755</u>	<u>\$ 4,846,295</u>	<u>\$ 4,861,928</u>	<u>\$ 5,704,993</u>	<u>\$ 6,415,349</u>	<u>\$ 6,442,705</u>
Change in Net Position										
Governmental activities	\$ 243,488	\$ 349,971	\$ (158,405)	\$ (247,566)	\$ 155,346	\$ 146,704	\$ (3,688)	\$ 1,061,731	\$ (106,377)	\$ 2,553,994
Business-type activities	-	-	-	-	-	-	-	-	(12,630)	30,619
Total primary government	<u>\$ 243,488</u>	<u>\$ 349,971</u>	<u>\$ (158,405)</u>	<u>\$ (247,566)</u>	<u>\$ 155,346</u>	<u>\$ 146,704</u>	<u>\$ (3,688)</u>	<u>\$ 1,061,731</u>	<u>\$ (119,007)</u>	<u>\$ 2,584,613</u>

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
General fund										
Nonspendable	\$ 110,954	\$ 31,496	\$ 21,651	\$ 14,458	\$ 12,026	\$ 34,013	\$ 33,424	\$ 5,292	\$ -	\$ -
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	692,853	389,664	169,169	-	-	-
Unassigned	176,884	133,020	(272,671)	(254,888)	217,472	302,942	862,349	1,056,272	482,081	696,440
Total general fund	<u>\$ 287,838</u>	<u>\$ 164,516</u>	<u>\$ (251,020)</u>	<u>\$ (240,430)</u>	<u>\$ 922,351</u>	<u>\$ 726,619</u>	<u>\$ 1,064,942</u>	<u>\$ 1,061,564</u>	<u>\$ 482,081</u>	<u>\$ 696,440</u>
All other governmental funds										
Nonspendable:										
Prepays	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,148	\$ -	\$ -	\$ -
Restricted:										
Public safety	58,764	14,952	-	4,239	10,651	9,037	13,584	24,219	27,327	15,531
Highways and streets	614,218	537,341	671,045	819,951	440,620	420,213	387,829	330,956	616,863	324,486
Community and economic development	54,474	59,602	65,573	86,032	111,894	129,849	48,724	85,390	102,993	123,880
Other	124,901	55,714	52,153	6,021	30,323	30,491	19,510	4,512	10,438	11,882
Committed for:										
Tourism and recreation	20,203	20,593	-	-	-	-	270,493	426,670	451,982	525,300
Assigned for:										
Community and economic development	-	-	13	2,575	27,252	79,161	10,119	10,128	10,135	10,136
Other	-	-	-	-	145	-	23,600	81,336	95,378	162,281
Unassigned, reported in:										
Special revenue funds	-	-	(8,137)	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
	<u>\$ 872,560</u>	<u>\$ 688,202</u>	<u>\$ 780,647</u>	<u>\$ 918,818</u>	<u>\$ 620,885</u>	<u>\$ 668,751</u>	<u>\$ 784,007</u>	<u>\$ 963,211</u>	<u>\$ 1,315,116</u>	<u>\$ 1,173,496</u>

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues										
Taxes	\$ 3,335,050	\$ 3,373,568	\$ 3,286,485	\$ 3,484,164	\$ 3,543,376	\$ 3,578,244	\$ 3,609,645	\$ 4,541,859	\$ 5,214,143	\$ 5,167,052
Franchise taxes	52,327	50,930	48,550	49,231	49,716	55,631	69,734	159,273	231,637	242,871
Intergovernmental	1,666,312	1,920,673	1,952,454	1,942,947	1,902,646	2,099,580	1,933,054	1,906,395	1,848,341	3,435,131
Licenses, permits, and fees	106,442	93,428	126,153	141,228	127,540	110,028	153,108	201,378	176,085	217,300
Charges for services	109,367	109,043	119,806	107,562	104,633	103,339	105,904	72,332	36,781	32,633
Fines and forfeitures	49,720	82,131	53,239	47,674	43,474	51,068	45,958	42,190	39,582	33,231
Interest	7,681	5,382	91	2,512	3,411	6,304	707	1,671	1,983	1,336
Lease income	17,820	22,275	17,820	17,820	18,732	18,581	14,494	-	-	-
Impact fees	81,434	13,102	19,553	36,974	47,559	29,990	42,666	74,376	43,662	90,541
Other	316,291	127,241	48,981	38,043	121,730	80,569	42,962	110,905	151,747	1,662,132
Total Revenues	\$ 5,742,444	\$ 5,797,773	\$ 5,673,132	\$ 5,868,155	\$ 5,962,817	\$ 6,133,334	\$ 6,018,232	\$ 7,110,379	\$ 7,743,961	\$ 10,882,227
Expenditures										
Current:										
General government	\$ 1,135,419	\$ 1,142,334	\$ 1,149,334	\$ 1,045,142	\$ 1,025,155	\$ 1,365,521	\$ 1,260,878	\$ 1,309,197	\$ 1,365,667	\$ 1,151,461
Public safety	1,961,851	2,215,692	2,167,567	2,197,726	2,215,856	2,216,526	2,068,093	2,293,675	2,344,444	2,388,498
Public works/streets	600,760	985,898	822,572	604,730	637,870	841,805	1,270,020	1,942,811	2,109,243	3,863,711
Tourism and recreation	878,006	847,481	979,971	1,122,825	899,584	933,750	781,299	751,892	1,021,257	957,955
Community and economic development	437,464	394,736	406,802	439,094	290,996	343,656	96,876	266,058	149,665	117,434
Capital outlay	57,654	712,874	131,674	133,552	157,384	953,137	472,340	1,933,156	1,052,728	1,935,175
Debt service										
Principal	325,000	381,415	374,009	185,000	-	27,536	38,648	523,606	189,872	191,922
Interest and fiscal charges	52,853	38,793	24,294	8,325	-	13,876	25,676	150,686	100,556	99,694
Total expenditures	5,449,007	6,719,223	6,056,223	5,736,394	5,226,845	6,695,807	6,013,830	9,171,081	8,333,432	10,705,850
Revenues over (under) expenditures	293,437	(921,450)	(383,091)	131,761	735,972	(562,473)	4,402	(2,060,702)	(589,471)	176,377
Other finance sources (Uses)										
Proceeds of long-term debt issuance	-	613,770	60,000	-	128,876	372,857	-	2,180,211	366,031	-
Proceeds from sale of capital assets	-	-	-	-	-	41,750	449,177	56,317	-	-
Transfers in	451,603	428,686	537,635	402,969	693,293	573,309	261,896	744,416	865,700	668,084
Transfers out	(451,603)	(428,686)	(537,635)	(402,969)	(693,293)	(573,309)	(261,896)	(744,416)	(865,700)	(771,722)
Total other finance sources (uses)	-	613,770	60,000	-	128,876	414,607	449,177	2,236,528	366,031	(103,638)
Net change in fund balances	\$ 293,437	\$ (307,680)	\$ (323,091)	\$ 131,761	\$ 864,848	\$ (147,866)	\$ 453,579	\$ 175,826	\$ (223,440)	\$ 72,739
Debt service as a percentage of noncapital expenditures	7.07%	7.30%	6.98%	3.39%	0.00%	0.65%	1.15%	9.78%	4.11%	4.10%

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
2011	319,406	3,335,049	52,327	513,738	215,174	405,391
2012	334,597	3,373,567	50,930	429,242	213,147	361,404
2013	350,490	3,286,485	48,550	470,581	210,755	437,397
2014	372,717	3,484,164	49,231	494,840	218,764	477,283
2015	391,327	3,543,376	49,716	534,753	225,562	518,363
2016	404,308	3,587,540	55,631	568,921	245,717	515,552
2017	397,955	3,618,501	69,734	601,781	258,797	531,579
2018	410,416	4,263,316	159,273	608,381	277,435	542,257
2019	439,263	4,919,136	231,637	656,359	295,007	528,117
2020	458,196	4,863,571	242,871	849,976	303,481	573,251

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

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

	2014		2015		2016		2017		2018		2019		2020	
	Collections	% of Total	Collections	% of Total										
Communication & Utilities	305,623	8.8%	290,537	8.2%	283,598	7.9%	291,625	8.1%	307,251	7.2%	328,989	6.7%	340,520	7.0%
Construction	222,033	6.4%	218,496	6.2%	156,183	4.4%	175,226	4.8%	257,434	6.0%	220,628	4.5%	185,446	3.8%
Manufacturing	125,562	3.6%	150,686	4.3%	132,830	3.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Retail	1,293,976	37.1%	1,341,772	37.9%	1,424,764	39.7%	1,563,107	43.2%	1,719,631	40.3%	2,035,383	41.4%	2,007,834	41.3%
Real Estate Leasing	156,033	4.5%	159,388	4.5%	156,619	4.4%	110,195	3.0%	122,436	2.9%	146,280	3.0%	135,582	2.8%
Restaurant & Bar	768,373	22.1%	808,379	22.8%	843,104	23.5%	1,024,428	28.3%	1,178,314	27.6%	1,382,606	28.1%	1,434,940	29.5%
Accommodation	245,388	7.0%	248,587	7.0%	289,336	8.1%	376,258	10.4%	427,699	10.0%	534,594	10.9%	511,868	10.5%
Services	182,574	5.2%	143,359	4.0%	96,195	2.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
All Other	184,602	5.3%	182,172	5.1%	204,911	5.7%	77,662	2.1%	250,551	5.9%	270,656	5.5%	247,481	5.1%
Total	3,484,164	100.0%	3,543,376	100.0%	3,587,540	100.0%	3,618,501	100.0%	4,263,316	100.0%	4,919,136	100.0%	4,863,671	100.0%
	6.01%		1.70%		1.25%		0.86%		17.82%		15.38%		-1.13%	
	up from prior year		up from prior year		up from prior year		up from prior year		up from prior year		up from prior year		down from prior year	

Source: Arizona Department of Revenue

Note: Fiscal Year 2012 amounts reflect receipts through July 2012

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

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

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

Fiscal Year	Governmental Activities			Business-Type Activities	Total Primary Government	Percentage of Personal Income	Population	Per Capita ⁽¹⁾
	Revenue Bonds	General Obligaion Debt	Capital Leases	Capital Leases				
2011	875,000	-	-	-	875,000	31.00%	4,269	205
2012	540,000	-	560,741	-	1,100,741	37.90%	4,303	256
2013	185,000	-	56,102	-	241,102	8.07%	4,389 *	55
2014	-	-	497,043	-	497,043	16.16%	4,303 *	116
2015	-	-	604,330	-	604,330	19.10%	4,370 *	138
2016	-	-	890,325	-	890,325	28.23%	4,402 *	202
2017	-	-	796,554	-	796,554	24.62%	4,463 *	178
2018	1,986,448	-	454,455	-	2,440,903	75.44%	4,545 *	537
2019	1,953,639	-	623,345	210,000	2,786,984	84.06%	4,563 *	611
2020	1,900,831	-	481,423	191,573	2,573,827	72.45%	4,557 *	565

* 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	\$ 24,266,189	21.4%	\$ 5,192,964
Pinetop-Lakeside Sanitary District	-	79.0%	-
Pinetop Fire District	3,734,417	85.0%	3,174,254
Timber Mesa Fire District	4,958,191	31.0%	1,537,039
Subtotal, overlapping debt			9,904,258
Town direct debt			2,573,827
Total direct and overlapping debt			\$ 12,478,085

(1) Includes general obligation bonds outstanding

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

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

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

Municipal Property Corporation Bonds Payable

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2011	4,282,715	165,000	31,165	196,165	21.83
2012	4,285,127	170,000	23,905	193,905	22.10
2013	4,552,928	180,000	16,425	196,425	23.18
2014	4,678,628	185,000	8,325	193,325	24.20
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-

GADA Loan

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2011	4,282,715	160,000	21,688	181,688	23.57
2012	4,285,127	165,000	14,888	179,888	23.82
2013	4,552,928	175,000	7,875	182,875	24.90
2014	4,678,628	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-

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

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

Calendar Year	Town of Pinetop-Lakeside Population (1)	Navajo County Population (2)	Personal Income Navajo County (2) (in thousands)	Navajo County Per Capita Personal Income	Pinetop-Lakeside Per Capita Income (3)	Pinetop-Lakeside Public School Enrollment (4)	Unemployment Averages (1)		
							Town of Pinetop-Lakeside	Navajo County	State of Arizona
2011	4,269 *	107,226	2,822,255	\$ 26,321	\$ 27,645	2,344	7.7%	16.0%	9.5%
2012	4,269 *	107,923	2,904,100	\$ 26,909	\$ 28,561	2,308	8.2%	15.1%	8.3%
2013	4,389	109,028	2,988,319	\$ 27,409	\$ 28,561	2,335	8.2%	14.8%	8.3%
2014	4,465 *	110,142	3,074,980	\$ 27,918	\$ 26,393	2,137	8.1%	15.5%	6.9%
2015	4,370 *	109,671	3,164,155	\$ 28,851	\$ 28,058	2,153	9.2%	9.0%	6.9%
2016	4,402 *	108,277	3,154,284	\$ 29,132	\$ 27,246	2,165	9.5%	9.5%	6.4%
2017	4,463 *	110,026	3,235,693	\$ 29,408	\$ 26,517	2,060	3.4%	7.6%	5.3%
2018	4,545 *	112,746	3,315,634	\$ 29,408	\$ 27,917	2,007	3.3%	5.8%	4.7%
2019	4,563 *	112,825	3,552,491	\$ 31,487	\$ 31,344	2,097	3.8%	6.9%	4.6%
2020	4,557 *	107,449	3,627,679	\$ 33,762	\$ 31,177	2,043	8.7%	9.5%	6.5%

(1) Source: WWW.AZSTATS.GOV

Arizona Department of Administration estimates.

* Population estimated except for 2010 Census.

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

Population estimated except for 2010 Census.

(3) Source: Arizona Department of Administration; Bureau of the Census American FactFinder

2003 and 2010 per capita income come from the Census Bureau, all other years are estimated.

(4) Source: AZ OAG reports

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

Function	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Government	14	12	12.5	12.5	12.5	12.85	12.35	12	10.5	11
Public Safety										
Officers	15	17	17	17	17	17	15	16	15	15
Civilians	8	7.5	7.5	7.5	7.5	7.5	8	6	2.5	3.5
Streets	7	6.5	5.5	5.5	5.5	7.65	8	10	7.5	8
Parks and Recreation	7	6.5	6.5	6.5	6.5	6.5	6	8.5	12	12
Library	5	5	5	5	5	5	4.5	5	5	5.5
Solid Waste	0	0	0	0	0	0	0	0	1.5	2
Total	<u>54.5</u>	<u>54.5</u>	<u>54.0</u>	<u>54.0</u>	<u>54.0</u>	<u>56.5</u>	<u>53.9</u>	<u>57.5</u>	<u>54.0</u>	<u>57.0</u>

Source: Town of Pinetop-Lakeside, Arizona

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Building Permits										
Residential	9	10	18	24	18	21	32	31	33	65
Commercial	1	1	0	1	2	2	2	2	2	2
Value of Construction										
Residential	\$ 2,545,000	\$ 3,313,000	\$ 4,725,000	\$ 6,165,000	\$ 5,053,000	\$ 4,115,000	\$ 6,516,000	\$ 8,953,000	\$ 9,866,500	\$ 16,804,000
Commercial	988,000	1,238,000	455,000	830,800	726,500	1,286,000	5,287,000	1,548,000	696,500	917,000
Total	\$ 3,533,000	\$ 4,551,000	\$ 5,180,000	\$ 6,995,800	\$ 5,779,500	\$ 5,401,000	\$ 11,803,000	\$ 10,501,000	\$ 10,563,000	\$ 17,721,000

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	45	45	45	45	45	45	45	45	45	45
Highways (Miles)	5	5	5	5	5	5	5	5	5	5
Traffic lights	6	6	6	6	6	6	6	6	6	6
Parks and Recreation										
Acreage	150	150	150	150	150	150	150	150	150	158
Playgrounds	3	3	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	4	4	4	4	4	4	4	4	4	4
Football and Soccer Fields	5	5	5	5	5	5	5	5	5	5

Source: Town of Pinetop-Lakeside, Arizona

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

Function	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Government										
Building Permits Issued	57	111	107	116	131	107	126	132	140	188
Building Inspections Conducted	10	10	18	25	20	23	32	32	33	65
Police										
Physical Arrests	599	529	387	395	395	494	557	1,008	639	436
Parking Violations	0	0	1	0	0	0	9	0	2	0
Traffic Violations	2,551	2,010	1,438	3,376	3,376	3,236	2,916	2,957	667	752
Calls for Service	9,752	10,787	7,991	8,209	8,209	9,241	10,037	13,525	4,623	4,682
Streets **										
Street Resurfacing (Miles)	2	2	10	1	1	9	2	10	13	0
Potholes Repaired	1,350	1,500	1,620	1,740	1,200	2,000	4,500	4,000	320	400
Street Sweeping (Miles)	1,135	1,135	1,135	1,135	1,135	1,135	1,550	2,000	211	275
Culture and recreation										
Parks acreage	148	148	148	148	148	148	148	148	148	158
Ball fields	7	7	7	7	7	7	7	7	7	7

Source: Town of Pinetop-Lakeside, Arizona

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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HINTONBURDICK
CPAs & ADVISORS

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

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type 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, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 11, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described

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

2016-001. Year-end Accounting

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



HintonBurdick, PLLC
Gilbert, Arizona
January 11, 2021



HINTONBURDICK
CPAs & ADVISORS

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

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona for the fiscal year ended June 30, 2020, and have issued our report thereon dated January 11, 2021. Our audit also included test work on the Town of Pinetop-Lakeside's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, the Town of Pinetop-Lakeside complied, in all material respects, with the requirements identified above for the fiscal year ended June 30, 2020.

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

HintonBurdick, PLLC
Gilbert, Arizona
January 11, 2021

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