

**TOWN OF PINETOP-LAKESIDE, ARIZONA**



**FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2008**  
**WITH REPORT OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

# TOWN OF PINETOP-LAKESIDE

## Table of Contents

<b>Financial Section:</b>	<u>Page</u>
Report of Certified Public Accountants .....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund - Budget-and-Actual .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Highway User Fund - Budget-and-Actual .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Tourism and Promotion Fund - Budget-and-Actual .....	18
Statement of Net Assets – Fiduciary Funds .....	19
Notes to Financial Statements .....	20
Required Supplemental Information – Public Safety Retirement System .....	40
Combining and Individual Fund Financial Statements.....	41
Federal and State Reports:	
Report on Compliance with Federal Laws and Regulations and Internal Control Structure .....	49
Report on Compliance with State Laws and Regulations .....	51

**THIS PAGE INTENTIONALLY LEFT BLANK**



---

## Independent Auditors' Report

The Honorable Mayor and  
Town Council  
Pinetop-Lakeside, Arizona

We have audited the accompanying financial statements of the governmental activities, the 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, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Pinetop-Lakeside's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Pinetop-Lakeside as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the general, highway user, and recreation and tourism special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, on our consideration of the Town of Pinetop-Lakeside's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and analysis at pages 3 to 9 and the Public Safety Personnel Retirement System information on page 40 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Pinetop-Lakeside, Arizona. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Michael K. Spilker", with a long horizontal flourish extending to the right.

Michael K. Spilker, CPA  
October 27, 2008

## **TOWN OF PINETOP-LAKESIDE, ARIZONA MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Town of Pinetop-Lakeside's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Town's financial statements, which begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The Town's net assets increased as a result of this year's operations.
- During the year, the Town had expenses that were \$663,178 less than the \$7,037,831 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$6,374,653 with no new programs added this year.
- At the end of the current fiscal year, the Town of Pinetop-Lakeside's governmental funds reported combined ending fund balances of \$1,822,117, a decrease of 520,734.
- The general fund reported a decrease in fund balance this year of \$788,524.

### **USING THIS ANNUAL REPORT**

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

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Pinetop-Lakeside's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* (page 10) presents information on all of the Town of Pinetop-Lakeside's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Pinetop-Lakeside is improving or deteriorating.

The *Statement of Activities* (page 11) provides information about the activities of the Town as a whole and present a longer-term view of the Town's finances. It presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements start on page 13. The Town of Pinetop-Lakeside, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Typically, municipal funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. All funds of the Town of Pinetop-Lakeside are categorized as governmental funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in

more detail than the government-wide statements by providing information about the Town's most significant funds.

These financial statements are presented under the reporting model required by Governmental Accounting Standards Board (GASB) statement number 34. Comparative data is presented for fiscal year 2007.

### **Reporting the Town as a Whole**

Our analysis of the Town as a whole begins on page 11. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These two statements report the Town's *net assets* and changes in them. You can think of the Town's net assets – the difference between assets and liabilities – as one way to measure the Town's financial health, or *financial position*. You will need to consider other non-financial factors, however, such as the condition of the Town's roads, to assess the *overall health* of the Town.

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

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

### **Reporting the Town's Most Significant Funds**

Our analysis of the Town's major funds begins on page 7. The fund statements begin on page 13 and provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes (like the Mountain Meadow Recreation Complex construction project) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's funds are all of the *governmental* type.

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

## The Town as a Whole

The Town's combined net assets increased from \$4,677,442 to \$5,340,620. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental activities.

**Table 1**  
**Net Assets**

	Governmental activities	
	<u>6/30/2007</u>	<u>6/30/2008</u>
Current and other assets	\$ 2,831,392	\$ 2,637,616
Capital assets	4,752,684	5,713,003
Total assets	<u>7,584,076</u>	<u>8,350,619</u>
Long-term liabilities outstanding	2,036,352	1,761,882
Other liabilities	870,282	1,248,117
Total liabilities	<u>2,906,634</u>	<u>3,009,999</u>
Net assets:		
Invested in capital assets, net of related debt	2,446,763	3,645,436
Restricted	143,549	87,907
Unrestricted	2,087,130	1,607,277
Total net assets	<u>\$ 4,677,442</u>	<u>\$ 5,340,620</u>

**Table 2**  
**Changes in Net Assets**

	Governmental activities	
	6/30/2007	6/30/2008
Revenues:		
Program revenues:		
Charges for services	\$ 603,111	\$ 394,699
Operating grants and contributions	214,290	750,842
Capital grants and contributions	139,057	352,032
General revenues:		
Sales taxes	4,187,256	4,180,995
State shared revenues	1,728,109	1,217,442
Other taxes	54,119	55,860
Other general revenues	173,530	85,961
Total revenues	<u>7,099,472</u>	<u>7,037,831</u>
Expenses:		
General government	1,278,191	1,064,940
Public safety	1,685,909	1,770,291
Public works/Streets	1,115,192	1,321,052
Culture and recreation	1,055,169	1,238,971
Economic development	636,314	875,855
Interest on long-term debt	109,043	103,544
Total expenses	<u>5,879,818</u>	<u>6,374,653</u>
Increase (Decrease) in net assets	1,219,654	663,178
Net assets, beginning	4,177,211	4,677,442
Prior period adjustment	(719,423)	-
Net assets, ending	<u>\$ 4,677,442</u>	<u>\$ 5,340,620</u>

Our analysis below separately considers the operations of government activities.

**Governmental Activities**

The cost of all governmental activities this year was \$6,374,653. However, as shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities through Town sales taxes and other revenues was only \$5,229,112 because some of the cost was paid by those who directly benefited from the programs (\$394,699) or by other governments and organizations that subsidized certain programs with grants and contributions (\$750,842). Overall, the Town’s governmental program revenues, including intergovernmental aid and fees for services, decreased in 2008, due to a general slowing in the US and world economies. The Town paid for the remaining “public benefit” portion of governmental activities with \$5,454,297 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest. Sales tax collections were lower than budgeted due to the downturn in the national, state, and local economy.

**Table 3** presents the cost of each of the Town’s largest programs – police, public works and parks and recreation – as well as each program’s net cost (total cost less revenues generated by the activities). The net per capita cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions, based on the Town’s official population of 4,769. It is important to remember that the Town of Pinetop-Lakeside has no property tax, so it is dependent primarily on local sales taxes for revenues. This being the case, “the taxpayers” includes all visitors who shop in our Town.

**Table 3  
Governmental Activities**

	<b>Total Cost of Services 2008</b>	<b>Net Per Capita Cost of Services 2008</b>
Public Safety	\$ 1,770,291	\$ 371
Public Works/Streets	1,321,052	277
Parks and Recreation	1,238,971	260
All Others	<u>2,044,339</u>	429
Totals	<u>\$ 6,374,653</u>	

**The Town’s Funds**

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$1,822,117 which is lower than last year’s total \$2,342,851.

- 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 have been set aside in a special LGIP account and are used to fund the debt service and operations of the Mountain Meadow Recreation Complex.
- The Town adopted development impact fees which went into effect on August 14, 2006.
- Each year, the State provides the Town with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the Town’s roads. This year, these revenues totaled \$590,551.

**General Fund Budgetary Highlights**

The General Fund’s revenues of \$4,410,761 were \$1,539,464 less than budgeted revenues of \$5,950,225 largely because \$749,715 was allocated from General Fund Tax revenues to fund debt service and capital asset acquisition. The balance of the shortfall was due to a slowdown in construction activity, which impacted construction sales tax revenues and building permit activity, and had a generalized slowing effect on the local economy. The General Fund’s expenditures of \$4,247,026 were \$390,869 less than budgeted expenditures of \$4,637,895 mainly due to a \$200,000 contingency included in the budget of which nothing was spent.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of Fiscal Year 2008, the Town had \$5,713,003 (net of depreciation) invested in a broad range of capital assets, including buildings, park facilities, police equipment, roads, and other assets (See Table 4 below). This amount represents a net increase of \$960,319.

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

	<b>Governmental Activities 2007</b>	<b>Governmental Activities 2008</b>
Land	\$944,564	\$944,564
Construction in Progress	-0-	426,456
Buildings and Improvements	2,852,244	2,879,536
Infrastructure	240,788	485,853
Equipment	<u>715,088</u>	<u>976,594</u>
Total	<u>\$4,752,684</u>	<u>\$5,713,003</u>

The Town's fiscal year 2008 capital budget calls for it to spend another \$1,451,358 for capital and infrastructure projects, some of which is grant-funded. However, if the Arizona economy continues to slow as projected, many of these projects will be postponed until more favorable economic circumstances. More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

### Debt

At year-end, the Town had \$2,224,078 in bonds and notes outstanding versus \$2,470,254 last year – a decrease of 9.96 percent, as shown in Table 5.

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

	<b>Governmental Activities 2007</b>	<b>Governmental Activities 2008</b>
Revenue bonds and notes (backed by specific tax and fee revenues)	\$2,316,173	\$2,050,524
Other long-term obligations	<u>154,081</u>	<u>173,554</u>
Totals	<u>\$2,470,254</u>	<u>\$2,224,078</u>

Other obligations include accrued vacation and sick leave.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The Town's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. One of those factors is the economy. We are in the beginning stages of a world-wide recession, which economists project could last as long as five years. The housing market has slowed considerably statewide, and construction is a significant part of the Town's economy. In keeping with Town policy, projected revenues are kept roughly even with the prior year's actual receipts, modified for inflation. This year, revenues grew compared with last year, but not to the level of our projections. Payroll expenses budgeted factored in a 4.5% merit increase possible for all employees, but department head merit increases were capped at a maximum of 3%. The Town undertook a compensation and pay plan study to bring Town employee wages in line with other similar communities, and the pay plan was implemented by the Council in May 2008.

If our estimates are accurate and realized, the Town's budgetary General Fund balance is expected to decrease modestly by the close of FY 2009, as cash reserves carried forward are used for major capital asset projects.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

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

---

L. Kelly Udall  
Town Manager

---

J. Kent Brooksby, CPA  
Finance Director

**BASIC FINANCIAL STATEMENTS**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Net Assets**  
**June 30, 2008**

	<u>Governmental Activities</u>	<u>Total</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,058,326	\$ 1,058,326
Investments	439,357	439,357
Receivables (net of allowance)	590,791	590,791
Prepays	63,013	63,013
Other assets	16,777	16,777
Temporarily restricted assets:		
Cash and cash equivalents	469,352	469,352
Capital assets (net of accumulated depreciation):		
Land	944,564	944,564
Buildings and improvements	609,025	609,025
Other improvements	2,270,511	2,270,511
Furniture, machinery & equipment	543,898	543,898
Vehicles	432,696	432,696
Infrastructure	485,853	485,853
Construction in progress	426,456	426,456
Total assets	<u>8,350,619</u>	<u>8,350,619</u>
<b>Liabilities</b>		
Accounts payable and other current liabilities	785,921	785,921
Noncurrent liabilities:		
Due within one year	462,196	462,196
Due in more than one year	1,761,882	1,761,882
Total liabilities	<u>3,009,999</u>	<u>3,009,999</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,645,436	3,645,436
Restricted for:		
Public works/Streets	87,907	87,907
Grants/Other	-	-
Unrestricted	1,607,277	1,607,277
Total Net Assets	<u>\$ 5,340,620</u>	<u>\$ 5,340,620</u>

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



**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

<b>Assets</b>	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Recreation and Tourism Fund</u>	<u>Development Impact Fee Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 853,814	\$ -	\$ 203,927	\$ -	\$ 585	\$ 1,058,326
Investments	439,357	-	-	-	-	439,357
Prepays	50,013	-	-	13,000	-	63,013
Receivables:						
Taxes	383,457	-	-	-	-	383,457
Intergovernmental	3,759	161,318	9,000	-	32,954	207,031
Due from Other Funds	27,584	-	-	-	-	27,584
Notes and Other Assets	16,777	-	-	-	-	16,777
Restricted Cash and Investments	-	169,338	-	300,014	-	469,352
<b>Total Assets</b>	<b>\$ 1,774,761</b>	<b>\$ 330,656</b>	<b>\$ 212,927</b>	<b>\$ 313,014</b>	<b>\$ 33,539</b>	<b>\$ 2,664,897</b>
 <b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts Payable	\$ 98,699	\$ 230,656	\$ 212,927	\$ -	\$ 2,446	\$ 544,728
Accrued Wages and Benefits	92,276	12,093	-	-	-	104,369
Accrued Liabilities	58,547	-	-	-	-	58,547
Customer Deposits	78,277	-	-	-	-	78,277
Compensated Absences	29,578	-	-	-	-	29,578
Due to Other Funds	-	-	-	-	27,281	27,281
<b>Total Liabilities</b>	<b>357,377</b>	<b>242,749</b>	<b>212,927</b>	<b>-</b>	<b>29,727</b>	<b>842,780</b>
Fund Balances:						
Reserved	-	87,907	-	-	-	87,907
Designated	-	-	-	313,014	-	313,014
Unreserved/Undesignated	1,417,384	-	-	-	3,812	1,421,196
<b>Total fund balances</b>	<b>1,417,384</b>	<b>87,907</b>	<b>-</b>	<b>313,014</b>	<b>3,812</b>	<b>1,822,117</b>
<b>Total Liabilities and fund balances</b>	<b>\$ 1,774,761</b>	<b>\$ 330,656</b>	<b>\$ 212,927</b>	<b>\$ 313,014</b>	<b>\$ 33,539</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,713,003

Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds. (2,194,500)

Net assets of governmental activities \$ 5,340,620

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2008**

<b>REVENUES</b>	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Recreation and Tourism Fund</u>	<u>Development Impact Fee Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,939,657	\$ -	\$ 1,241,337	\$ -	\$ -	\$ 4,180,994
Franchise taxes	55,860	-	-	-	-	55,860
Intergovernmental revenue	968,921	839,072	80,478	-	141,488	2,029,959
Licenses, permits and fees	179,177	-	-	-	-	179,177
Charges for services	115,121	-	8,120	-	-	123,241
Fines and forfeitures	59,492	-	-	-	-	59,492
Interest	62,044	-	16,795	7,121	-	85,960
Lease income	17,823	-	-	-	-	17,823
Impact fees	-	-	-	184,230	-	184,230
Miscellaneous	12,666	106,128	2,300	-	-	121,094
Total Revenues	<u>4,410,761</u>	<u>945,200</u>	<u>1,349,030</u>	<u>191,351</u>	<u>141,488</u>	<u>7,037,830</u>
<b>EXPENDITURES</b>						
Current:						
General government	1,167,114	-	-	-	30,988	1,198,102
Public safety	1,807,909	-	-	-	39,969	1,847,878
Public works/streets	112,701	1,539,023	-	-	20,841	1,672,565
Tourism and recreation	439,996	-	680,129	-	-	1,120,125
Community and economic development	719,306	-	101,404	-	49,690	870,400
Capital outlay	-	-	345,748	18,074	-	363,822
Debt Service:						
Principal	-	-	382,128	-	-	382,128
Interest	-	-	103,544	-	-	103,544
Total Expenditures	<u>4,247,026</u>	<u>1,539,023</u>	<u>1,612,953</u>	<u>18,074</u>	<u>141,488</u>	<u>7,558,564</u>
Excess of Revenues Over (Under) Expenditures	<u>163,735</u>	<u>(593,823)</u>	<u>(263,923)</u>	<u>173,277</u>	<u>-</u>	<u>(520,734)</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	-	681,730	263,923	-	6,606	952,259
Transfers out	(952,259)	-	-	-	-	(952,259)
Total Other Financing Sources (Uses)	<u>(952,259)</u>	<u>681,730</u>	<u>263,923</u>	<u>-</u>	<u>6,606</u>	<u>-</u>
Net change in fund balances	(788,524)	87,907	-	173,277	6,606	(520,734)
Fund Balance, Beginning of Year	<u>2,205,908</u>	<u>-</u>	<u>-</u>	<u>139,737</u>	<u>(2,794)</u>	<u>2,342,851</u>
Fund Balance, End of Year	<u>\$ 1,417,384</u>	<u>\$ 87,907</u>	<u>\$ -</u>	<u>\$ 313,014</u>	<u>\$ 3,812</u>	<u>\$ 1,822,117</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 Year Ended June 30, 2008**

---

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

Net change in fund balances - total governmental funds	\$ (520,734)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	788,866
Governmental funds report the gross proceeds from the sale of fixed assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.	(3,547)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	265,649
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.	174,999
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(42,055)
Change in net assets of governmental activities	\$ 663,178

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund - Budget and Actual**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes:				
Taxes	\$ 4,247,475	\$ 4,247,475	\$ 2,939,657	\$ (1,307,818)
Franchise tax	34,000	34,000	55,860	21,860
Intergovernmental Revenue	1,010,770	1,010,770	968,921	(41,849)
Licenses and permits	414,650	414,650	179,177	(235,473)
Charges for services	99,030	99,030	115,121	16,091
Fines and Forfeitures	65,000	65,000	59,492	(5,508)
Interest	42,000	42,000	62,044	20,044
Lease income	20,000	20,000	17,823	(2,177)
Miscellaneous	17,300	17,300	12,666	(4,634)
<b>Total Revenues</b>	<b>5,950,225</b>	<b>5,950,225</b>	<b>4,410,761</b>	<b>(1,539,464)</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Administration	1,051,065	1,051,065	780,263	270,802
Finance	248,750	248,750	236,380	12,370
Legal	150,800	150,800	150,471	329
Public Safety:				
Police	1,776,535	1,776,535	1,680,762	95,773
Animal control	75,570	75,570	76,009	(439)
Magistrate	55,290	55,290	51,138	4,152
Public Works/Streets	123,510	123,510	112,701	10,809
Tourism and recreation	481,405	481,405	439,996	41,409
Community & economic development	674,970	674,970	719,306	(44,336)
<b>Total Expenditures</b>	<b>4,637,895</b>	<b>4,637,895</b>	<b>4,247,026</b>	<b>390,869</b>
Excess of Revenues Over (Under) Expenditures	1,312,330	1,312,330	163,735	(1,148,595)
Other Financing Sources (Uses):				
Transfers out	(2,092,330)	(2,092,330)	(952,259)	1,140,071
<b>Total Other Financing     Sources (Uses)</b>	<b>(2,092,330)</b>	<b>(2,092,330)</b>	<b>(952,259)</b>	<b>1,140,071</b>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(780,000)	(780,000)	(788,524)	(8,524)
Fund Balance, Beginning of Year	2,205,908	2,205,908	2,205,908	-
Fund Balance, End of Year	<b>\$ 1,425,908</b>	<b>\$ 1,425,908</b>	<b>\$ 1,417,384</b>	<b>\$ (8,524)</b>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Highway User Revenue Special Revenue Fund**  
**Budget-to-Actual**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental Revenue	\$ 1,171,990	\$ 1,171,990	\$ 839,072	\$ (332,918)
Miscellaneous	125,000	125,000	106,128	(18,872)
Total Revenue	<u>1,296,990</u>	<u>1,296,990</u>	<u>945,200</u>	<u>(351,790)</u>
<b>EXPENDITURES:</b>				
Current:				
Public Works:				
Street maintenance	788,505	788,505	842,314	(53,809)
Street rehabilitation	1,172,000	1,172,000	590,632	581,368
Capital Outlay	95,000	95,000	106,077	(11,077)
Total Expenditures	<u>2,055,505</u>	<u>2,055,505</u>	<u>1,539,023</u>	<u>516,482</u>
Excess of Revenues Over (Under) Expenditures	<u>(758,515)</u>	<u>(758,515)</u>	<u>(593,823)</u>	<u>164,692</u>
Other Financing Sources (Uses):				
Transfers in	683,515	683,515	681,730	(1,785)
Total Other Financing Sources (Uses):	<u>683,515</u>	<u>683,515</u>	<u>681,730</u>	<u>(1,785)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(75,000)</u>	<u>(75,000)</u>	<u>87,907</u>	<u>162,907</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (75,000)</u>	<u>\$ (75,000)</u>	<u>\$ 87,907</u>	<u>\$ 162,907</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Recreation & Tourism Special Revenue Fund**  
**Budget-to-Actual**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 530,000	\$ 530,000	\$ 1,241,337	\$ 711,337
Intergovernmental revenue	266,000	266,000	80,478	(185,522)
Charges for services	6,000	6,000	8,120	2,120
Investment earnings	23,500	23,500	16,795	(6,705)
Lease income	-	-	-	-
Miscellaneous	-	-	2,300	2,300
Total Revenue	<u>825,500</u>	<u>825,500</u>	<u>1,349,030</u>	<u>523,530</u>
<b>EXPENDITURES:</b>				
Current:				
Tourism and recreation	1,267,955	1,267,955	680,129	587,826
Community and economic development	191,000	191,000	101,404	89,596
Capital outlay	290,833	290,833	345,748	(54,915)
Debt Service:				
Principal	417,494	417,494	382,128	35,366
Interest	67,033	67,033	103,544	(36,511)
Total Expenditures	<u>2,234,315</u>	<u>2,234,315</u>	<u>1,612,953</u>	<u>621,362</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,408,815)</u>	<u>(1,408,815)</u>	<u>(263,923)</u>	<u>1,144,892</u>
Other Financing Sources (Uses):				
Transfers in	1,408,815	1,408,815	263,923	(1,144,892)
Transfers out	-	-	-	-
Total Other Financing Sources (Uses):	<u>1,408,815</u>	<u>1,408,815</u>	<u>263,923</u>	<u>(1,144,892)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**White Mountain Partnership**  
**June 30, 2008**

---

	<b>Agency Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ -
Accounts receivable	-
Total assets	<u>\$ -</u>
<b>Liabilities</b>	
Accounts payable	\$ 9,764
Due to other funds	303
Deposits held in trust	<u>(10,067)</u>
Total liabilities	<u>\$ -</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

**General**

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

**Reporting Entity**

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

Blended Component Unit included within the reporting entity:

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

**Government-Wide and Fund Financial Statements**

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

Taxes, sales taxes, state shared revenues, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

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

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

The **Development Impact Fee Fund** is used to account for Library, Parks, Police, Street, and General Government impact fees.

Additionally, the Town reports the following fiduciary fund type:

The **Agency Fund** accounts for assets held by the Town as an agent for the White Mountain Partnership. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

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

When both restricted and unrestricted assets are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

**Deposits and Investments**

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

**Receivables and Payables**

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

**Prepaid Items**

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

**Inventories**

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

**Capital Assets**

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

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

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

**Compensated Absences**

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

**Long-term Obligations**

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

**Estimates**

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows.

Bonds payable	\$ (1,005,000)
Loans payable	(956,134)
Capital leases payable	(89,390)
Compensated absences	(130,951)
Landfill closure payable	<u>(13,025)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (2,194,500)</u></u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this difference are as follows.

Cost of capital assets	\$ 7,528,238
Accumulated depreciation	<u>(1,815,235)</u>
Total difference	<u><u>\$ 5,713,003</u></u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:**

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 assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 1,136,085
Depreciation expense	<u>(347,219)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 788,866</u></u>

---

**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).

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

4. The Town follows a voter-approved expenditure limitation that was adopted on May 24, 2007.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year. The Town's budget includes \$350,000 for contingencies.

**Expenditures over Appropriations**

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports on pages 16-18, 42, 45-47 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2008, 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, 2008**

**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, 2008, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$473,617. As of June 30, 2008, the Town's bank balance of \$515,619 was fully insured or collateralized.

**Investments**

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

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

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

As of June 30, 2008 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Securities	\$ 297,306	\$ 149,874	\$ 147,432	\$ -	\$ -
U.S. Government Agencies (FICO)	200,423	-	200,423	-	-
Local Government Security (TVA)	84,219	-	84,219	-	-
Money Market Mutual Fund	4,841	4,841	-	-	-
Arizona Local Government Investment Pool	905,581	905,581	-	-	-
<b>Total Fair Value</b>	<b>\$ 1,492,369</b>	<b>\$ 1,060,296</b>	<b>\$ 432,074</b>	<b>\$ -</b>	<b>\$ -</b>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

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

**Interest rate risk**

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

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City'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.

At June 30, 2008 the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
U.S. Government Securities	\$ 297,306	\$ 297,306	\$ -	\$ -	\$ -
U.S. Government Agencies (FICO)	200,423	-	-	-	200,423
Local Government Security (TVA)	84,219	84,219	-	-	-
Money Market Mutual Fund	4,841	-	-	-	4,841
Arizona Local Government Investment Pool	905,581	-	-	-	905,581
<b>Total Fair Value</b>	<b>\$ 1,492,369</b>	<b>\$ 381,525</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,110,845</b>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

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

As of June 30, 2008, interfund receivables and payables that resulted from various interfund transactions are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 27,584	\$ -
Special Revenue Funds:		
Grant Fund		27,281
CDBG Fund	-	-
Agency Fund		303
	\$ 27,584	\$ 27,584

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

As of June 30, 2008, interfund transfers are as follows:

	Transfers In			
	Recreation	HURF	Nonmajor	Total
<u>Transfers Out:</u>				
General Fund	\$ 263,923	\$ 681,730	\$ 6,606	\$ 952,259
Recreation and Tourism Fund	-	-	-	-
	\$ 263,923	\$ 681,730	\$ 6,606	\$ 952,259

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

The transfer from the General Fund moved undesignated funds to the Recreation and Tourism Fund and to the HURF fund. The \$6,606 transferred to nonmajor funds was a transfer from the General fund to the CDBG Grant fund in order to close out the CDBG Grant fund prior year deficit.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

**Note 6. Capital Assets**

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

<b>Primary Government</b>	<b>Balance</b>			<b>Balance</b>
<b>Governmental Activities:</b>	<b>6/30/2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>6/30/2008</b>
Capital Assets not being depreciated:				
Land	\$ 944,564	\$ -	\$ -	\$ 944,564
Construction in progress	-	426,456	-	426,456
Total capital assets not being depreciated	<u>944,564</u>	<u>426,456</u>	<u>-</u>	<u>1,371,020</u>
Capital Assets being Depreciated:				
Buildings & Improvements	1,084,205	19,909	-	1,104,114
Improvements other than buildings	2,453,802	169,703	-	2,623,505
Machinery & Equipment	711,829	267,906	(29,486)	950,249
Vehicles	842,071	157,917	(33,521)	966,467
Infrastructure	243,689	269,194	-	512,883
Total capital assets being depreciated	<u>5,335,596</u>	<u>884,629</u>	<u>(63,007)</u>	<u>6,157,218</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(455,670)	(39,419)	-	(495,089)
Improvements other than buildings	(230,093)	(122,901)	-	(352,994)
Machinery & Equipment	(347,291)	(85,267)	26,207	(406,351)
Vehicles	(491,521)	(75,503)	33,253	(533,771)
Infrastructure	(2,901)	(24,129)	-	(27,030)
Total accumulated depreciation	<u>(1,527,476)</u>	<u>(347,219)</u>	<u>59,460</u>	<u>(1,815,235)</u>
Total Capital Assets being depreciated, net	<u>3,808,120</u>	<u>537,410</u>	<u>(3,547)</u>	<u>4,341,983</u>
Governmental activities capital assets, net	<u>\$ 4,752,684</u>	<u>\$ 963,866</u>	<u>\$ (3,547)</u>	<u>\$ 5,713,003</u>

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

<b>Governmental Activities:</b>	
General government	\$ 51,510
Public safety	94,895
Public works/streets	76,357
Culture & recreation	124,457
Economic development	-
Total depreciation expense - governmental activities	<u>\$ 347,219</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

**Note 7. Long-Term Debt**

---

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2008</b>	<b>Current Portion</b>
Accrued compensated absences	\$ 141,056	\$ 48,357	\$ 28,884	\$ 160,529	\$ 33,596
Landfill monitoring costs	13,025	-	-	13,025	-
Total other long-term debt	<u>154,081</u>	<u>48,357</u>	<u>28,884</u>	<u>173,554</u>	<u>33,596</u>
<b>Revenue Bonds:</b>					
Municipal facilities series 1999	<u>1,150,000</u>	<u>-</u>	<u>145,000</u>	<u>1,005,000</u>	<u>150,000</u>
<b>Loans Payable:</b>					
Compass Bank loan	69,541	-	30,073	39,468	31,928
Computer Information Systems, Inc.	-	175,000	58,334	116,666	58,333
GADA ball field loan	<u>940,000</u>	<u>-</u>	<u>140,000</u>	<u>800,000</u>	<u>145,000</u>
Total loans payable	<u>1,009,541</u>	<u>175,000</u>	<u>228,407</u>	<u>956,134</u>	<u>235,261</u>
<b>Capital Leases:</b>					
Bank One burner lease	27,596	-	27,596	-	-
Kansas Bank sweeper lease	<u>129,036</u>	<u>-</u>	<u>39,646</u>	<u>89,390</u>	<u>43,339</u>
Total capital leases payable	<u>156,632</u>	<u>-</u>	<u>67,242</u>	<u>89,390</u>	<u>43,339</u>
Total general long-term debt	<u>\$ 2,470,254</u>	<u>\$ 223,357</u>	<u>\$ 469,533</u>	<u>\$ 2,224,078</u>	<u>\$ 462,196</u>

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

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

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

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

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

The following is a listing of bonds outstanding as of June 30, 2008:

Municipal Facilities Revenue Bonds, Series 1999 due in annual principal and interest installments, bearing interest at 3.25% to 4.5%, maturing July 1, 2014.	\$ 1,005,000
Less current portion	<u>(150,000)</u>
Total Revenue Bonds net of current portion	<u><u>\$ 855,000</u></u>

Revenue Bonds debt service maturities are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	150,000	41,055	\$ 191,055
2010	155,000	34,497	189,497
2011	165,000	27,534	192,534
2012	170,000	20,164	190,164
2013	180,000	12,374	192,374
2014	185,000	4,162	189,162
Total	<u>\$ 1,005,000</u>	<u>\$ 139,786</u>	<u>\$ 1,144,786</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

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

The following is a listing of loans outstanding as of June 30, 2008:

Compass Bank loan payable, issued in 1999 bearing interest at 6.0%. due in monthly principal and interest installments of \$2,775, maturing July 2009.	\$ 39,468
Loan payable to Computer Information Systems, Inc. Payable in two annual installments of \$58,333 with no interest, secured by CAD software, maturing July 2010.	116,666
GADA loan payable, issued in fiscal year 2004 bearing interest at 4.25% to 5.00%. due in annual principal and interest installments ranging from \$179,437 to \$182,875, maturing in 2013.	<u>800,000</u>
Total Loans Payable	\$ 956,134
Less current portion	<u>(176,928)</u>
Total Loans Payable net of current portion	<u><u>\$ 779,206</u></u>

Loans payable debt service maturities are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	235,261	35,815	271,076
2010	220,873	28,316	249,189
2011	160,000	21,688	181,688
2012	165,000	14,888	179,888
2013	175,000	7,875	182,875
2014	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 956,134</u></u>	<u><u>\$ 108,582</u></u>	<u><u>\$ 1,064,716</u></u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

**Note 8. Capital Leases Payable**

The Town has entered into a lease agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is shown in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with interest of 7.33%, together with the present value of the net minimum lease payments:

June 30,	General Long-Term Debt
2009	\$ 48,499
2010	47,924
2011	0
Total remaining lease payments	96,423
Less amount representing interest	(7,033)
Present value of net remaining minimum lease payments	\$ 89,390

Summary of assets acquired through capital leases follows:

<b>Governmental Activities</b>	Cost	Accumulated Depreciation
Machinery & Equipment	\$ 128,553	(13,926)

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

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

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

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

---

**Note 10.           Retirement and Pension Plans**

---

**Arizona State Retirement System (ASRS)**

**Plan Description** - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

---

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

---

**Funding Policy** - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rate. For the year ended June 30, 2008, active plan members and the Town were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1% retirement and 0.5% long-term disability) of the members' annual covered payroll. The Town's contribution to the System for the year ended June 30, 2008 was \$149,785, which was equal to the required contributions for the year.

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

**Plan Description** - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

**Funding Policy** - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The employer rate for fiscal year 2007 was 20.18% of annual covered payroll.

**Annual Pension Cost** - During the year ended June 30, 2007, the Town's annual pension cost of \$100,295 was equal to the Town's required and actual contributions.

The required contribution was determined as part of the June 30, 2007 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, (b) projected salary increases of 5.50% to 8.50% per year compounded annually, including inflation at 5.0%

Information for PSPRS noted above is for fiscal year 2007 since the information for fiscal year 2008 was not available at the date the financial statements were issued.

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2008**

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

The actuarial value of the Town's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining open amortization period at June 30, 2008 is 29 years (20 years for funding credit).

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

<b>Three-Year Trend Information – Police</b>			
<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 90,331	100%	\$ -0-
2007	100,295	100%	-0-
2008	*	*	-0-

\* Information for fiscal year 2008 is not yet available.

Additional historical trend information for the Town's PSPRS is disclosed on page 40. Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

**Note 11. Risk Management**

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Schedule of Funding Progress**  
**June 30, 2008**

**Police**

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2002 through June 30, 2008, based on actuarial valuations follows:

<b>Valuation Date June 30,</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Entry Age Actuarial Accrued Liability (AAL)</b>	<b>(3) Percent Funded (1)/(2)</b>	<b>(4) Unfunded AAL (2) – (1)</b>	<b>(5) Annual Covered Payroll</b>	<b>Unfunded AAL As a Percentage Of Covered Payroll (4)/(5)</b>
2002	\$ 1,902,489	\$ 1,966,319	96.8%	\$63,830	\$ 432,873	14.7%
2003	1,877,921	2,184,877	86.0%	306,956	540,599	56.8%
2004	1,843,123	2,384,157	77.3%	541,034	454,659	119.0%
2005	1,986,556	2,710,486	73.3%	723,930	402,934	179.7%
2006	2,042,717	3,001,273	68.1%	958,556	584,516	164.0%
2007	2,068,426	3,571,512	57.9%	1,503,086	711,817	211.2%
2008	*	*	*	*	*	*

\* Information for fiscal year 2008 is not yet available.

## **Combining and Individual Fund Financial Statements**

### **Major Governmental Fund**

#### **Capital Projects Funds**

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

- Development Impact Fees Capital Projects Fund – This fund is used to account for Library, Parks, Police, Street, and General Government impact fees.

### **Nonmajor Governmental Funds**

#### **Special Revenue Funds**

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

- Local Transportation Assistance Fund – This fund is used to account for the Town's share of lottery proceeds which are set aside for the maintaining, repairing, and upgrading of streets.
- CDBG – This fund is used to account for federal and state grants and other contributions that are restricted for use toward community development.
- Grant Fund – This fund is used to account for various federal and state grants and other contributions that are restricted for a specific use.

**TOWN OF PINETOP-LAKESIDE, ARIZONA  
DEVELOPMENT IMPACT FEE  
CAPITAL PROJECTS FUND  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Impact fees	\$ 132,490	\$ 132,490	\$ 184,230	\$ 51,740
Interest	-	-	7,121	7,121
Total Revenue	<u>132,490</u>	<u>132,490</u>	<u>191,351</u>	<u>58,861</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>8,000</u>	<u>8,000</u>	<u>18,074</u>	<u>(10,074)</u>
Total Expenditures	<u>8,000</u>	<u>8,000</u>	<u>18,074</u>	<u>(10,074)</u>
Excess of Revenues Over (Under) Expenditures	<u>124,490</u>	<u>124,490</u>	<u>173,277</u>	<u>48,787</u>
Fund Balance, Beginning of Year	<u>139,737</u>	<u>139,737</u>	<u>139,737</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 264,227</u></u>	<u><u>\$ 264,227</u></u>	<u><u>\$ 313,014</u></u>	<u><u>\$ 48,787</u></u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	Special Revenue			Total
	Local Transportation Assistance Fund	CDBG Grant Fund	Grant Fund	
<b>ASSETS</b>				
Cash	\$ -	\$ 585	\$ -	\$ 585
Due from other governments	-	986	31,968	32,954
Due from other funds	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 1,571</u>	<u>\$ 31,968</u>	<u>\$ 33,539</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ -	\$ 1,571	\$ 875	\$ 2,446
Due to other funds	-	-	27,281	27,281
Deferred Revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>1,571</u>	<u>28,156</u>	<u>29,727</u>
Fund Balance:				
Reserved	-	-	-	-
Unreserved	-	-	3,812	3,812
Total Fund Balance	<u>-</u>	<u>-</u>	<u>3,812</u>	<u>3,812</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 1,571</u>	<u>\$ 31,968</u>	<u>\$ 33,539</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Funds**  
**For the Year Ended June 30, 2008**

	Special Revenue			Total
	Local Transportation Assistance Fund	CDBG Grant Fund	Grant Fund	
<b>REVENUES</b>				
Intergovernmental revenue	\$ 20,841	\$ 49,690	\$ 70,957	\$ 141,488
Interest	-	-	-	-
Impact fees	-	-	-	-
Total Revenues	<u>20,841</u>	<u>49,690</u>	<u>70,957</u>	<u>141,488</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	30,988	30,988
Public safety	-	-	39,969	39,969
Public works/streets	20,841	-	-	20,841
Tourism and recreation	-	-	-	-
Community and economic development	-	49,690	-	49,690
Total Expenditures	<u>20,841</u>	<u>49,690</u>	<u>70,957</u>	<u>141,488</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	6,606	-	6,606
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>6,606</u>	<u>-</u>	<u>6,606</u>
Net change in fund balances	-	6,606	-	6,606
Fund Balance, Beginning of Year	<u>-</u>	<u>(6,606)</u>	<u>3,812</u>	<u>(2,794)</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,812</u>	<u>\$ 3,812</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**LOCAL TRANSPORTATION ASSISTANCE**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 20,840	\$ 20,840	\$ 20,841	\$ 1
Total Revenue	<u>20,840</u>	<u>20,840</u>	<u>20,841</u>	<u>1</u>
<b>EXPENDITURES:</b>				
Current:				
Street maintenance	<u>20,840</u>	<u>20,840</u>	<u>20,841</u>	<u>(1)</u>
Total Expenditures	<u>20,840</u>	<u>20,840</u>	<u>20,841</u>	<u>(1)</u>
Excess of Revenues				
Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**CDBG**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 347,315	\$ 347,315	\$ 49,690	\$ (297,625)
Total Revenue	<u>347,315</u>	<u>347,315</u>	<u>49,690</u>	<u>(297,625)</u>
<b>EXPENDITURES:</b>				
Current:				
Economic development	347,315	347,315	49,690	297,625
Total Expenditures	<u>347,315</u>	<u>347,315</u>	<u>49,690</u>	<u>297,625</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>6,606</u>	<u>(6,606)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>6,606</u>	<u>(6,606)</u>
Net change in fund balances	-	-	6,606	(6,606)
Fund Balance, Beginning of Year	<u>(6,606)</u>	<u>(6,606)</u>	<u>(6,606)</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (6,606)</u>	<u>\$ (6,606)</u>	<u>\$ -</u>	<u>\$ (6,606)</u>

**TOWN OF PINETOP-LAKESIDE, ARIZONA**  
**GRANT**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 2,671,450	\$ 2,671,450	\$ 70,957	\$ (2,600,493)
Total Revenue	<u>2,671,450</u>	<u>2,671,450</u>	<u>70,957</u>	<u>(2,600,493)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	118,000	118,000	30,988	87,012
Public safety	2,084,450	2,084,450	39,969	2,044,481
Total Expenditures	<u>2,202,450</u>	<u>2,202,450</u>	<u>70,957</u>	<u>2,131,493</u>
Excess of Revenues Over (Under) Expenditures	<u>469,000</u>	<u>469,000</u>	<u>-</u>	<u>(469,000)</u>
Fund Balance, Beginning of Year	<u>3,812</u>	<u>3,812</u>	<u>3,812</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 472,812</u>	<u>\$ 472,812</u>	<u>\$ 3,812</u>	<u>\$ (469,000)</u>

**FEDERAL AND STATE REPORTS**



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

The Honorable Mayor and  
 Town Council  
 Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Pinetop-Lakeside’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiencies described in the schedule of findings and recommendations dated October 27, 2008 to be significant deficiencies in internal control over financial reporting.

- 07-1 Segregation of Duties
- 07-2 Capital Assets

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated October 27, 2008.

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



Michael K. Spilker, CPA  
October 27, 2008



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

The Honorable Mayor and  
 Town Council  
 Pinetop-Lakeside, Arizona

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Our audit also included test work on the Town of Pinetop-Lakeside's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, the Town of Pinetop-Lakeside complied, in all material respects, with the requirements identified above for the year ended June 30, 2008.

Michael K. Spilker, CPA  
 October 27, 2008

**THIS PAGE INTENTIONALLY LEFT BLANK**