

TOWN OF PINETOP-LAKESIDE, ARIZONA



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2011

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF PINETOP-LAKESIDE

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Pinetop-Lakeside, Arizona

We have audited the accompanying financial statements of the governmental activities, 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, 2011, 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, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the general, highway user, recreation and tourism, and grants special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011, 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 44 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 non-major fund budget-and-actual report 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.



HINTON, BURDICK, HALL & SPILKER, ARIZONA, PLLC
October 10, 2011

**TOWN OF PINETOP-LAKESIDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year-Ended June 30, 2011**

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, 2011. Please read it in conjunction with the Town's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The Town's net assets increased by \$243,478 as a result of this year's operations.
- During the year, the Town had expenses that were \$243,478 less than the \$5,742,446 generated in tax and other revenues for governmental programs.
- Total cost of all the Town's programs was \$5,498,968 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 \$1,160,398, an increase of \$293,437.
- The general fund reported a decline of \$118,955.

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 11) 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 12) 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 2009.

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 \$5,895,696 to \$6,139,174. 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	
	6/30/2011	6/30/2010
Current and other assets	\$ 1,523,608	\$ 1,543,373
Capital assets	6,102,379	6,457,819
Total assets	<u>7,625,987</u>	<u>8,001,192</u>
Long-term liabilities outstanding	787,006	1,105,770
Other liabilities	699,807	999,726
Total liabilities	<u>1,486,813</u>	<u>2,105,496</u>
Net assets:		
Invested in capital assets, net of related debt	5,218,619	5,251,690
Restricted	852,357	120,729
Unrestricted	68,198	523,277
Total net assets	<u>\$ 6,139,174</u>	<u>\$ 5,895,696</u>

Table 2
Changes in Net Assets

	Governmental activities	
	6/30/2011	6/30/2010
Revenues:		
Program revenues:		
Charges for services	\$ 518,643	\$ 347,813
Operating grants and contributions	682,175	569,216
Capital grants and contributions	206,600	201,738
General revenues:		
Sales taxes	3,335,049	3,256,167
State shared revenues	939,971	1,060,259
Other taxes	52,327	54,814
Other general revenues	7,681	7,707
Total revenues	<u>5,742,446</u>	<u>5,497,714</u>
Expenses:		
General government	1,263,351	1,194,493
Public safety	2,038,235	1,991,096
Public works/Streets	757,453	784,839
Culture and recreation	947,880	950,846
Economic development	439,196	647,267
Interest on long-term debt	52,853	68,112
Total expenses	<u>5,498,968</u>	<u>5,636,653</u>
Increase (Decrease) in net assets	243,478	(138,939)
Net assets, beginning	<u>5,895,696</u>	<u>6,034,635</u>
Net assets, ending	<u>\$ 6,139,174</u>	<u>\$ 5,895,696</u>

Our analysis below separately considers the operations of government activities.

Governmental Activities

The cost of all governmental activities this year was \$5,498,968. 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 \$4,335,028 because some of the cost was paid by those who directly benefited from the programs (\$518,643) or by other governments and organizations that subsidized certain programs with grants and contributions (\$888,775). Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, increased in Fiscal Year 2011. The Town paid for the remaining "public benefit" portion of governmental activities with \$3,335,049 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest. Sales tax collections were lower than budgeted due to the continued recession.

Table 3 presents the cost of each of the Town's largest programs – police, public works and parks and recreation – as well as each program's net cost (total cost less revenues generated by the activities). The

net per capita cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions, based on the Town’s official population of 4,282. It is important to remember that the Town of Pinetop-Lakeside has no property tax, so it is dependent primarily on local sales taxes for revenues. This being the case, “the taxpayers” includes all visitors who shop in our Town.

**Table 3
Governmental Activities**

	Total Cost of Services 2011	Net Per Capita Cost of Services 2011
Public Safety	\$ 2,038,235	\$476
Public Works/Streets	757,453	177
Parks and Recreation	947,880	221
All Others	<u>1,755,400</u>	409
Totals	<u>\$ 5,498,968</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 \$1,160,398 which is higher than last year’s total \$866,961.

- In January 2003, an additional 2 percent tax on restaurant and bar sales went into effect, with the proceeds of this new tax dedicated to the construction and maintenance of new recreational amenities, especially youth facilities. The revenues from this tax are used to fund the debt service and operations of the Mountain Meadow Recreation Complex and Woodland Lake Park.
- Each year, the State provides the Town with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the Town’s roads. Historically, the Town receives about 85% of what the State promises. This year, these revenues totaled \$513,738.

General Fund Budgetary Highlights

The General Fund’s revenues of \$ 4,204,153 were \$240,877 less than budgeted revenues of \$4,445,030. The General Fund’s expenditures, including transfers, of \$4,323,108 were \$336,422 less than budgeted expenditures, including transfers, of \$4,659,530. The continuing recession drove economic activity even further down, which had a negative impact on tax revenues. Rising costs drove the cost of operations up in spite of decreasing revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2011, the Town had \$6,102,379 (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 decrease of \$355,440 or 5.5 percent over last year.

Table 4
Capital Assets at Year-End

	Governmental Activities 2011	Governmental Activities 2010
Land	\$944,564	\$944,564
Construction in Progress	0	0
Buildings and Improvements	2,747,203	2,861,037
Infrastructure	1,766,230	1,871,681
Equipment	<u>644,382</u>	<u>780,537</u>
Total	<u>\$6,102,379</u>	<u>\$6,457,819</u>

The Town's fiscal year 2012 capital budget calls for it to spend another \$1,502,470 for capital and infrastructure projects. Most of this is contingent on grant financing; if the grants are awarded, the projects will go forward. Recent changes in Arizona's development impact fee laws led the Town Council to ask that as much as possible of existing impact fee funds be expended in fiscal year 2012. More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

Debt

At year-end, the Town had \$1,139,957 in bonds and notes outstanding versus \$1,458,663 last year – a decrease of 22 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities 2011	Governmental Activities 2010
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 875,000	\$1,200,000
Other long-term obligations	<u>264,957</u>	<u>258,663</u>
Totals	<u>\$1,139,957</u>	<u>\$1,458,663</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 2012 budget. One of those factors is the economy. We are still in an economic downturn, and while most of the world is climbing out, Arizona continues to feel the effects because most of the Arizona economy has been driven by construction for the last several years. As of this writing, construction has begun to slowly increase in the Town of Pinetop-Lakeside. In keeping with Town policy, projected revenues are kept roughly even with the prior year's actual receipts, modified for inflation. Economic uncertainty is driving the Town's economic decision making. Employees received no salary increases or cost of living adjustments to their salaries in FY 2012, for the third consecutive year.

If our estimates are accurate and realized, the Town's budgetary General Fund balance is expected to increase modestly by the close of FY 2012.

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.

BASIC FINANCIAL STATEMENTS

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Assets
June 30, 2011

	Governmental Activities	Total
Assets		
Cash and cash equivalents	\$ 60,562	\$ 60,562
Investments	138,558	138,558
Receivables (net of allowance)	360,536	360,536
Prepays	110,954	110,954
Other assets	14,406	14,406
Temporarily restricted assets:		
Cash and cash equivalents	838,592	838,592
Capital assets (net of accumulated depreciation):		
Land	944,564	944,564
Buildings and improvements	505,940	505,940
Other improvements	2,241,263	2,241,263
Furniture, machinery & equipment	410,275	410,275
Vehicles	234,107	234,107
Infrastructure	1,766,230	1,766,230
Total assets	<u>7,625,987</u>	<u>7,625,987</u>
Liabilities		
Accounts payable and other current liabilities	253,799	253,799
Unearned revenue	93,057	93,057
Noncurrent liabilities:		
Due within one year	352,951	352,951
Due in more than one year	787,006	787,006
Total liabilities	<u>1,486,813</u>	<u>1,486,813</u>
Net Assets		
Invested in capital assets, net of related debt	5,218,619	5,218,619
Restricted for:		
Capital projects	394,735	394,735
Public works/Streets	457,622	457,622
Unrestricted	68,198	68,198
Total Net Assets	<u>\$ 6,139,174</u>	<u>\$ 6,139,174</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Activities
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants &</u> <u>Contributions</u>	<u>Capital</u> <u>Grants &</u> <u>Contributions</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
General government	\$ 1,263,351	\$ 443,713	\$ 5,053	\$ 34,372	\$ (780,213)
Public safety	2,038,235	51,755	45,834	46,715	(1,893,931)
Public works/Streets	757,453	-	552,398	121,776	(83,279)
Culture and recreation	947,880	23,175	78,890	3,737	(842,078)
Economic development	439,196	-	-	-	(439,196)
Interest on long-term debt	52,853	-	-	-	(52,853)
Total governmental activities	5,498,968	518,643	682,175	206,600	(4,091,550)
General Revenues:					
Taxes:					
					3,335,049
					319,406
					215,174
					52,327
					405,391
					7,681
					-
					<u>4,335,028</u>
					243,478
					<u>5,895,696</u>
					<u>\$ 6,139,174</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

Assets	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Grants Fund
Cash and Cash Equivalents	\$ -	\$ -	\$ 28,562	\$ -
Investments	138,558	-	-	-
Prepays	110,954	-	-	-
Receivables:				
Taxes	243,350	-	-	-
Intergovernmental	16,663	65,677	-	34,846
Notes and Other Assets	14,406	-	-	-
Restricted Cash and Investments	-	403,846	-	40,011
Total Assets	\$ 523,931	\$ 469,523	\$ 28,562	\$ 74,857
 Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 79,126	\$ 10,832	\$ 8,156	\$ -
Accrued Wages and Benefits	-	1,069	203	-
Accrued Liabilities	28,374	-	-	-
Customer Deposits	111,039	-	-	-
Compensated Absences	16,354	-	-	-
Deferred Revenue	1,200	-	-	74,857
Total Liabilities	236,093	11,901	8,359	74,857
Fund Balances:				
Nonspendable:				
Prepays	110,954	-	-	-
Restricted for:				
Public safety	-	-	-	-
Highways and streets	-	457,622	-	-
Community and economic development	-	-	-	-
Other purposes	-	-	-	-
Committed to:				
Tourism and recreation	-	-	20,203	-
Assigned to:				
Community and economic development	-	-	-	-
Unassigned	176,884	-	-	-
Total fund balances	287,838	457,622	20,203	-
Total Liabilities and fund balances	\$ 523,931	\$ 469,523	\$ 28,562	\$ 74,857

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

Development Impact Fee Fund	Non-major Acquisition & Development Fund	Total Governmental Funds
\$ -	\$ 32,000	\$ 60,562
-	-	138,558
-	-	110,954
-	-	243,350
-	-	117,186
-	-	14,406
<u>394,735</u>	<u>-</u>	<u>838,592</u>
<u>\$ 394,735</u>	<u>\$ 32,000</u>	<u>\$ 1,523,608</u>

\$ -	\$ 15,000	\$ 113,114
-	-	1,272
-	-	28,374
-	-	111,039
-	-	16,354
<u>-</u>	<u>17,000</u>	<u>93,057</u>
<u>-</u>	<u>32,000</u>	<u>363,210</u>

-	-	110,954
58,764	-	58,764
156,596	-	614,218
54,474	-	54,474
124,901	-	124,901
-	-	20,203
-	-	-
<u>-</u>	<u>-</u>	<u>176,884</u>
<u>394,735</u>	<u>-</u>	<u>1,160,398</u>
<u>\$ 394,735</u>	<u>\$ 32,000</u>	<u>\$ 1,523,608</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds \$ 1,160,398

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.

Governmental capital assets	\$ 9,175,240	
Accumulated depreciation	(3,072,861)	
		6,102,379

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	\$ (535,000)	
Loans payable	(340,000)	
Compensated absences	(241,114)	
Landfill closure payable	(7,489)	
		(1,123,603)

Total net assets - governmental activities	\$ 6,139,174
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TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2011

REVENUES	General Fund	Highway Users Revenue Fund	Recreation and Tourism Fund	Grants Fund
Taxes	\$ 2,907,984	\$ -	\$ 427,066	\$ -
Franchise taxes	52,327	-	-	-
Intergovernmental revenue	726,542	728,912	-	210,858
Licenses, permits and fees	106,442	-	-	-
Charges for services	104,757	-	4,610	-
Fines and forfeitures	49,720	-	-	-
Interest	2,727	-	13	-
Lease income	17,820	-	-	-
Impact fees	-	-	-	-
Miscellaneous	235,834	80,457	-	-
Total Revenues	<u>4,204,153</u>	<u>809,369</u>	<u>431,689</u>	<u>210,858</u>
EXPENDITURES				
Current:				
General government	1,135,419	-	-	-
Public safety	1,877,781	-	-	84,070
Public works/streets	79,846	472,476	-	48,438
Tourism and recreation	379,202	-	420,454	78,350
Community and economic development	399,257	-	-	-
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	160,000	-
Interest	-	-	21,688	-
Total Expenditures	<u>3,871,505</u>	<u>472,476</u>	<u>602,142</u>	<u>210,858</u>
Excess of Revenues Over (Under) Expenditures	<u>332,648</u>	<u>336,893</u>	<u>(170,453)</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	-	-	163,068	-
Transfers out	(451,603)	-	-	-
Total Other Financing Sources (Uses)	<u>(451,603)</u>	<u>-</u>	<u>163,068</u>	<u>-</u>
Net change in fund balances	(118,955)	336,893	(7,385)	-
Fund Balances, Beginning of Year	<u>406,793</u>	<u>120,729</u>	<u>27,588</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 287,838</u>	<u>\$ 457,622</u>	<u>\$ 20,203</u>	<u>\$ -</u>

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

Development Impact Fee Fund	Non-major Acquisition & Development Fund	Total Governmental Funds
\$ -	\$ -	\$ 3,335,050
-	-	52,327
-	0	1,666,312
-	-	106,442
-	-	109,367
-	-	49,720
4,875	66	7,681
-	-	17,820
81,434	-	81,434
-	-	316,291
<u>86,309</u>	<u>66</u>	<u>5,742,444</u>
-	-	1,135,419
-	-	1,961,851
-	-	600,760
-	-	878,006
-	38,207	437,464
-	57,654	57,654
-	165,000	325,000
-	31,165	52,853
<u>-</u>	<u>292,026</u>	<u>5,449,007</u>
<u>86,309</u>	<u>(291,960)</u>	<u>293,437</u>
-	288,535	451,603
<u>-</u>	<u>-</u>	<u>(451,603)</u>
<u>-</u>	<u>288,535</u>	<u>-</u>
86,309	(3,425)	293,437
308,426	3,425	866,961
<u>\$ 394,735</u>	<u>\$ -</u>	<u>\$ 1,160,398</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$	293,437
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital outlay	\$	104,108
Depreciation expense		<u>(459,548)</u>
		(355,440)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		325,326
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(19,845)
Change in net assets of governmental activities		<u><u>\$ 243,478</u></u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Taxes	\$ 3,254,740	\$ 3,254,740	\$ 2,907,984	\$ (346,756)
Franchise tax	50,000	50,000	52,327	2,327
Intergovernmental Revenue	732,730	732,730	726,542	(6,188)
Licenses and permits	125,750	125,750	106,442	(19,308)
Charges for services	129,710	129,710	104,757	(24,953)
Fines and Forfeitures	85,000	85,000	49,720	(35,280)
Interest	10,000	10,000	2,727	(7,273)
Lease income	18,000	18,000	17,820	(180)
Miscellaneous	39,100	39,100	235,834	196,734
Total Revenues	4,445,030	4,445,030	4,204,153	(240,877)
EXPENDITURES				
Current:				
General Government:				
Administration	894,870	863,820	657,512	206,308
Finance	273,380	265,980	265,900	80
Legal	236,250	223,650	212,007	11,643
Public Safety:				
Police	1,701,750	1,763,500	1,738,544	24,956
Animal control	79,750	80,450	79,914	536
Magistrate	58,740	59,340	59,323	17
Public Works/Streets	97,285	97,285	79,846	17,439
Tourism and recreation	406,060	406,060	379,202	26,858
Community & economic development	414,960	402,960	399,257	3,703
Total Expenditures	4,163,045	4,163,045	3,871,505	291,540
Excess of Revenues Over (Under) Expenditures	281,985	281,985	332,648	50,663
Other Financing Sources (Uses):				
Transfers out	(496,485)	(496,485)	(451,603)	44,882
Total Other Financing Sources (Uses)	(496,485)	(496,485)	(451,603)	44,882
Net change in fund balance	(214,500)	(214,500)	(118,955)	95,545
Fund Balance, Beginning of Year	406,793	406,793	406,793	-
Fund Balance, End of Year	<u>\$ 192,293</u>	<u>\$ 192,293</u>	<u>\$ 287,838</u>	<u>\$ 95,545</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
Highway User Revenue Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 588,150	\$ 588,150	\$ 728,912	\$ 140,762
Miscellaneous	-	-	80,457	80,457
Total Revenue	<u>588,150</u>	<u>588,150</u>	<u>809,369</u>	<u>221,219</u>
EXPENDITURES:				
Current:				
Public Works:				
Administration	3,500	3,500	2,268	1,232
Street maintenance	627,650	627,650	460,665	166,985
Street rehabilitation	-	-	1,144	(1,144)
Utilities	7,000	7,000	8,399	(1,399)
Total Expenditures	<u>638,150</u>	<u>638,150</u>	<u>472,476</u>	<u>164,442</u>
Excess of Revenues Over (Under) Expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>336,893</u>	<u>386,893</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(50,000)	(50,000)	336,893	386,893
Fund Balance, Beginning of Year	<u>120,729</u>	<u>120,729</u>	<u>120,729</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 70,729</u>	<u>\$ 70,729</u>	<u>\$ 457,622</u>	<u>\$ 386,893</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Recreation & Tourism Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 495,000	\$ 495,000	\$ 427,066	\$ (67,934)
Intergovernmental revenue	-	-	-	-
Charges for services	7,000	7,000	4,610	(2,390)
Investment earnings	-	-	13	13
Total Revenue	<u>502,000</u>	<u>502,000</u>	<u>431,689</u>	<u>(70,311)</u>
EXPENDITURES:				
Current:				
Tourism and recreation	487,430	487,430	420,454	66,976
Debt Service:				
Principal	160,000	160,000	160,000	-
Interest	21,690	21,690	21,688	2
Total Expenditures	<u>669,120</u>	<u>669,120</u>	<u>602,142</u>	<u>66,978</u>
Excess of Revenues Over (Under) Expenditures	<u>(167,120)</u>	<u>(167,120)</u>	<u>(170,453)</u>	<u>(3,333)</u>
Other Financing Sources (Uses):				
Transfers in	<u>167,120</u>	<u>167,120</u>	<u>163,068</u>	<u>(4,052)</u>
Total Other Financing Sources (Uses):	<u>167,120</u>	<u>167,120</u>	<u>163,068</u>	<u>(4,052)</u>
Net change in fund balance	-	-	(7,385)	(7,385)
Fund Balance, Beginning of Year	<u>27,588</u>	<u>27,588</u>	<u>27,588</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 27,588</u>	<u>\$ 27,588</u>	<u>\$ 20,203</u>	<u>\$ (7,385)</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Grants Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 1,110,490	\$ 1,110,490	\$ 210,858	\$ (899,632)
Total Revenue	1,110,490	1,110,490	210,858	(899,632)
EXPENDITURES:				
Current:				
Public safety	575,730	575,730	84,070	491,660
Public works	65,000	65,000	48,438	16,562
Tourism and recreation	189,360	189,360	78,350	111,010
Economic development	280,400	280,400	-	280,400
Total Expenditures	1,110,490	1,110,490	210,858	899,632
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Assets
Fiduciary Funds
White Mountain Partnership
June 30, 2011

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 76,883
Total assets	<u>\$ 76,883</u>
Liabilities	
Accounts payable	\$ 5,190
Deposits held in trust	71,693
Total liabilities	<u>\$ 76,883</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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, 2011

Note 1. Summary of Significant Accounting Policies, Continued

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

The Town reports the following major governmental funds:

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

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

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

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

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

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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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, 2011

Note 1. Summary of Significant Accounting Policies, Continued

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

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

Deferred Revenue

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

Compensated Absences

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

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net 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.

Net Assets and Fund Equity

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

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

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

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

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

Estimates

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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 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. The details of these differences are reported in the reconciliation on page 14.

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. 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 16.

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. The Town follows a voter-approved expenditure limitation that was adopted on May 24, 2007.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 3. Stewardship, Compliance, and Accountability, Continued

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

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

No supplementary budgetary appropriations were necessary during the year. The Town's budget includes \$244,515 for contingencies.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports on pages 19-22 and 46-47 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2011, 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, 2011

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, 2011, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$240,667. As of June 30, 2011, the Town's bank balance of \$316,944 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, 2011 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	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Agencies (FFCB, FNMA, FICO)	501,196	454,461	46,735	-	-
Local Government Security (TVA)	-	-	-	-	-
Money Market Mutual Fund	4,466	4,466	-	-	-
Arizona Local Government Investment Pool	367,216	367,216	-	-	-
Total Fair Value	\$ 872,878	\$ 826,143	\$ 46,735	\$ -	\$ -

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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, 2011 the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
U.S. Government Securities	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Agencies (FFCB, FNMA, FICO)	501,196	501,196	-	-	-
Local Government Security (TVA)	-	-	-	-	-
Money Market Mutual Fund	4,466	-	-	-	4,466
Arizona Local Government Investment Pool	367,216	-	-	-	367,216
Total Fair Value	\$ 872,878	\$ 501,196	\$ -	\$ -	\$ 371,682

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 5. Interfund Receivables, Payables and Transfers

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

As of June 30, 2011 there are no interfund receivables or payables.

As of June 30, 2011, interfund transfers are as follows:

	Transfers In		
	Acquisition & Development	Recreation	Total
<u>Transfers Out:</u>			
General Fund	\$ 288,535	\$ 163,068	\$ 451,603
	\$ 288,535	\$ 163,068	\$ 451,603

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 6. Capital Assets

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

Primary Government Governmental Activities:	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011
Capital Assets not being Depreciated:				
Land	\$ 944,564	\$ -	\$ -	\$ 944,564
Total capital assets not being depreciated	<u>944,564</u>	<u>-</u>	<u>-</u>	<u>944,564</u>
Capital Assets being depreciated:				
Buildings & Improvements	1,104,114	-	-	1,104,114
Improvements other than buildings	2,961,953	73,798	-	3,035,751
Machinery & Equipment	1,080,154	30,310	-	1,110,464
Vehicles	898,923	-	-	898,923
Infrastructure	<u>2,081,424</u>	<u>-</u>	<u>-</u>	<u>2,081,424</u>
Total capital assets being depreciated	<u>8,126,568</u>	<u>104,108</u>	<u>-</u>	<u>8,230,676</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(565,942)	(32,232)	-	(598,174)
Improvements other than buildings	(639,088)	(155,400)	-	(794,488)
Machinery & Equipment	(594,432)	(105,757)	-	(700,189)
Vehicles	(604,108)	(60,708)	-	(664,816)
Infrastructure	<u>(209,743)</u>	<u>(105,451)</u>	<u>-</u>	<u>(315,194)</u>
Total accumulated depreciation	<u>(2,613,313)</u>	<u>(459,548)</u>	<u>-</u>	<u>(3,072,861)</u>
Total Capital Assets being depreciated, net	<u>5,513,255</u>	<u>(355,440)</u>	<u>-</u>	<u>5,157,815</u>
Governmental activities capital assets, net	<u>\$ 6,457,819</u>	<u>\$ (355,440)</u>	<u>\$ -</u>	<u>\$ 6,102,379</u>

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

Governmental Activities:	
General government	\$ 66,106
Public safety	88,577
Public works/streets	164,667
Culture & recreation	140,198
Economic development	<u>-</u>
Total depreciation expense - governmental activities	<u>\$ 459,548</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 7. Long-Term Debt

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

Governmental Activities:	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011	Current Portion
Accrued compensated absences	\$ 250,848	\$ 34,513	\$ 27,893	\$ 257,468	\$ 17,625
Landfill monitoring costs	7,815	-	326	7,489	326
Total other long-term debt	<u>258,663</u>	<u>34,513</u>	<u>28,219</u>	<u>264,957</u>	<u>17,951</u>
Revenue Bonds:					
Municipal facilities series 1999	<u>700,000</u>	<u>-</u>	<u>165,000</u>	<u>535,000</u>	<u>170,000</u>
Loans Payable:					
GADA ball field loan	<u>500,000</u>	<u>-</u>	<u>160,000</u>	<u>340,000</u>	<u>165,000</u>
Total loans payable	<u>500,000</u>	<u>-</u>	<u>160,000</u>	<u>340,000</u>	<u>165,000</u>
Total general long-term debt	<u>\$ 1,458,663</u>	<u>\$ 34,513</u>	<u>\$ 353,219</u>	<u>\$ 1,139,957</u>	<u>\$ 352,951</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, 2011

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, 2011:

Revenue Bonds:

Municipal Facilities Revenue Bonds, Series 1999 due in annual principal and interest installments, bearing interest at 3.25% to 4.5%, maturing July 1, 2014.	\$ 535,000
Less current portion	<u>(170,000)</u>
Total Revenue Bonds net of current portion	<u><u>\$ 365,000</u></u>

Revenue Bonds debt service maturities are as follows:

Year Ended	Principal	Interest	Total
<u>June 30,</u>	<u></u>	<u></u>	<u></u>
2012	\$ 170,000	\$ 20,164	\$ 190,164
2013	180,000	12,374	192,374
2014	185,000	4,162	189,162
2015	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 535,000</u></u>	<u><u>\$ 36,700</u></u>	<u><u>\$ 571,700</u></u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 7. Long-Term Debt, Continued

The following is a listing of loans outstanding as of June 30, 2011:

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.	\$ 340,000
Total Loans Payable	\$ 340,000
Less current portion	(165,000)
Total Loans Payable net of current portion	\$ 175,000

Loans payable debt service maturities are as follows:

Year Ended	Principal	Interest	Total
<u>June 30,</u>	<u> </u>	<u> </u>	<u> </u>
2012	\$ 165,000	\$ 14,888	\$ 179,888
2013	175,000	7,875	182,875
2014	-	-	-
2015	-	-	-
Total	\$ 340,000	\$ 22,763	\$ 362,763

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 8. 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 9. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 9. Retirement and Pension Plans, Continued

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement, and 0.25 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	\$ 126,227	\$ 15,166	\$ 7,899
2010	141,054	11,163	6,765
2011	142,704	9,345	3,960

Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 14.98 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.46 percent of covered payroll.

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 9. Retirement and Pension Plans, Continued

Fiscal year 2011 is not yet available. The PSPRS contribution requirements for the year ended June 30, 2010 were established by the June 30, 2009 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.50 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 26 years for unfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information on page 44 provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension/OPEB Cost – During the year ended June 30, 2010, the City's annual pension cost of \$102,918 and the annual OPEB cost of \$6,889 was equal to the City's required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2009	\$ 128,894	100%	\$ -
	2010	102,918	100%	-
	2011	*	*	*
Health Insurance	2009	\$ 9,340	100%	\$ -
	2010	6,889	100%	-
	2011	*	*	*

* Information for fiscal year 2011 is not yet available.

Additional historical trend information for the Town's PSPRS is disclosed on page 44. 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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 10. Risk Management

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

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

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

Note 11. Contingencies

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

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

Note 12. Change in Reporting

In previous years the Town had reported the Grants fund and the CDBG fund as separate non-major special revenue funds. For these financial statements and going forward, the CDBG fund will be combined with the Grants fund and reported as a major special revenue fund. The beginning fund balances as reported in the prior year financial statements for each respective fund must be combined in order to agree to the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Funding Progress
June 30, 2011

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2002 through June 30, 2011, based on actuarial valuations follows:

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
2002	\$ 1,902,489	\$ 1,966,319	\$ 63,830	96.8%	\$ 432,873	14.7%
2003	1,877,921	2,184,877	306,956	86.0%	540,599	56.8%
2004	1,843,123	2,384,157	541,034	77.3%	454,659	119.0%
2005	1,986,556	2,710,486	723,930	73.3%	402,934	179.7%
2006	2,042,717	3,001,273	958,556	68.1%	584,516	164.0%
2007	2,068,426	3,571,512	1,503,086	57.9%	711,817	211.2%
2008	2,116,088	3,257,110	1,141,022	65.0%	662,392	172.3%
2009 *	2,062,467	3,614,765	1,552,298	57.1%	652,721	237.8%
2010 *	2,118,960	3,836,022	1,717,062	55.2%	601,878	285.3%
2011 *	**	**	**	**	**	**

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

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
2006	\$ -	\$ 63,519	\$ 63,519	0.0%	\$ 584,516	10.9%
2007	\$ -	\$ 92,970	\$ 92,970	0.0%	\$ 711,817	13.1%
2008	\$ -	\$ 86,563	\$ 86,563	0.0%	\$ 662,392	13.1%
2009 *	\$ -	\$ 108,943	\$ 108,943	0.0%	\$ 652,721	16.7%
2010 *	\$ -	\$ 111,939	\$ 111,939	0.0%	\$ 601,878	18.6%
2011 *	**	**	**	**	**	**

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

** Information for fiscal year 2011 is not yet available.

Capital Project Funds Budget-and-Actual Reports

Major Governmental Fund

Capital Projects Funds

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

- Development Impact Fees Capital Projects Fund – This fund is used to account for Library, Parks, Police, Street, and General Government impact fees restricted or earmarked for development of the respective capital improvements.

Nonmajor Governmental Funds

Capital Projects Funds

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
DEVELOPMENT IMPACT FEE
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 16,260	\$ 16,260	\$ 81,434	\$ 65,174
Interest	4,775	4,775	4,875	100
Total Revenue	<u>21,035</u>	<u>21,035</u>	<u>86,309</u>	<u>65,274</u>
EXPENDITURES:				
Capital outlay	<u>149,340</u>	<u>149,340</u>	<u>-</u>	<u>149,340</u>
Total Expenditures	<u>149,340</u>	<u>149,340</u>	<u>-</u>	<u>149,340</u>
Excess of Revenues Over (Under) Expenditures	<u>(128,305)</u>	<u>(128,305)</u>	<u>86,309</u>	<u>214,614</u>
Fund Balance, Beginning of Year	<u>308,426</u>	<u>308,426</u>	<u>308,426</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 180,121</u>	<u>\$ 180,121</u>	<u>\$ 394,735</u>	<u>\$ 214,614</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
ACQUISITION & DEVELOPMENT
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	\$ 150	\$ 150	\$ 66	\$ (84)
Miscellaneous	-	-	-	-
Total Revenue	<u>150</u>	<u>150</u>	<u>66</u>	<u>(84)</u>
EXPENDITURES:				
Current:				
Community and economic development	94,350	94,350	38,207	56,143
Capital outlay	39,000	39,000	57,654	(18,654)
Debt Service:				
Principal	165,000	165,000	165,000	-
Interest	31,165	31,165	31,165	-
Total Expenditures	<u>329,515</u>	<u>329,515</u>	<u>292,026</u>	<u>37,489</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(329,365)</u>	<u>(329,365)</u>	<u>(291,960)</u>	<u>37,405</u>
Other Financing Sources (Uses):				
Transfers in	<u>329,365</u>	<u>329,365</u>	<u>288,535</u>	<u>(40,830)</u>
Total Other Financing Sources (Uses):	<u>329,365</u>	<u>329,365</u>	<u>288,535</u>	<u>(40,830)</u>
Net change in fund balance	-	-	(3,425)	(3,425)
Fund Balance, Beginning of Year	<u>3,425</u>	<u>3,425</u>	<u>3,425</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 3,425</u>	<u>\$ 3,425</u>	<u>\$ -</u>	<u>\$ (3,425)</u>

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OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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**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, 2011, and have issued our report thereon dated October 10, 2011. 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.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described the schedule of findings and recommendations dated October 10, 2011, that we consider to be significant deficiencies in internal control over financial reporting.

08-01. Year-End Adjustments

07-01. Segregation of Duties

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated October 10, 2011.

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.



HINTON, BURDICK, HALL & SPILKER, ARIZONA, PLLC
October 10, 2011



**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, 2011, and have issued our report thereon dated October 10, 2011. 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, 2011.

Hinton Burdick Hall & Spilker PLLC

HINTON, BURDICK, HALL & SPILKER, ARIZONA, PLLC
 October 10, 2011

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