

TOWN OF PINETOP-LAKESIDE, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2010
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF PINETOP-LAKESIDE

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MEMBERS:

CHAD B. ATKINSON
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 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

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, 2010, 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.

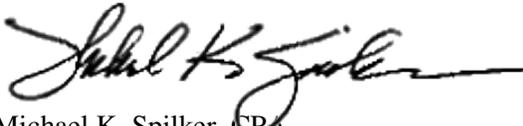
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2010, 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 7, 2010, 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 7, 2010

BASIC FINANCIAL STATEMENTS

TOWN OF PINETOP-LAKESIDE, ARIZONA
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Total</u>
Assets		
Cash and cash equivalents	\$ 252,548	\$ 252,548
Investments	229,220	229,220
Receivables (net of allowance)	633,163	633,163
Prepays	32,820	32,820
Other assets	14,974	14,974
Temporarily restricted assets:		
Cash and cash equivalents	380,648	380,648
Capital assets (net of accumulated depreciation):		
Land	944,564	944,564
Buildings and improvements	538,172	538,172
Other improvements	2,322,865	2,322,865
Furniture, machinery & equipment	485,722	485,722
Vehicles	294,815	294,815
Infrastructure	1,871,681	1,871,681
Total assets	<u>8,001,192</u>	<u>8,001,192</u>
Liabilities		
Accounts payable and other current liabilities	646,833	646,833
Noncurrent liabilities:		
Due within one year	352,893	352,893
Due in more than one year	1,105,770	1,105,770
Total liabilities	<u>2,105,496</u>	<u>2,105,496</u>
Net Assets		
Invested in capital assets, net of related debt	5,251,690	5,251,690
Restricted for:		
Public works/Streets	120,729	120,729
Unrestricted	523,277	523,277
Total Net Assets	<u>\$ 5,895,696</u>	<u>\$ 5,895,696</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, 2010

<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	\$ 1,194,493	\$ 244,658	\$ 17,494	\$ 5,870	\$ (926,471)
Public safety	1,991,096	66,321	19,047	64,942	(1,840,786)
Public works/Streets	784,839	-	509,825	124,961	(150,053)
Culture and recreation	950,846	36,834	22,850	5,965	(885,197)
Economic development	647,267	-	-	-	(647,267)
Interest on long-term debt	68,112	-	-	-	(68,112)
Total governmental activities	5,636,653	347,813	569,216	201,738	(4,517,886)
General Revenues:					
Taxes:					
					3,256,167
					305,650
					216,864
					54,814
					537,745
					5,103
					2,604
					<u>4,378,947</u>
					(138,939)
					<u>6,034,635</u>
					<u>\$ 5,895,696</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2010

Assets	<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	\$ 168,175	\$ -	\$ 42,970	\$ -	\$ 41,403	\$ 252,548
Investments	229,220	-	-	-	-	229,220
Prepays	32,820	-	-	-	-	32,820
Receivables:						
Taxes	285,795	-	-	-	-	285,795
Intergovernmental	184,062	147,590	-	-	15,716	347,368
Notes and Other Assets	14,974	-	-	-	-	14,974
Restricted Cash and Investments	-	72,222	-	308,426	-	380,648
Total Assets	\$ 915,046	\$ 219,812	\$ 42,970	\$ 308,426	\$ 57,119	\$ 1,543,373
 Liabilities and Fund Balances						
Liabilities:						
Accounts Payable	\$ 50,448	\$ 6,431	\$ 8,208	\$ -	\$ 2,590	\$ 67,677
Accrued Wages and Benefits	85,770	12,195	7,174	-	-	105,139
Accrued Liabilities	36,290	-	-	-	-	36,290
Customer Deposits	132,307	-	-	-	-	132,307
Compensated Absences	23,438	-	-	-	-	23,438
Deferred Revenue	180,000	80,457	-	-	51,104	311,561
Total Liabilities	508,253	99,083	15,382	-	53,694	676,412
Fund Balances:						
Reserved	-	120,729	-	308,426	-	429,155
Designated	-	-	-	-	-	-
Unreserved/Undesignated	406,793	-	27,588	-	3,425	437,806
Total fund balances	406,793	120,729	27,588	308,426	3,425	866,961
Total Liabilities and fund balances	\$ 915,046	\$ 219,812	\$ 42,970	\$ 308,426	\$ 57,119	\$ 1,543,373

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds	\$	866,961
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Governmental capital assets	\$	9,071,132
Accumulated depreciation		<u>(2,613,313)</u>
		6,457,819
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$	(700,000)
Loans payable		(500,000)
Compensated absences		(221,269)
Landfill closure payable		<u>(7,815)</u>
		(1,429,084)
Total net assets - governmental activities		<u><u>\$ 5,895,696</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 Balances - Governmental Funds
For the Year Ended June 30, 2010

REVENUES	<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	\$ 2,821,745	\$ -	\$ 434,422	\$ -	\$ -	\$ 3,256,167
Franchise taxes	54,814	-	-	-	-	54,814
Intergovernmental revenue	843,396	715,182	-	-	251,552	1,810,130
Licenses, permits and fees	101,349	-	-	-	-	101,349
Charges for services	122,285	-	8,100	-	-	130,385
Fines and forfeitures	63,116	-	-	-	-	63,116
Interest	511	-	5	4,288	299	5,103
Lease income	17,820	-	-	-	-	17,820
Impact fees	-	-	-	19,738	-	19,738
Miscellaneous	36,486	-	-	-	2,605	39,091
Total Revenues	<u>4,061,522</u>	<u>715,182</u>	<u>442,527</u>	<u>24,026</u>	<u>254,456</u>	<u>5,497,713</u>
EXPENDITURES						
Current:						
General government	1,144,037	-	-	-	15,324	1,159,361
Public safety	1,789,708	-	-	-	83,656	1,873,364
Public works/streets	80,954	400,822	-	-	131,065	612,841
Tourism and recreation	383,238	-	390,518	-	21,507	795,263
Community and economic development	544,540	-	-	-	53,143	597,683
Capital outlay	-	-	-	-	99,807	99,807
Debt Service:						
Principal	-	-	155,000	-	247,389	402,389
Interest	-	-	28,252	-	39,860	68,112
Total Expenditures	<u>3,942,477</u>	<u>400,822</u>	<u>573,770</u>	<u>-</u>	<u>691,751</u>	<u>5,608,820</u>
Excess of Revenues Over (Under) Expenditures	<u>119,045</u>	<u>314,360</u>	<u>(131,243)</u>	<u>24,026</u>	<u>(437,295)</u>	<u>(111,107)</u>
Other Financing Sources (Uses):						
Transfers in	-	-	145,525	-	388,324	533,849
Transfers out	(533,849)	-	-	-	-	(533,849)
Total Other Financing Sources (Uses)	<u>(533,849)</u>	<u>-</u>	<u>145,525</u>	<u>-</u>	<u>388,324</u>	<u>-</u>
Net change in fund balances	(414,804)	314,360	14,282	24,026	(48,971)	(111,107)
Fund Balances, Beginning of Year	<u>821,597</u>	<u>(193,631)</u>	<u>13,306</u>	<u>284,400</u>	<u>52,396</u>	<u>978,068</u>
Fund Balances, End of Year	<u>\$ 406,793</u>	<u>\$ 120,729</u>	<u>\$ 27,588</u>	<u>\$ 308,426</u>	<u>\$ 3,425</u>	<u>\$ 866,961</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, 2010

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

Net change in fund balances - total governmental funds	\$	(111,107)
<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	\$	33,330
Depreciation expense		<u>(460,862)</u>
		(427,532)
<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>		
		468,079
<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>		
		(68,379)
Change in net assets of governmental activities	<u>\$</u>	<u>(138,939)</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Taxes	\$ 3,854,550	\$ 3,854,550	\$ 2,821,745	\$ (1,032,805)
Franchise tax	32,000	32,000	54,814	22,814
Intergovernmental Revenue	857,930	857,930	843,396	(14,534)
Licenses and permits	105,900	105,900	101,349	(4,551)
Charges for services	127,710	127,710	122,285	(5,425)
Fines and Forfeitures	68,000	68,000	63,116	(4,884)
Interest	40,000	40,000	511	(39,489)
Lease income	18,000	18,000	17,820	(180)
Miscellaneous	194,570	194,570	36,486	(158,084)
Total Revenues	<u>5,298,660</u>	<u>5,298,660</u>	<u>4,061,522</u>	<u>(1,237,138)</u>
EXPENDITURES				
Current:				
General Government:				
Administration	951,315	951,315	677,292	274,023
Finance	258,330	258,330	251,535	6,795
Legal	227,325	227,325	215,210	12,115
Public Safety:				
Police	1,751,890	1,751,890	1,653,691	98,199
Animal control	78,670	78,670	77,210	1,460
Magistrate	59,640	59,640	58,807	833
Public Works/Streets	98,350	98,350	80,954	17,396
Tourism and recreation	476,330	476,330	383,238	93,092
Community & economic development	627,590	627,590	544,540	83,050
Total Expenditures	<u>4,529,440</u>	<u>4,529,440</u>	<u>3,942,477</u>	<u>586,963</u>
Excess of Revenues Over (Under) Expenditures	769,220	769,220	119,045	(650,175)
Other Financing Sources (Uses):				
Transfers out	(769,220)	(769,220)	(533,849)	235,371
Total Other Financing Sources (Uses)	<u>(769,220)</u>	<u>(769,220)</u>	<u>(533,849)</u>	<u>235,371</u>
Net change in fund balance	-	-	(414,804)	(414,804)
Fund Balance, Beginning of Year	<u>821,597</u>	<u>821,597</u>	<u>821,597</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 821,597</u>	<u>\$ 821,597</u>	<u>\$ 406,793</u>	<u>\$ (414,804)</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 813,440	\$ 813,440	\$ 715,182	\$ (98,258)
Miscellaneous	50,000	50,000	-	(50,000)
Total Revenue	<u>863,440</u>	<u>863,440</u>	<u>715,182</u>	<u>(148,258)</u>
EXPENDITURES:				
Current:				
Public Works:				
Street maintenance	632,700	632,700	400,506	232,194
Street rehabilitation	<u>234,500</u>	<u>234,500</u>	<u>316</u>	<u>234,184</u>
Total Expenditures	<u>867,200</u>	<u>867,200</u>	<u>400,822</u>	<u>466,378</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,760)</u>	<u>(3,760)</u>	<u>314,360</u>	<u>318,120</u>
Other Financing Sources (Uses):				
Transfers in	<u>3,760</u>	<u>3,760</u>	<u>-</u>	<u>(3,760)</u>
Total Other Financing Sources (Uses):	<u>3,760</u>	<u>3,760</u>	<u>-</u>	<u>(3,760)</u>
Net change in fund balance	-	-	314,360	314,360
Fund Balance, Beginning of Year	<u>(193,631)</u>	<u>(193,631)</u>	<u>(193,631)</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (193,631)</u></u>	<u><u>\$ (193,631)</u></u>	<u><u>\$ 120,729</u></u>	<u><u>\$ 314,360</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
Recreation & Tourism Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 475,000	\$ 475,000	\$ 434,422	\$ (40,578)
Intergovernmental revenue	30,000	30,000	-	(30,000)
Charges for services	4,200	4,200	8,100	3,900
Investment earnings	-	-	5	5
Total Revenue	<u>509,200</u>	<u>509,200</u>	<u>442,527</u>	<u>(66,673)</u>
EXPENDITURES:				
Current:				
Tourism and recreation	554,945	554,945	390,518	164,427
Debt Service:				
Principal	155,000	155,000	155,000	-
Interest	28,800	28,800	28,252	548
Total Expenditures	<u>738,745</u>	<u>738,745</u>	<u>573,770</u>	<u>164,975</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(229,545)</u>	<u>(229,545)</u>	<u>(131,243)</u>	<u>98,302</u>
Other Financing Sources (Uses):				
Transfers in	229,545	229,545	145,525	(84,020)
Total Other Financing Sources (Uses):	<u>229,545</u>	<u>229,545</u>	<u>145,525</u>	<u>(84,020)</u>
Net change in fund balance	-	-	14,282	14,282
Fund Balance, Beginning of Year	<u>13,306</u>	<u>13,306</u>	<u>13,306</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 13,306</u>	<u>\$ 13,306</u>	<u>\$ 27,588</u>	<u>\$ 14,282</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, 2010

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 71,559
Total assets	<u>\$ 71,559</u>
Liabilities	
Deposits held in trust	<u>71,559</u>
Total liabilities	<u>\$ 71,559</u>

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

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

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, 2010

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, 2010

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 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, 2010

Note 1. Summary of Significant Accounting Policies, Continued

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.

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, 2010

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, 2010

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, 2010

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 17-19, 42, 45-48 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2010, 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, 2010

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, 2010, cash on hand was \$1,050, and the carrying amount of the Town's deposits was \$317,119. As of June 30, 2010, the Town's bank balance of \$261,779 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, 2010 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)	366,846	320,863	45,983	-	-
Local Government Security (TVA)	91,410	91,410	-	-	-
Money Market Mutual Fund	40,964	40,964	-	-	-
Arizona Local Government					
Investment Pool	116,585	116,585	-	-	-
Total Fair Value	<u>\$ 615,805</u>	<u>\$ 569,822</u>	<u>\$ 45,983</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

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, 2010 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)	366,846	366,846	-	-	-
Local Government Security (TVA)	91,410	91,410	-	-	-
Money Market Mutual Fund	40,964	-	-	-	40,964
Arizona Local Government Investment Pool	116,585	-	-	-	116,585
Total Fair Value	\$ 615,805	\$ 458,256	\$ -	\$ -	\$ 157,549

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

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, 2010 there are no interfund receivables or payables.

As of June 30, 2010, interfund transfers are as follows:

	Transfers In		
	<u>Nonmajor Fund</u>	<u>Recreation</u>	<u>Total</u>
<u>Transfers Out:</u>			
General Fund	\$ 388,324	\$ 145,525	\$ 533,849
	<u>\$ 388,324</u>	<u>\$ 145,525</u>	<u>\$ 533,849</u>

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 Acquisition and Development Fund.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 6. Capital Assets

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

Primary Government	Balance			Balance
Governmental Activities:	6/30/2009	Additions	Retirements	6/30/2010
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	2,934,060	27,893	-	2,961,953
Machinery & Equipment	1,074,717	5,437	-	1,080,154
Vehicles	943,773	-	(44,850)	898,923
Infrastructure	2,081,424	-	-	2,081,424
Total capital assets being depreciated	<u>8,138,088</u>	<u>33,330</u>	<u>(44,850)</u>	<u>8,126,568</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(532,267)	(33,675)	-	(565,942)
Improvements other than buildings	(490,699)	(148,389)	-	(639,088)
Machinery & Equipment	(485,361)	(109,071)	-	(594,432)
Vehicles	(584,682)	(64,276)	44,850	(604,108)
Infrastructure	(104,292)	(105,451)	-	(209,743)
Total accumulated depreciation	<u>(2,197,301)</u>	<u>(460,862)</u>	<u>44,850</u>	<u>(2,613,313)</u>
Total Capital Assets being depreciated, net	<u>5,940,787</u>	<u>(427,532)</u>	<u>-</u>	<u>5,513,255</u>
Governmental activities capital assets, net	<u>\$ 6,885,351</u>	<u>\$ (427,532)</u>	<u>\$ -</u>	<u>\$ 6,457,819</u>

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

Governmental Activities:	
General government	\$ 60,085
Public safety	92,302
Public works/streets	163,682
Culture & recreation	144,793
Economic development	-
Total depreciation expense - governmental activities	<u>\$ 460,862</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 7. Long-Term Debt

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

Governmental Activities:	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010	Current Portion
Accrued compensated absences	\$ 182,469	\$ 95,759	\$ 27,380	\$ 250,848	\$ 27,893
Landfill monitoring costs	13,025	-	5,210	7,815	-
Total other long-term debt	<u>195,494</u>	<u>95,759</u>	<u>32,590</u>	<u>258,663</u>	<u>27,893</u>
Revenue Bonds:					
Municipal facilities series 1999	<u>855,000</u>	-	155,000	<u>700,000</u>	<u>165,000</u>
Loans Payable:					
Compass Bank loan	7,539	-	7,539	-	-
Computer Information Systems, Inc.	58,333	-	58,333	-	-
GADA ball field loan	<u>655,000</u>	-	<u>155,000</u>	<u>500,000</u>	<u>160,000</u>
Total loans payable	<u>720,872</u>	-	<u>220,872</u>	<u>500,000</u>	<u>160,000</u>
Capital Leases:					
Caterpillar loader lease	40,528	-	40,528	-	-
Kansas Bank sweeper lease	<u>46,469</u>	-	<u>46,469</u>	-	-
Total capital leases payable	<u>86,997</u>	-	<u>86,997</u>	-	-
Total general long-term debt	<u>\$ 1,858,363</u>	<u>\$ 95,759</u>	<u>\$ 495,459</u>	<u>\$ 1,458,663</u>	<u>\$ 352,893</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, 2010

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, 2010:

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.	\$ 700,000
Less current portion	<u>(165,000)</u>
Total Revenue Bonds net of current portion	<u>\$ 535,000</u>

Revenue Bonds debt service maturities are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2015	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 700,000</u>	<u>\$ 64,234</u>	<u>\$ 764,234</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 7. Long-Term Debt, Continued

The following is a listing of loans outstanding as of June 30, 2010:

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.	\$ 500,000
	\$ 500,000
Total Loans Payable	\$ 500,000
Less current portion	(160,000)
	\$ 340,000
Total Loans Payable net of current portion	\$ 340,000

Loans payable debt service maturities are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	\$ 160,000	\$ 21,688	\$ 181,688
2012	165,000	14,888	179,888
2013	175,000	7,875	182,875
2014	-	-	-
2015	-	-	-
	\$ 500,000	\$ 44,451	\$ 544,451
Total	\$ 500,000	\$ 44,451	\$ 544,451

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

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, 2010

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 9.45 percent (8.95 percent for retirement, and 0.5 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 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
2008	\$ 124,272	\$ 17,283	\$ 8,230
2009	125,188	16,329	7,776
2010	133,313	17,389	8,280

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 16.93 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 0.75 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, 2010

Note 9. Retirement and Pension Plans, Continued

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 27 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 43 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, 2009, the City's annual pension cost of \$139,952 and the annual OPEB cost of \$9,340 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	2008	\$ 106,707	100%	\$ -
	2009	139,952	100%	-
	2010	*	*	*
Health Insurance	2008	\$ 7,220	100%	\$ -
	2009	9,340	100%	-
	2010	*	*	*

* Information for fiscal year 2010 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.

TOWN OF PINETOP-LAKESIDE, ARIZONA
Notes to the Financial Statements
June 30, 2010

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 Acquisition & Development fund combined with the Recreation and Tourism fund. For these financial statements and going forward, the Acquisition and Development fund will be reported separately as a capital project fund. The beginning fund balances are reported separately for each respective fund and thus must be combined in order to agree to the prior year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PINETOP-LAKESIDE, ARIZONA
Schedule of Funding Progress
June 30, 2010

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2002 through June 30, 2010, 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 *	**	**	**	**	**	**

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 *	**	**	**	**	**	**

* 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 2010 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 earmarked for development of the respective capital improvements.

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.

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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 33,950	\$ 33,950	\$ 19,738	\$ (14,212)
Interest	<u>11,050</u>	<u>11,050</u>	<u>4,288</u>	<u>(6,762)</u>
Total Revenue	<u>45,000</u>	<u>45,000</u>	<u>24,026</u>	<u>(20,974)</u>
EXPENDITURES:				
Capital outlay	<u>25,900</u>	<u>25,900</u>	<u>-</u>	<u>25,900</u>
Total Expenditures	<u>25,900</u>	<u>25,900</u>	<u>-</u>	<u>25,900</u>
Excess of Revenues Over (Under) Expenditures	<u>19,100</u>	<u>19,100</u>	<u>24,026</u>	<u>4,926</u>
Fund Balance, Beginning of Year	<u>284,400</u>	<u>284,400</u>	<u>284,400</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 303,500</u>	<u>\$ 303,500</u>	<u>\$ 308,426</u>	<u>\$ 4,926</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total</u>
	<u>Local Transportation Assistance Fund</u>	<u>CDBG Grant Fund</u>	<u>Grant Fund</u>	<u>Acquisition & Development Fund</u>	
ASSETS					
Cash	\$ -	\$ -	\$ 35,818	\$ 5,585	\$ 41,403
Due from other governments	-	-	15,716	-	15,716
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,534</u>	<u>\$ 5,585</u>	<u>\$ 57,119</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 430	\$ 2,160	\$ 2,590
Deferred Revenue	-	-	51,104	-	51,104
Total Liabilities	<u>-</u>	<u>-</u>	<u>51,534</u>	<u>2,160</u>	<u>53,694</u>
Fund Balance:					
Unreserved	-	-	-	3,425	3,425
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,425</u>	<u>3,425</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,534</u>	<u>\$ 5,585</u>	<u>\$ 57,119</u>

TOWN OF PINETOP-LAKESIDE, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2010

	Special Revenue			Capital Projects	Total
	Local Transportation Assistance Fund	CDBG Grant Fund	Grant Fund	Acquisition & Development Fund	
REVENUES					
Intergovernmental revenue	\$ 11,506	\$ -	\$ 240,046	\$ -	\$ 251,552
Interest	-	-	-	299	299
Other revenues	-	-	-	2,605	2,605
Total Revenues	<u>11,506</u>	<u>-</u>	<u>240,046</u>	<u>2,904</u>	<u>254,456</u>
EXPENDITURES					
Current:					
General government	-	-	15,324	-	15,324
Public safety	-	-	83,656	-	83,656
Public works/streets	11,506	-	119,559	-	131,065
Tourism and recreation	-	-	21,507	-	21,507
Community and economic development	-	-	-	53,143	53,143
Capital outlay	-	-	-	99,807	99,807
Debt Service:					
Principal	-	-	-	247,389	247,389
Interest	-	-	-	39,860	39,860
Total Expenditures	<u>11,506</u>	<u>-</u>	<u>240,046</u>	<u>440,199</u>	<u>691,751</u>
Excess of Revenues					
Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(437,295)</u>	<u>(437,295)</u>
Other Financing Sources (Uses):					
Transfers in	-	-	-	388,324	388,324
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>388,324</u>	<u>388,324</u>
Net change in fund balances	-	-	-	(48,971)	(48,971)
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,396</u>	<u>52,396</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,425</u>	<u>\$ 3,425</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 20,785	\$ 20,785	\$ 11,506	\$ (9,279)
Total Revenue	<u>20,785</u>	<u>20,785</u>	<u>11,506</u>	<u>(9,279)</u>
EXPENDITURES:				
Current:				
Street maintenance	<u>20,785</u>	<u>20,785</u>	<u>11,506</u>	<u>9,279</u>
Total Expenditures	<u>20,785</u>	<u>20,785</u>	<u>11,506</u>	<u>9,279</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 350,000	\$ 350,000	\$ -	\$ (350,000)
Total Revenue	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>
EXPENDITURES:				
Current:				
Economic development	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Total Expenditures	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-
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
GRANT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 1,413,475	\$ 1,413,475	\$ 240,046	\$ (1,173,429)
Total Revenue	<u>1,413,475</u>	<u>1,413,475</u>	<u>240,046</u>	<u>(1,173,429)</u>
EXPENDITURES:				
Current:				
General government	134,805	134,805	15,324	119,481
Public safety	1,105,720	1,105,720	83,656	1,022,064
Public works	102,950	102,950	119,559	(16,609)
Tourism and recreation	70,000	70,000	21,507	48,493
Economic development	-	-	-	-
Total Expenditures	<u>1,413,475</u>	<u>1,413,475</u>	<u>240,046</u>	<u>1,173,429</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
ACQUISITION & DEVELOPMENT
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	\$ 1,300	\$ 1,300	\$ 299	\$ (1,001)
Miscellaneous	-	-	2,605	2,605
Total Revenue	<u>1,300</u>	<u>1,300</u>	<u>2,904</u>	<u>1,604</u>
EXPENDITURES:				
Current:				
Community and economic development	91,000	91,000	53,143	37,857
Capital outlay	58,383	58,383	99,807	(41,424)
Debt Service:				
Principal	249,540	249,540	247,389	2,151
Interest	36,570	36,570	39,860	(3,290)
Total Expenditures	<u>435,493</u>	<u>435,493</u>	<u>440,199</u>	<u>(4,706)</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(434,193)</u>	<u>(434,193)</u>	<u>(437,295)</u>	<u>(3,102)</u>
Other Financing Sources (Uses):				
Transfers in	<u>434,193</u>	<u>434,193</u>	<u>388,324</u>	<u>(45,869)</u>
Total Other Financing Sources (Uses):	<u>434,193</u>	<u>434,193</u>	<u>388,324</u>	<u>(45,869)</u>
Net change in fund balance	-	-	(48,971)	(48,971)
Fund Balance, Beginning of Year	<u>52,396</u>	<u>52,396</u>	<u>52,396</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 52,396</u>	<u>\$ 52,396</u>	<u>\$ 3,425</u>	<u>\$ (48,971)</u>

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

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
 BRENT R. HALL
 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona as of and for the year ended June 30, 2010, and have issued our report thereon dated October 7, 2010. 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 7, 2010, that we consider to be significant deficiencies in internal control over financial reporting.

07-01. Segregation of Duties

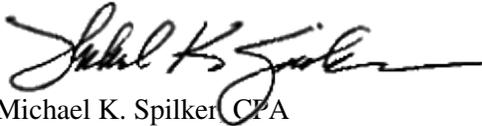
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated October 7, 2010.

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.

A handwritten signature in black ink, appearing to read "Michael K. Spilker". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael K. Spilker, CPA
October 7, 2010



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

The Honorable Mayor and
 Town Council
 Pinetop-Lakeside, Arizona

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
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 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

We have audited the basic financial statements of the Town of Pinetop-Lakeside, Arizona for the year ended June 30, 2010, and have issued our report thereon dated October 7, 2010. 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, 2010.


 Michael K. Spilker CPA
 October 7, 2010

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