

TOWN OF EAGAR, ARIZONA



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2013

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF EAGAR, ARIZONA

Table of Contents

Financial Section:

Report of Certified Public Accountants	1
Management’s Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of Total Governmental Fund Balance To Net Position of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Net Position - Proprietary Funds.....	20
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Notes to Financial Statements.....	23

Required Supplementary Information:

Public Safety Retirement System..... 48

Budgetary Comparison Schedules Major Funds:

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – General Fund – Budget and Actual..... 50

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Highway User Revenue Fund – Budget and Actual 52

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Grants Special Revenue Fund – Budget and Actual 53

Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Impact Fee Fund – Budget and Actual 56

Other Communications from Independent Auditors:

Report on Compliance with Federal Laws and Regulations
and Internal Control Structure 59

Report on Compliance with State Laws and Regulations 61

FINANCIAL SECTION

This page intentionally left blank

**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
Town Council
Eagar, Arizona

Report on the Financial Statements

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 Eagar, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Eagar as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in fiscal year 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 12, the Public Safety Personnel Retirement System information on page 48, and the budgetary comparison schedules on pages 50 through 53, to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Eagar, Arizona's basic financial statements. The introductory section, the nonmajor fund budgetary comparison schedule, and the statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the Town of Eagar'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* in considering Town of Eagar's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
November 12, 2013

This page intentionally left blank

**TOWN OF EAGAR, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

As management of the Town of Eagar (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Net position in Governmental activities decreased by \$3,490 to \$8,795,830.
- Net position in Business-type activities increased by \$20,733 to \$4,402,560.
- General Fund expenditures exceeded revenues by \$10,604.
- Highway User Revenue Fund revenues exceeded expenditures by \$18,183.
- Thirty three percent of the governmental funds revenue received was from Operating Grants & Contributions and Capital Grants & Contributions.
- Total Proprietary Funds revenues exceeded total expenses by \$114,483 in fiscal year 2013 which is an increase from a loss of \$16,656 in fiscal year 2012. This includes an expense of approximately \$409,000 for depreciation in each fiscal year.

- The following is a list of projects completed during fiscal year 2013:
 - Centennial Park construction in progress \$7,698
 - Monument signs improvements \$8,005
 - Brown and Hamblin street improvements \$177,277

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial 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. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's property tax base or condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, State Revenue Sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town charges a fee to customers to cover most of the cost of the services provided.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements 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, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$13.2 million as of June 30, 2013 as shown in the following condensed statement of net position. The Town has chosen to account for its water and sewer operations in enterprise funds which are shown as Business Activities.

TOWN OF EAGAR, ARIZONA Statement of Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Current and other assets	\$ 1,998,990	\$ 2,204,277	\$ (449,311)	\$ (502,815)	\$ 1,549,679	\$ 1,701,462
Capital assets	8,958,553	9,220,172	7,053,862	7,340,714	16,012,415	16,560,886
Total assets	10,957,543	11,424,449	6,604,551	6,837,899	17,562,094	18,262,348
Long-term liabilities outstanding	1,989,829	2,276,971	2,124,478	2,328,479	4,114,307	4,605,450
Other liabilities	171,884	348,157	77,513	127,593	249,397	475,750
Total liabilities	2,161,713	2,625,128	2,201,991	2,456,072	4,363,704	5,081,200
Net position:						
Net investment in capital assets	7,068,416	7,092,979	4,935,588	5,020,028	12,004,004	12,113,007
Restricted	373,183	356,348	-	-	373,183	356,348
Unrestricted	1,354,231	1,349,994	(533,028)	(638,201)	821,203	711,793
Total net position	\$ 8,795,830	\$ 8,799,321	\$ 4,402,560	\$ 4,381,827	\$ 13,198,390	\$ 13,181,148

Governmental Activities

The cost of all Governmental activities this year was \$3.29 million. As shown on the statement of Changes in Net Position on the following page, \$237,966 of this cost was paid for by those who directly benefited from the programs, \$1.11 million was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1.35 million. General taxes, State Revenue Sharing and investment earnings totaled \$1.96 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Health & Welfare. Each program's revenues and expenses are presented below.

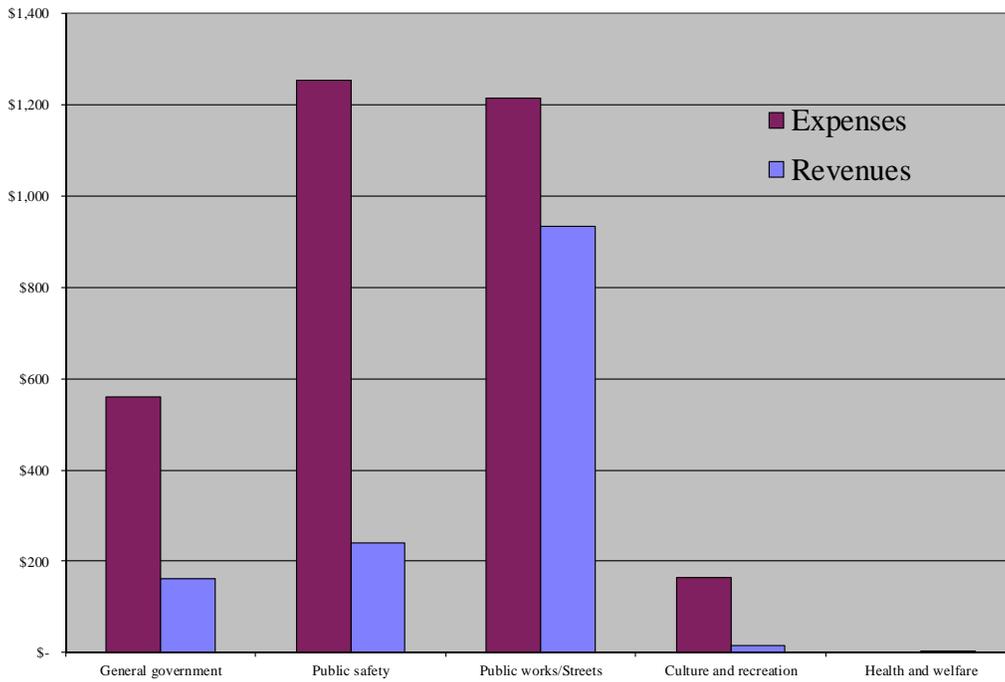
TOWN OF EAGAR, ARIZONA
Changes in Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Revenues:						
Program revenues:						
Charges for services	\$ 237,966	\$ 291,654	\$ 1,417,687	\$ 1,319,594	\$ 1,655,653	\$ 1,611,248
Operating grants and contributions	1,041,925	1,088,867	-	-	1,041,925	1,088,867
Capital grants and contributions	76,490	256,809	101,555	94,072	178,045	350,881
General revenues:						
Taxes	1,459,003	1,460,875	-	-	1,459,003	1,460,875
State revenue sharing	498,992	412,298	-	-	498,992	412,298
Other revenue/(expense)	10,922	11,955	3,594	4,460	14,516	16,415
Total revenues	<u>3,325,298</u>	<u>3,522,458</u>	<u>1,522,836</u>	<u>1,418,126</u>	<u>4,848,134</u>	<u>4,940,584</u>
Expenses:						
General government	560,878	603,917	-	-	560,878	603,917
Public safety	1,254,387	1,432,573	-	-	1,254,387	1,432,573
Public works/Streets	1,214,397	1,300,271	-	-	1,214,397	1,300,271
Culture and recreation	165,234	105,516	-	-	165,234	105,516
Health and welfare	-	-	-	-	-	-
Interest on long-term debt	92,642	117,912	-	-	92,642	117,912
Water & Sewer	-	-	1,408,353	1,434,782	1,408,353	1,434,782
Total expenses	<u>3,287,538</u>	<u>3,560,189</u>	<u>1,408,353</u>	<u>1,434,782</u>	<u>4,695,891</u>	<u>4,994,971</u>
Increase (Decrease) in net assets before transfers	37,760	(37,731)	114,483	(16,656)	152,243	(54,387)
Transfers	-	-	-	-	-	-
Increase (Decrease) in net position	37,760	(37,731)	114,483	(16,656)	152,243	(54,387)
Net position, beginning	8,799,320	8,837,052	4,381,827	4,398,483	13,181,147	13,235,535
Prior period adjustment	(41,250)	-	(93,750)	-	(135,000)	-
Net position, ending	<u>\$ 8,795,830</u>	<u>\$ 8,799,321</u>	<u>\$ 4,402,560</u>	<u>\$ 4,381,827</u>	<u>\$ 13,198,390</u>	<u>\$ 13,181,148</u>

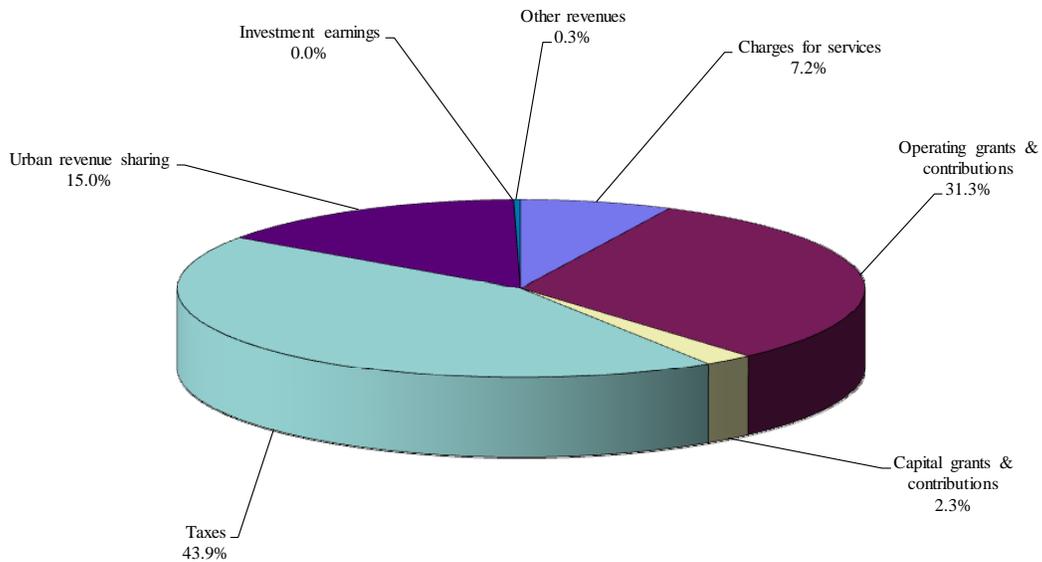
Total resources available during the year to finance governmental operations were \$12.12 million consisting of net position at July 1, 2012 of \$8.79 million, program revenues of \$1.35 million and general revenues of \$1.96 million. Total governmental activities during the year were \$3.29 million; thus governmental net position was increased by \$37,760.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



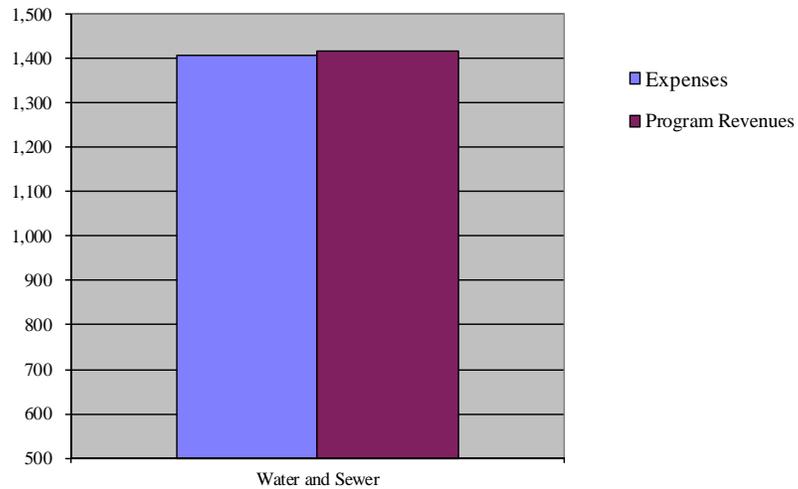
Revenue By Source - Governmental Activities



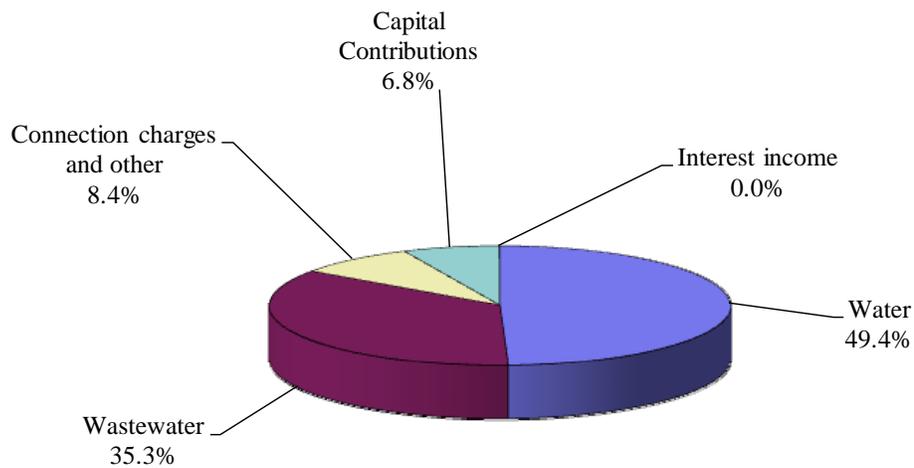
Business Type Activities

Net position of the Business Type activities at June 30, 2013, as reflected in the Statement of Net Position were \$4.4 million. The cost of providing all Proprietary (Business Type) activities this year was \$1.4 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$1.41 million and there was \$101,555 subsidized by capital grants and contributions. Investment earnings and other revenues in were \$3,594. The Net Position increased by \$114,483.

Expenses and Program Revenues - Business-type Activities
(in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town of Eagar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the Town of Eagar's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Eagar's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Eagar's governmental funds reported combined ending fund balances of \$1,851,569, an increase of \$6,232 in comparison with the prior year. Approximately, 79.85% of this total amount or \$1,478,387 constitutes unassigned, fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Town of Eagar. At the end of the current fiscal year, unassigned fund balance in the general fund was \$1,478,386, and total fund balance is \$1,478,386. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance and unassigned fund balance represents 62.22% of total general fund expenditures. During the year, the Town of Eagar's general fund balance decreased by \$10,604. Key factors in this decrease are as follows:

- Total revenues decreased by \$75,401 which was due to decreases in various revenue line items.
- Total expenditures were \$258,693 more than the prior year with the majority of the increases coming from general government, public safety and public works/streets.

The highway user revenue fund has a total fund balance of \$366,787 which is up from the prior year balance of \$348,604, all of which is reserved for road construction and maintenance. Revenues and expenditures were comparable to the prior.

The grants fund has a total fund balance of \$1,128, all of which is restricted for specific use.

Proprietary funds: The Town of Eagar's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the Water/Wastewater fund was \$4,402,560 consisting of \$4,935,588 net investment in capital assets and \$(533,028) in unrestricted net deficit.

Budgetary Highlights

The General Fund's revenues of \$2,365,377 are less than budgeted revenues by \$52,081 which was due mainly to sales tax revenues that were budgeted for and not received. The General fund departmental expenditures were \$325,372 less than their budget appropriation for fiscal year 2013. This variance was mainly related to fleet maintenance.

The Highway User's revenues of \$851,096 are less than budgeted revenues by \$35,904. Highway User's expenditures of \$832,913 were more than budgeted expenditures by \$237,750 due mainly to road materials, supplies and paving expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of fiscal year 2013, net capital assets of the government activities totaled \$8.95 million and the net capital assets of the business-type activities totaled \$7.07 million. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the Town had \$1.98 million in governmental type debt, and \$2.12 million in proprietary debt. Total debt for the Town decreased by \$491,143 due to regularly scheduled debt service payments (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2013/2014, the Town Council and management were cautious as to the growth of revenues and expenditures due to a slow economy. Overall governmental and proprietary fund operating expenditures were budgeted to maintain the current level of service.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 financial information, contact, Town of Eagar, Accounting Department, 22 W. 2nd Street, Eagar, Arizona 85925.

BASIC FINANCIAL STATEMENTS

TOWN OF EAGAR, ARIZONA
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 698,733	\$ 48,688	\$ 747,421
Receivables (net of allowance)	256,455	207,628	464,083
Inventory	-	153,835	153,835
Prepays	-	-	-
Internal balances	984,585	(984,585)	-
Temporarily restricted assets:			
Cash and cash equivalents	59,217	125,123	184,340
Capital assets (net of accumulated depreciation):			
Land	1,993,379	19,730	2,013,109
Construction in progress	135,477	69,766	205,243
Land improvements	891,656	-	891,656
Buildings	2,402,499	-	2,402,499
Distribution systems	-	6,934,039	6,934,039
Infrastructure/roads	2,994,253	-	2,994,253
Furniture, equipment & vehicles	541,289	30,327	571,616
Total assets	<u>10,957,543</u>	<u>6,604,551</u>	<u>17,562,094</u>
Liabilities			
Accounts payable and other current liabilities	99,032	43,053	142,085
Unearned revenue	48,389	-	48,389
Interest payable	24,463	34,460	58,923
Noncurrent liabilities:			
Due within one year	195,158	119,999	315,157
Due in more than one year	1,794,671	2,004,479	3,799,150
Total liabilities	<u>2,161,713</u>	<u>2,201,991</u>	<u>4,363,704</u>
Net Position			
Net investment in capital assets	7,068,416	4,935,588	12,004,004
Restricted for:			
Debt service	-	-	-
Highways and streets	366,787	-	366,787
Other purposes	6,396	-	6,396
Unrestricted	1,354,231	(533,028)	821,203
Total Net Position	<u>\$ 8,795,830</u>	<u>\$ 4,402,560</u>	<u>\$ 13,198,390</u>

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

TOWN OF EAGAR, ARIZONA
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 560,878	\$ 162,349	\$ 530	\$ -	\$ (397,999)	\$ -	\$ (397,999)
Public safety	1,254,387	45,377	186,230	8,000	(1,014,780)	-	(1,014,780)
Public works/Streets	1,214,397	18,790	846,872	68,490	(280,245)	-	(280,245)
Culture and recreation	165,234	11,450	4,255	-	(149,529)	-	(149,529)
Health and welfare	-	-	4,038	-	4,038	-	4,038
Interest on long-term debt	92,642	-	-	-	(92,642)	-	(92,642)
Total governmental activities	<u>3,287,538</u>	<u>237,966</u>	<u>1,041,925</u>	<u>76,490</u>	<u>(1,931,157)</u>	<u>-</u>	<u>(1,931,157)</u>
Business-type activities:							
Water and Sewer	1,408,353	1,417,687	-	101,555	-	110,889	110,889
Total business-type activities	<u>1,408,353</u>	<u>1,417,687</u>	<u>-</u>	<u>101,555</u>	<u>-</u>	<u>110,889</u>	<u>110,889</u>
Total Primary Government	<u>\$ 4,695,891</u>	<u>\$ 1,655,653</u>	<u>\$ 1,041,925</u>	<u>\$ 178,045</u>	<u>(1,931,157)</u>	<u>110,889</u>	<u>(1,820,268)</u>
General Revenues:							
Taxes:							
City sales tax					801,128	-	801,128
Auto lieu tax (unrestricted)					258,029	-	258,029
State sales tax (unrestricted)					399,846	-	399,846
Urban revenue sharing (unrestricted)					498,992	-	498,992
Unrestricted investment earnings					456	513	969
Gain on sale of assets					10,466	3,081	13,547
Total general revenues & transfers					<u>1,968,917</u>	<u>3,594</u>	<u>1,972,511</u>
Change in net position					37,760	114,483	152,243
Net position - beginning					8,799,320	4,381,827	13,181,147
Restatement adjustment					(41,250)	(93,750)	(135,000)
Net position - ending					<u>\$ 8,795,830</u>	<u>\$ 4,402,560</u>	<u>\$ 13,198,390</u>

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

TOWN OF EAGAR, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

Assets	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Grants</u>	<u>Non-major Impact Fee</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 390,542	\$ 290,441	\$ 12,482	5,268	\$ 698,733
Receivables:					
Other	39,839	-	-	-	39,839
Intergovernmental	117,010	85,290	14,316	-	216,616
Due from other funds	984,585	-	-	-	984,585
Restricted cash and investments	59,217	-	-	-	59,217
Total Assets	<u>\$ 1,591,193</u>	<u>\$ 375,731</u>	<u>\$ 26,798</u>	<u>\$ 5,268</u>	<u>\$ 1,998,990</u>
Liabilities					
Accounts payable	\$ 31,473	\$ 4,495	\$ 5,137	\$ -	\$ 41,105
Accrued wages and benefits	51,899	4,449	1,579	-	57,927
Due to other funds	-	-	-	-	-
Unearned Revenue	29,435	-	18,954	-	48,389
Total Liabilities	<u>112,807</u>	<u>8,944</u>	<u>25,670</u>	<u>-</u>	<u>147,421</u>
Fund Balances					
Restricted	-	366,787	1,128	5,268	373,183
Unassigned	1,478,386	-	-	-	1,478,386
Total fund balances	<u>1,478,386</u>	<u>366,787</u>	<u>1,128</u>	<u>5,268</u>	<u>1,851,569</u>
Total Liabilities and Fund Balances	<u>\$ 1,591,193</u>	<u>\$ 375,731</u>	<u>\$ 26,798</u>	<u>\$ 5,268</u>	<u>\$ 1,998,990</u>

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

TOWN OF EAGAR, ARIZONA
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2013

Total governmental fund balances \$ 1,851,569

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

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

Governmental capital assets	\$ 19,251,741	
Accumulated depreciation	<u>(10,293,188)</u>	8,958,553

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

Bonds payable	\$ (1,401,077)	
Capital leases payable	(489,060)	
Compensated absences	(99,692)	
Accrued interest	<u>(24,463)</u>	(2,014,292)

Total net position of governmental activities	<u><u>\$ 8,795,830</u></u>
---	----------------------------

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

TOWN OF EAGAR, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

REVENUES	General	Highway Users Revenue Fund	Grants	Non-major Impact Fee	Total Governmental Funds
Taxes	\$ 801,128	\$ -	\$ -	\$ -	\$ 801,128
Licenses, permits and fees	22,655	-	-	-	22,655
Intergovernmental revenue	1,156,867	838,913	108,809	-	2,104,589
Charges for services	246,299	-	-	-	246,299
Fines and forfeitures	33,710	-	-	-	33,710
Interest	-	-	-	16	16
Other revenues	104,718	12,183	-	-	116,901
Total Revenues	<u>2,365,377</u>	<u>851,096</u>	<u>108,809</u>	<u>16</u>	<u>3,325,298</u>
EXPENDITURES					
Current:					
General government	516,977	-	-	-	516,977
Public safety	1,150,366	-	45,755	-	1,196,121
Public works/streets	326,957	741,488	63,617	-	1,132,062
Culture and recreation	96,153	-	800	-	96,953
Health and welfare	-	-	-	-	-
Debt Service:					
Principal	219,010	59,296	-	-	278,306
Interest	66,518	32,129	-	-	98,647
Total Expenditures	<u>2,375,981</u>	<u>832,913</u>	<u>110,172</u>	<u>-</u>	<u>3,319,066</u>
Excess of Revenues Over (Under) Expenditures	<u>(10,604)</u>	<u>18,183</u>	<u>(1,363)</u>	<u>16</u>	<u>6,232</u>
Fund balances, beginning of year	<u>1,488,990</u>	<u>348,604</u>	<u>2,491</u>	<u>5,252</u>	<u>1,845,337</u>
Fund balances, end of year	<u>\$ 1,478,386</u>	<u>\$ 366,787</u>	<u>\$ 1,128</u>	<u>\$ 5,268</u>	<u>\$ 1,851,569</u>

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

TOWN OF EAGAR, 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, 2013

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

Net change in fund balances - total governmental funds	\$	6,232
<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	\$	268,309
Depreciation expense		<u>(529,928)</u>
		(261,619)
Repayment of bonds, notes and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		278,306
Accrued Interest for Long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.		6,005
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.		8,836
Change in net position of governmental activities	<u>\$</u>	<u>37,760</u>

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

TOWN OF EAGAR, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

	Utility Fund	
	6/30/2013	6/30/2012
Assets		
Current Assets:		
Cash	\$ 48,688	\$ -
Receivables (net of allowance)	207,628	226,710
Inventory	153,835	128,161
Prepays	-	-
Total Current Assets	<u>410,151</u>	<u>354,871</u>
Noncurrent Assets:		
Restricted cash and investments	125,123	193,697
Deferred charges	-	93,750
Land	19,730	19,730
Water wells and distribution system	8,069,596	8,036,281
Wastewater treatment plant and distribution system	7,590,786	7,366,856
Furniture, equipment and vehicles	294,306	317,306
Construction in progress	69,766	204,237
Accumulated depreciation	<u>(8,990,322)</u>	<u>(8,603,696)</u>
Total Noncurrent Assets	<u>7,178,985</u>	<u>7,628,161</u>
Total Assets	<u>\$ 7,589,136</u>	<u>\$ 7,983,032</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 1,405	\$ 51,373
Accrued wages and benefits	7,617	7,452
Accrued liabilities	7,981	8,733
Customer deposits	26,050	25,575
Due to other funds	984,585	1,145,133
Accrued interest payable	34,460	34,460
Current portion of long-term debt	<u>119,999</u>	<u>206,433</u>
Total Current Liabilities	<u>1,182,097</u>	<u>1,479,159</u>
Noncurrent liabilities (net of current portion):		
Compensated absences	-	-
Leases payable	-	-
Notes and loans payable	704,788	762,387
Revenue bonds payable	<u>1,299,691</u>	<u>1,359,659</u>
Total Noncurrent Liabilities	<u>2,004,479</u>	<u>2,122,046</u>
Total Liabilities	<u>3,186,576</u>	<u>3,601,205</u>
Net Position		
Net investment in capital assets	4,935,588	5,020,028
Restricted	-	-
Unrestricted	<u>(533,028)</u>	<u>(638,201)</u>
Total net position	<u>\$ 4,402,560</u>	<u>\$ 4,381,827</u>

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

TOWN OF EAGAR, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Utility Fund	
	6/30/2013	6/30/2012
Operating Revenues		
Water charges for services	\$ 738,441	\$ 702,524
Wastewater charges for services	528,009	501,937
Connection fees	29,340	12,640
Other revenues	121,897	102,493
Total Operating Revenues	<u>1,417,687</u>	<u>1,319,594</u>
Operating Expenses		
Salaries	382,474	432,510
Employee benefits	157,263	178,871
Service, supplies and other	367,326	313,845
Depreciation	409,625	418,493
Total Operating Expenses	<u>1,316,688</u>	<u>1,343,719</u>
Operating Income (Loss)	<u>100,999</u>	<u>(24,125)</u>
Non-operating Revenues (Expenses)		
Interest income	513	98
Interest expense and fiscal charges	(91,665)	(91,063)
Gain on sale of assets	3,081	4,362
Intergovernmental revenues	100,800	91,898
Impact fees	755	2,174
Total Non-Operating Revenue (Expense)	<u>13,484</u>	<u>7,469</u>
Change in net assets	114,483	(16,656)
Total net assets, beginning of year	4,381,827	4,398,483
Restatement Adjustment	(93,750)	-
Total net assets, end of year	<u>\$ 4,402,560</u>	<u>\$ 4,381,827</u>

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

TOWN OF EAGAR, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Utility Fund	
	6/30/2013	6/30/2012
Cash Flows From Operating Activities:		
Cash received from customers, service fees	\$ 1,285,532	\$ 1,170,786
Cash received from customers, other	151,237	115,133
Cash paid to suppliers	(442,968)	(289,533)
Cash paid to employees	(541,438)	(619,082)
Net cash flows from operating activities	<u>452,363</u>	<u>377,304</u>
Cash Flows From Noncapital Financing Activities:		
Proceeds/(Payments) to other funds	(160,548)	(205,362)
Transfers (to)/from other funds	-	-
Net cash flows from noncapital financing activities	<u>(160,548)</u>	<u>(205,362)</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from capital debt	-	475,648
Purchase of capital assets	(122,774)	(193,310)
Principal paid on notes, leases and bonds	(202,412)	(534,364)
Interest paid	(91,664)	(89,983)
Capital grants	100,800	91,898
Proceeds from sale of assets	3,081	4,362
Impact fees	755	2,174
Net cash flows from capital and related financing activities	<u>(312,214)</u>	<u>(243,575)</u>
Cash Flows From Investing Activities:		
Interest on investments	513	98
Net change in cash and cash equivalents	(19,886)	(71,535)
Cash and cash equivalents, beginning of year, including temporarily restricted cash	<u>193,697</u>	<u>265,232</u>
Cash and cash equivalents, end of year, including temporarily restricted cash	<u><u>\$ 173,811</u></u>	<u><u>\$ 193,697</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income (Loss)	\$ 100,999	\$ (24,125)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation/amortization	409,625	418,493
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	19,082	(33,675)
(Increase)/Decrease in inventory and prepaids	(25,674)	(8,547)
Increase/(Decrease) in payables	(49,968)	32,859
Increase/(Decrease) in accrued liabilities & deposits	(1,701)	(7,701)
Net cash flows from operating activities	<u><u>\$ 452,363</u></u>	<u><u>\$ 377,304</u></u>

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting Entity

The Town of Eager (Town) is a municipal corporation governed by an elected mayor, vice mayor and three-member governing council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The following is a brief review of the component units included in defining the City's reporting entity. There are no discretely presented component units and one blended component unit.

Blended component units included within the reporting entity:

The Eagar Municipal Property Corporation's (EMPC) board of directors consists of six members which are appointed by the Eagar Town Council. The EMPC, 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 of the Town. The Town has a "moral obligation" for the repayment of the Eagar Municipal Property Corporation's bonds. All related receivables and payables between the Town and the EMPC have been eliminated. The EMPC has a June 30 year end. Separate financial statements for this blended component unit are not prepared and thus, are not available.

Basis of Presentation-Government-Wide Financial Statements

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and pro-gram revenues reported for the various functions concerned.

Basis of Presentation-Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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** accounts for the Town's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing and construction of streets.

The **Grants Special Revenue Fund** is used to account for federal and state grants and other contributions that are restricted for use.

The Town reports the following major proprietary fund:

The **Utility Fund** accounts for the activities related to the Town's water storage and distribution system and sewer collection and treatment operations.

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

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

Measurement focus and basis of accounting

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

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

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

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

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

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

Cash and cash equivalents

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

Investments

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 investment pool, obligations of the U.S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

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. All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories for business type activities consist of materials and supplies for the water and sewer system and are recorded at the lower of cost or market using the first-in/first-out method.

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type 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 two 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.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Building and improvements	10 to 50 years
Treatment facilities and improvements	20-40 years
Machinery and equipment	3 to 7 years
Vehicles	3 to 20 years
Streets and sidewalks	20-40 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Town currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently does not have any items that qualify for reporting in this category.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Net position flow assumption

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

Fund balance flow assumptions

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

Fund balance policies

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

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

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Revenues and expenditures/expenses

Program revenues

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

Property Taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. However, the County does not currently levy any property taxes for the Town. The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund and wastewater fund are charges to customers for sales and services.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

The water fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of 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.

New Pronouncements

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the City implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 14).

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

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

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

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 alternative expenditure limitation that was adopted on December 1, 2009.
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.

There were no supplementary budgetary appropriations made during the year.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 3. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2013, 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.

Note 4. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position follows:

Cash and cash equivalents	\$ 747,421
Restricted cash and cash equivalents	<u>184,340</u>
Total	<u><u>\$ 931,761</u></u>

Restricted cash consists of the following at June 30, 2013:

Debt Service - Governmental Activities	\$ 59,217
Debt Service - Business-Type Activities	99,073
Customer Deposits - Business-Type Activities	<u>26,050</u>
Total restricted cash and investments	<u><u>\$ 184,340</u></u>

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, 2013 cash on hand was \$275 and the carrying amount of the Town's deposits was \$390,039. As of June 30, 2013, none of the City's bank balance of \$430,208 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments, Continued

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 investment 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 local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” 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, 2013 the government had the following deposits and investments:

	<u>Fair Value</u>	<u>Quality Rating</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	275	N/A	N/A
Cash in bank	390,039	N/A	N/A
Investments:			
Local Government			
Investment Pool 5	\$ 443,322	(1)	25 days
U.S. Treasury Obligations	<u>98,125</u>	AAA	Less than one year
Total cash and investments	<u>\$ 931,761</u>		

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable. The City's investment in the State Treasurer's Investment Pool #5 was rated AAAF/S1+ from Standard and Poor's.

(2) Interest Rate Risk is estimated using the weighted average days to maturity.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments, Continued

Interest rate risk

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

Credit risk

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

This section intentionally left blank

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Capital assets, not being depreciated:				
Land	\$ 1,993,379	\$ -	\$ -	\$ 1,993,379
Construction in progress	140,169	268,308	(273,000)	135,477
Total capital assets, not being depreciated	<u>2,133,548</u>	<u>268,308</u>	<u>(273,000)</u>	<u>2,128,856</u>
Capital assets, being depreciated:				
Land improvements	1,109,473	95,724	-	1,205,197
Buildings and improvements	3,628,904	-	-	3,628,904
Furniture, equipment & vehicles	2,551,526	-	(46,700)	2,504,826
Infrastructure - roads	9,606,681	177,277	-	9,783,958
Total capital assets, being depreciated	<u>16,896,584</u>	<u>273,001</u>	<u>(46,700)</u>	<u>17,122,885</u>
Less accumulated depreciation for:				
Land improvements	(263,008)	(50,533)	-	(313,541)
Buildings and improvements	(1,150,026)	(76,379)	-	(1,226,405)
Furniture, equipment & vehicles	(1,880,726)	(129,511)	46,700	(1,963,537)
Infrastructure - roads	(6,516,200)	(273,505)	-	(6,789,705)
Total accumulated depreciation	<u>(9,809,960)</u>	<u>(529,928)</u>	<u>46,700</u>	<u>(10,293,188)</u>
Total capital assets, being depreciated, net	<u>7,086,624</u>	<u>(256,927)</u>	<u>-</u>	<u>6,829,697</u>
Governmental activities capital assets, net	<u>\$ 9,220,172</u>	<u>\$ 11,381</u>	<u>\$ (273,000)</u>	<u>\$ 8,958,553</u>

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

Governmental Activities:	
General government	\$ 45,453
Public safety	79,901
Public works/streets	336,001
Culture & recreation	68,573
Total depreciation expense - governmental activities	<u>\$ 529,928</u>

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 5. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Capital assets not being depreciated:				
Land and water rights	\$ 19,730	\$ -	\$ -	\$ 19,730
Construction in progress	<u>204,237</u>	<u>137,081</u>	<u>(271,552)</u>	<u>69,766</u>
Total capital assets, not being depreciated	<u>223,967</u>	<u>137,081</u>	<u>(271,552)</u>	<u>89,496</u>
Capital assets being depreciated:				
Wastewater treatment plant and system improvements	7,366,856	223,930	-	7,590,786
Wells and water system improvements	8,036,281	33,315	-	8,069,596
Furniture, Equipment & Vehicles	<u>317,306</u>	<u>-</u>	<u>(23,000)</u>	<u>294,306</u>
Total capital assets, being depreciated	<u>15,720,443</u>	<u>257,245</u>	<u>(23,000)</u>	<u>15,954,688</u>
Less accumulated depreciation for:				
Wastewater treatment plant and system improvements	(3,657,493)	(223,943)	-	(3,881,436)
Wells and water system improvements	(4,679,565)	(165,342)	-	(4,844,907)
Furniture, Equipment & Vehicles	<u>(266,638)</u>	<u>(20,341)</u>	<u>23,000</u>	<u>(263,979)</u>
Total accumulated depreciation	<u>(8,603,696)</u>	<u>(409,626)</u>	<u>23,000</u>	<u>(8,990,322)</u>
Total capital assets, being depreciated, net	<u>7,116,747</u>	<u>(152,381)</u>	<u>-</u>	<u>6,964,366</u>
Business-type activities capital assets, net	<u>\$ 7,340,714</u>	<u>\$ (15,300)</u>	<u>\$ (271,552)</u>	<u>\$ 7,053,862</u>

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

Business-Type Activities:	
Water	\$ 185,682
Sewer	<u>223,943</u>
Total depreciation expense - business-type activities	<u>\$ 409,625</u>

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Long-Term Debt

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

Governmental Activities:	Balance 6/30/2012	Additions	Retirements	Balance 6/30/2013	Current Portion
Revenue Bonds:					
GADA Revenue Bonds, Series 2007A *	\$ 1,458,577	\$ -	\$ (57,500)	\$ 1,401,077	\$ 60,768
Excise Tax Revenue Bonds, Series 2003 *	100,700	-	(100,700)	-	-
Other:					
Notes Payable	-	-	-	-	-
Capital Leases	609,166	-	(120,106)	489,060	44,390
Compensated Absences	108,528	100,459	(109,295)	99,692	90,000
Governmental Activity Long-Term Liabilities	<u>\$ 2,276,971</u>	<u>\$ 100,459</u>	<u>\$ (387,601)</u>	<u>\$ 1,989,829</u>	<u>\$ 195,158</u>
Business-type Activities:					
Revenue Bonds:					
GADA Revenue Bonds, Series 2007A *	1,416,423	-	(57,500)	1,358,923	59,232
Excise Tax Revenue Bonds, Series 2003 *	89,300	-	(89,300)	-	-
Total Revenue Bonds	<u>1,505,723</u>	<u>-</u>	<u>(146,800)</u>	<u>1,358,923</u>	<u>59,232</u>
Other:					
Notes and Loans Payable	814,963	-	(55,612)	759,351	54,563
Capital Leases	-	-	-	-	-
Compensated Absences	7,793	4,880	(6,469)	6,204	6,204
Business-Type Activity Long-Term Liabilities	<u>\$ 2,328,479</u>	<u>\$ 4,880</u>	<u>\$ (208,881)</u>	<u>\$ 2,124,478</u>	<u>\$ 119,999</u>

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Long-Term Debt, Continued

The following is a listing of bonds outstanding as of June 30, 2013:

Revenue Bonds:

GADA Revenue Bond, Series 2007A
due in semiannual principal and interest installments,
bearing interest at 4.0 to 5% %, maturing August 1, 2028.

	<u>2,760,000</u> *
Total bonds payable	\$ 2,760,000
Less current portion	<u>120,000</u>
Total Bonds net of current portion	<u>\$ 2,640,000</u>

* The GADA Bonds, Series 2007A were used by both the general government and the utility fund and are allocated across the funds as follows:

Governmental Activities	\$ 1,401,077
Business-type Activities	<u>1,358,923</u>
Total Series 2007A	<u>\$ 2,760,000</u>

Bond debt service maturities are as follows:

Year Ended June 30,	Business-Type Activities			Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 59,232	\$ 62,928	\$ 122,160	\$ 60,768	\$ 64,559	\$ 125,327
2015	61,700	60,358	122,058	63,300	61,923	125,223
2016	64,168	57,684	121,852	65,832	59,179	125,011
2017	66,636	54,904	121,540	68,364	56,327	124,691
2018	71,572	52,056	123,628	73,428	53,406	126,834
2019-2023	404,752	204,380	609,132	415,248	209,680	624,928
2024-2028	515,812	92,566	608,378	529,188	94,966	624,154
2029	115,051	2,591	117,642	124,949	2,659	127,608
Total	<u>\$ 1,358,923</u>	<u>\$ 587,467</u>	<u>\$ 1,946,390</u>	<u>\$ 1,401,077</u>	<u>\$ 602,699</u>	<u>\$ 2,003,776</u>

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Long-Term Debt, Continued

The City utilized a portion of the \$3,300,000 GADA Revenue Bonds, Series 2007A to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for a portion of the debt service payments of the Excise Tax Revenue Bonds, Series 2003. As a result, \$1,365,000 of the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price is equal to the net carrying amount of the old debt. Thus, there is no difference to net against the new debt and be amortized over the remaining life of the new debt, which is approximately the same life as the refunded debt. The principal will be paid on the new debt over the next 13 years whereas the principal on the refunded debt would not be paid until fiscal year 2014 and thereafter. The advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$206,850 and resulted in an economic gain of \$177,656.

This section intentionally left blank

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Long-Term Debt, Continued

The following is a listing of Notes Payable outstanding as of June 30, 2013:

Notes Payable:

Business-type Notes Payable:

Note payable to Water Infrastructure Finance Authority, secured by utility fund net revenues, bearing interest at 4.0%, due in semiannual principal and interest installments, maturing July, 2021. The original amount of the loan is \$350,000. \$ 317,813

Note payable to Water Infrastructure Finance Authority, secured by utility fund net revenues, bearing interest at 3.504%, due in semiannual principal and interest installments, maturing July, 2028. The original amount of the loan is \$413,667. As of June 30, 2013, the principal balance remaining to be drawn down is \$49,544. 286,420

Note payable to Water Infrastructure Finance Authority, secured by utility fund net revenues, bearing interest at 3.504%, due in semiannual principal and interest installments, maturing July, 2028. The original amount of the loan is \$208,000. As of June 30, 2013, the principal balance remaining to be drawn down is \$17,527. 155,118

Total Business-type Notes Payable 759,351

Total Notes Payable \$ 759,351

Less current portion 54,563

Total Notes Payable net of current portion \$ 704,788

Note Payable debt service maturities are as follows:

Year Ended June 30,	Business-Type Activities		
	Principal	Interest	Total
2014	\$ 54,563	\$ 16,972	\$ 71,535
2015	56,625	16,093	72,718
2016	58,766	15,183	73,949
2017	60,989	14,241	75,230
2018	63,294	13,266	76,560
2019-2023	308,058	50,465	358,523
2024-2028	183,484	20,423	203,907
2029	40,643	-	40,643
Less unfunded amounts	<u>(67,071)</u>	<u>-</u>	<u>(67,071)</u>
Total	<u>\$ 759,351</u>	<u>\$ 146,643</u>	<u>\$ 905,994</u>

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Capital Leases Payable

The Town has entered into four lease agreements, which are considered capital leases in accordance with Generally Accepted Accounting Principles. The leases are shown in the business-type activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 2.31 percent to 5 percent under the capital leases, together with the present value of the net minimum lease payments:

<u>June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2014	\$ 66,529	\$ -	\$ 66,529
2015	44,370	-	44,370
2016	44,390	-	44,390
2017	44,419	-	44,419
2018	44,404	-	44,404
2019-2023	221,967	-	221,967
2024-2028	<u>206,974</u>	<u>-</u>	<u>206,974</u>
Total remaining lease payments	673,053	-	673,053
Less amount representing interest	<u>(183,993)</u>	<u>-</u>	<u>(183,993)</u>
Present value of net remaining minimum lease payments	<u>\$ 489,060</u>	<u>\$ -</u>	<u>\$ 489,060</u>

A summary of assets acquired through capital leases follows:

Governmental Capital Assets:	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 570,000	\$ -
Furniture, Equipment & Vehicles	74,185	40,799

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 8. Interfund Receivables, Payables and Transfers

As of June 30, 2013, interfund receivables and payables were as follows:

	Due From	
Due To	Utility Fund	Total
General Fund	\$ 984,585	\$ 984,585
	\$ 984,585	\$ 984,585

The outstanding balance in the Utility fund is for working capital loans borrowed from the other funds in order to offset net losses sustained for several years. Currently there are no terms for repayment and the amount expected to be repaid in the next year is unknown. The other interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances.

There were no interfund transfers for the fiscal year ended June 30, 2013.

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.

This section intentionally left blank

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

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.

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 11.14 percent (10.9 percent for retirement, and 0.24 percent for long-term disability) of the members’ annual covered payroll and the Town was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	125,135	8,194	3,472
2012	127,032	8,108	3,089
2013	120,348	7,632	2,818

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

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 9. Retirement and Pension Plans, Continued

Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy – For the fiscal year ended June 30, 2013, 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 20.62 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 1.32 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:

The PSPRS contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.25 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 8.0 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, 2011, was 25 years for unfunded actuarial accrued liability and 20 years for excess.

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

Annual Pension/OPEB Cost – During the year ended June 30, 2013, the City’s annual pension cost of \$97,294 and the annual OPEB cost of \$7,143 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	2011	70,923	100%	-
	2012	76,747	100%	-
	2013	97,294	100%	-
Health Insurance	2011	6,217	100%	-
	2012	6,941	100%	-
	2013	7,143	100%	-

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 9. Retirement and Pension Plans, Continued

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2013 is as follows:

	Retirement	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 3,047,262	\$ 55,418
Actuarial value of plan assets	1,958,550	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,088,712	\$ 55,418
Funded ratio (actuarial value of plan assets/AAL)	64.3%	0.0%
Covered payroll (active plan members)	\$ 361,778	\$ 361,778
UAAL as a percentage of covered payroll	300.9%	15.3%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. This historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Note 10. Segment Information – Enterprise Funds

The Town maintains one enterprise funds which provides water and sewer utility services to its citizens. Since the utility fund is a major fund, detailed or segment information for the fund is provided in the basic financial statements.

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$3,000,000 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 members additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by Municipal Workers Compensation for potential worker related accidents.

TOWN OF EAGAR, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 12. Contingencies

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

The Town receives state and federal funding for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in disallowances under the terms of the grants. There are no required disbursements identified or recorded at the date of these financial statements.

Note 13. Related Party Transaction

The Town currently rents the house owned by the City which is located next to Ramsey Park to a City employee for \$500 per month. The Town currently leases the Town's cinder pit to a council member's son-in-law. Also land owned by the Town was sold to a council member's son during the current fiscal year. The terms of these transactions are all considered to be arms-length transactions at market value.

Note 14. Restatements and Reclassifications

As mentioned in Note 1 to the financial statements, the Town implemented GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this statement require that bond issuance costs be expensed in the year they are incurred. Previously bond issuance costs had been treated as an asset and amortized over the life of the related debt. In order to implement GASB statement No. 65, bond issuance costs previously reported as assets had to be removed from the financial statements. This resulted in a restatement of beginning equity in the Town's Governmental statement of Net Position of \$41,250 and the Wastewater Fund in the amount of \$93,750. Assets of the Governmental Activities and the Wastewater Fund were reduced by the same amount.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF EAGAR, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2013

Public Safety Personal Retirement System – Police

Valuation Date June 30,	Actuarial Value of Assets	(AAL) Entry Age Actuarial Accrued Liability	Unfunded AAL (UALL)	Funded Ratio	Annual Covered Payroll	UALL as a Percentage of Covered Payroll
2008	1,396,650	1,697,404	300,754	82.3%	463,689	64.9%
2009 *	1,519,853	1,962,588	442,735	77.4%	429,677	103.0%
2010 *	1,616,660	2,127,234	510,574	76%	448,627	113.8%
2011 *	1,848,807	2,550,627	701,820	72%	490,818	143.0%
2012 *	1,941,640	3,409,015	1,467,375	57%	377,277	388.9%
2013 *	1,958,550	3,047,262	1,088,712	64.3%	361,778	300.9%

* - 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 2008, GASB Statement Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

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

Valuation Date June 30,	Actuarial Value of Assets	(AAL) Entry Age Actuarial Accrued Liability	Unfunded AAL (UALL)	Funded Ratio	Annual Covered Payroll	UALL as a Percentage of Covered Payroll
2008	-	44,996	44,996	0.0%	463,689	9.7%
2009 *	-	44,148	44,148	0.0%	429,677	10.3%
2010 *	-	50,853	50,853	0.0%	448,627	11.3%
2011 *	-	69,953	69,953	0.0%	490,818	14.3%
2012 *	-	66,231	66,231	0.0%	377,277	17.6%
2013 *	-	55,418	55,418	0.0%	361,778	15.3%

There were no Health Insurance Subsidy payments reported for fiscal year 2013.

TOWN OF EAGAR, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Detail Budget and Actual

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

Special Revenue Funds

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

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share of motor fuel tax revenues and lottery proceeds which are set aside for the maintaining, repairing, and upgrading of streets.
- **Grants Fund** – This fund is used to account for federal and state grants and other contributions that are restricted for specific use.

TOWN OF EAGAR, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

REVENUES:	Budgeted Amounts		<u>Actual</u>	Variance with <u>Final Budget</u>
	Original	Final		
Taxes:				
City sales tax	\$ 875,000	\$ 875,000	\$ 801,128	\$ (73,872)
Total Taxes	875,000	875,000	801,128	(73,872)
Licenses, Permits and Fees:				
Building permits	109,700	35,000	17,967	(17,033)
Business and other licenses	-	4,750	4,688	(62)
Total Licenses, Fees and Permits	109,700	39,750	22,655	(17,095)
Intergovernmental:				
State sales taxes	408,500	408,500	399,846	(8,654)
State revenue sharing	499,000	499,000	498,992	(8)
Auto lieu tax	268,000	268,000	258,029	(9,971)
Total Intergovernmental	1,175,500	1,175,500	1,156,867	(18,633)
Charges for Services:				
Park & cemetery fees	22,900	68,750	69,401	651
Recreation fees	10,500	10,950	7,282	(3,668)
Fire, police and animal control	90,000	112,950	169,616	56,666
Total Charges for Services	123,400	192,650	246,299	53,649
Fines and Forfeitures:				
Fines & forfeitures	43,000	43,000	33,710	(9,290)
Total Fines and Forfeitures	43,000	43,000	33,710	(9,290)
Interest				
Interest income	-	-	-	-
Total Interest	-	-	-	-
Other Revenues:				
Rents	55,758	55,758	54,647	(1,111)
Donations	7,800	7,800	4,785	(3,015)
Sale of assets	-	-	6,242	6,242
User fees	-	300	264	(36)
Miscellaneous	27,300	27,700	38,780	11,080
Total Other Revenues	90,858	91,558	104,718	13,160
TOTAL REVENUES	2,417,458	2,417,458	2,365,377	(52,081)

(continued)

TOWN OF EAGAR, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2013

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Mayor & council	72,396	72,396	62,699	9,697
Magistrate	66,493	66,493	61,452	5,041
Town manager	42,651	42,651	41,359	1,292
Town clerk	118,214	118,214	117,885	329
Finance	91,014	91,014	67,142	23,872
Legal	36,000	36,000	27,535	8,465
Insurance	58,300	58,300	56,377	1,923
Other	8,289	87,040	82,528	4,512
Contingency	-	-	-	-
Total General Government	493,357	572,108	516,977	55,131
Public Safety:				
Police	786,603	761,603	743,922	17,681
Fire	361,411	304,441	268,790	35,651
Animal control	58,200	61,200	59,318	1,882
Wildland Fire	37,000	77,000	78,336	(1,336)
Total Public Safety	1,243,214	1,204,244	1,150,366	53,878
Public Works/Streets:				
Community Development	91,783	61,783	53,039	8,744
Facilities	179,196	212,415	140,239	72,176
Fleet maintenance	321,045	258,045	133,679	124,366
Total Public Works/Streets	592,024	532,243	326,957	205,286
Culture & Recreation:				
Parks and Recreation	86,416	106,416	96,153	10,263
Total Culture and Recreation	86,416	106,416	96,153	10,263
Debt Service:				
Principal	218,990	218,990	219,010	(20)
Interest	67,352	67,352	66,518	834
Total Debt Service	286,342	286,342	285,528	814
TOTAL EXPENDITURES	2,701,353	2,701,353	2,375,981	325,372
Excess of Revenues Over Expenditures	(283,895)	(283,895)	(10,604)	273,291
Fund balance, beginning of year	1,488,990	1,488,990	1,488,990	-
Fund balance, end of year	\$ 1,205,095	\$ 1,205,095	\$ 1,478,386	\$ 273,291

TOWN OF EAGAR, ARIZONA
HIGHWAY USER REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 887,000	\$ 887,000	\$ 838,913	\$ (48,087)
Interest income	-	-	-	-
Other revenue	-	-	12,183	12,183
Total Revenue	<u>887,000</u>	<u>887,000</u>	<u>851,096</u>	<u>(35,904)</u>
EXPENDITURES:				
Public Works:				
Salaries	270,307	270,307	199,740	70,567
Employee benefits	119,764	119,764	83,819	35,945
Services, supplies, and other	109,300	109,300	457,929	(348,629)
Debt Service:				
Principal	62,770	62,770	59,296	3,474
Interest	33,022	33,022	32,129	893
Total Expenditures	<u>595,163</u>	<u>595,163</u>	<u>832,913</u>	<u>(237,750)</u>
Excess of Revenues Over (Under) Expenditures	<u>291,837</u>	<u>291,837</u>	<u>18,183</u>	<u>(273,654)</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	291,837	291,837	18,183	(273,654)
Fund balance, beginning of year	<u>348,604</u>	<u>348,604</u>	<u>348,604</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 640,441</u></u>	<u><u>\$ 640,441</u></u>	<u><u>\$ 366,787</u></u>	<u><u>\$ (273,654)</u></u>

TOWN OF EAGAR, ARIZONA
GRANTS SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 2,500,000	\$ 2,500,000	\$ 108,809	\$ (2,391,191)
Total revenues	<u>2,500,000</u>	<u>2,500,000</u>	<u>108,809</u>	<u>(2,391,191)</u>
EXPENDITURES:				
General Government	-	-	-	-
Public Safety	2,500,000	2,500,000	45,755	2,454,245
Public Works/Streets	-	-	63,617	(63,617)
Culture and Recreation	-	-	800	(800)
Health and Welfare	-	-	-	-
Total Expenditures	<u>2,500,000</u>	<u>2,500,000</u>	<u>110,172</u>	<u>2,389,828</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(1,363)</u>	<u>(1,363)</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	(1,363)	(1,363)
Fund balance, beginning of year	<u>2,491</u>	<u>2,491</u>	<u>2,491</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,491</u>	<u>\$ 2,491</u>	<u>\$ 1,128</u>	<u>\$ (1,363)</u>

This page intentionally left blank

TOWN OF EAGAR, ARIZONA
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING FUNDS:

Nonmajor Governmental Funds

The **Impact Fee Fund** is used to account for the collection of impact fees and the expenditure of these fees on public facilities and infrastructure.

TOWN OF EAGAR, ARIZONA
Impact Fee Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:			
Charges for services	\$ -	\$ -	\$ -
Interest	-	16	16
	<u>-</u>	<u>16</u>	<u>16</u>
Total Revenue	<u>-</u>	<u>16</u>	<u>16</u>
EXPENDITURES:			
Salaries	-	-	-
Employee Benefits	-	-	-
Services, Supplies, and Other	-	-	-
Capital Outlay	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>16</u>	<u>16</u>
Fund balance, beginning of year	<u>5,252</u>	<u>5,252</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 5,252</u></u>	<u><u>\$ 5,268</u></u>	<u><u>\$ 16</u></u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

This page intentionally left blank

**Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Town Council
Eagar, Arizona

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Eagar, Arizona as of the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Eagar, Arizona's basic financial statements, and have issued our report thereon dated November 12, 2013.

Internal Control over Financial Reporting

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

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

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

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 November 12, 2013.

Purpose of this Report

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



HintonBurdick, PLLC
Flagstaff, Arizona
November 12, 2013

MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA

KENNETH A. HINTON, CPA
MORRIS J. PEACOCK, CPA
PHILLIP S. PEINE, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

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

The Honorable Mayor and
Town Council
Eagar, Arizona

We have audited the basic financial statements of the Town of Eagar, Arizona for the year ended June 30, 2013, and have issued our report thereon dated November 12, 2013. Our audit also included test work on the Town of Eagar'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 Eagar 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 Eagar 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 Eagar 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 Eagar complied, in all material respects, with the requirements identified above for the year ended June 30, 2013.

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


HintonBurdick, PLLC
Flagstaff, Arizona
November 12, 2013

This page intentionally left blank