

Town of Snowflake, Arizona

Comprehensive Annual Financial Report



For the fiscal year ended
June 30, 2013

Prepared by:

Brian Richards, CPA, CPFO

Finance Department
Town of Snowflake, Arizona

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**Town of Snowflake, Arizona
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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INTRODUCTORY SECTION



November 8, 2013

To the Honorable Mayor, Members of the Town Council, and Citizens of the Town of Snowflake:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Snowflake, Arizona (Town) for the fiscal year ended June 30, 2013. The report was prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a licensed Certified Public Accountant.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Hinton Burdick, Certified Public Accountants, has issued an unqualified ("clean") opinion on the Town of Snowflake's financial statements for the year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements: assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

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

Profile of the Government

The Town of Snowflake was incorporated in 1948, and is located in Northeastern Arizona. It currently occupies 27 square miles and serves a population estimated at 5,564. The Town of Snowflake is empowered by the citizens to levy property taxes through a proper election, but as of today levies no property taxes, nor has ever levied a tax on property. The Town is also empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The Town of Snowflake has operated under the council-manager form of government since 1986. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and six other council members, all elected on a non-partisan basis. The Council appoints the Town's manager, who in turn appoints the heads of various departments. Council members serve four-year terms, with three members elected every two years. The mayor is directly elected to a four-year term.

The Town of Snowflake provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreation and cultural activities. The Town operates a water and sewer utility and a golf course.

The Council is required to adopt a tentative budget on or before the third Monday in July of each year. The Town Council adopted the final budget for the fiscal year ending June 30, 2013, on July 24, 2012. The budget is prepared by fund, and department. Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the governing council.

Local Economy

Major industries located within the government's boundaries or in close proximity include vegetable growers, pork production, and electrical generation.

Unemployment has decreased slightly from 8.7% last year to 8.5% this year. The unemployment rate in the Town has fluctuated from a low of 4.6% to its current rate of 8.5% during the past ten years.

During the past five years, the Town's expenditures related to public safety have increased significantly. These expenditures have risen in a large part to increased staffing and competitive wages.

Capital Projects

The major capital projects planned for the next year include minor road improvements, and a major flood control project of approximately \$2.3 million.

Long-term Financial Planning

The Town is currently working on projects that will enhance the value of the Town's industrial area. These flood control projects will be completed using a combination of Federal, State, and Local dollars. When completed a large area of available land will become more attractive because the land will no longer be designated a flood prone area. This enhanced area is projected to allow the expansion of existing businesses, bringing more jobs and dollars to the community.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Snowflake for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. This was the seventh year that the Town of Snowflake has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. I wish to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Snowflake's finances.

Respectfully Submitted,

Brian Richards

Brian Richards, CPA, CPFO
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Snowflake
Arizona**

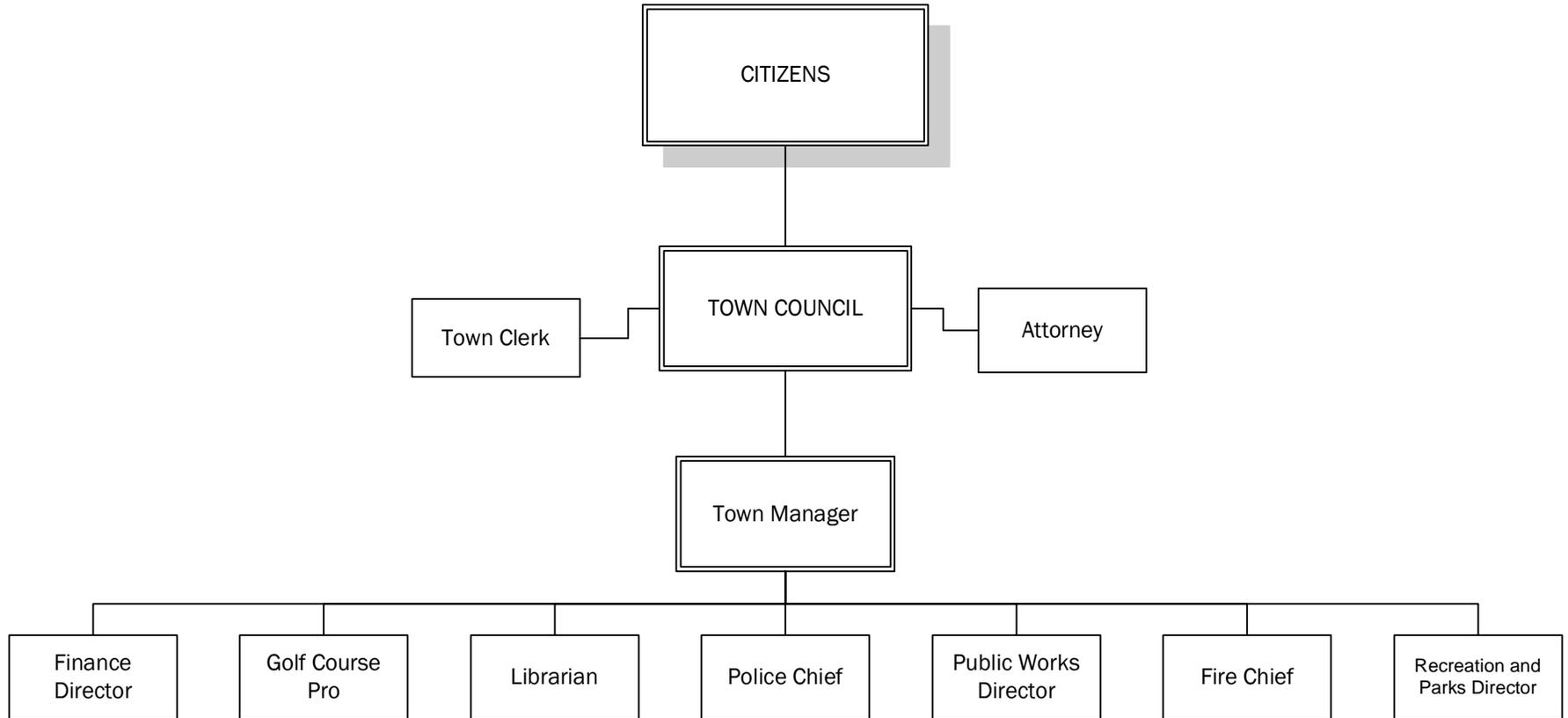
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Town of Snowflake, Arizona

Organization Chart



**Town of Snowflake, Arizona
List of Elected and Appointed Officials
June 30, 2013**

Elected Officials

Mayor	Kelly S. Willis
Vice-Mayor	Jason Whiting
Council	Thomas L. Poscharsky
Council	Stuart Hensley
Council	Beverlee Kay
Council	Lynn Johnson
Council	Kerry Ballard

Appointed Officials

Town Manager	Paul Watson
Public Works Director	Rob Emmett
Finance Director	Brian Richards
Town Clerk	Barbara Flake
Town Attorney	Robert M. Hall
Fire Chief	Patrick Hancock
Police Chief	Jerry Van Winkle
Recreation and Parks Director	Donald Camacho
Librarian	Cathie McDowell
Golf Pro	Steve Schneider
Town Magistrate	Fred Peterson

FINANCIAL SECTION

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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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Snowflake, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Highway User Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and supplementary schedules on pages 10–18 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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 8, 2013, on our consideration of the Town of Snowflake, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Snowflake, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
November 8, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Town of Snowflake, we offer readers of the Town of Snowflake's financial statements this narrative overview and analysis of the financial activities of the Town of Snowflake for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information in the notes to the financial statements.

Financial Highlights

- The assets of the Town of Snowflake exceeded its liabilities at the close of the most recent fiscal year by \$14,314,283 (net position). Of this amount \$1,626,264 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town of Snowflake's total net position increased by \$388,812 during the current fiscal year.
- As of June 30, 2013, the Town's governmental funds reported combined ending fund balances of \$1,984,455, a decrease of \$532,842. Of the total ending fund balance, \$1,598,451 is unassigned and available for spending at the government's discretion.
- As of June 30, 2013, the total unassigned fund balance for the general fund was \$1,598,451, or 33% of total general fund expenditures (\$4,823,174).
- As of June 30, 2013, the Town's proprietary funds reported combined total net position of \$3,514,251.
- The Town's long term debt decreased by \$426,274 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Snowflake's basic financial statements. The Town of Snowflake's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *Statement of Net Position* presents information on all of the Town of Snowflake's assets and liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Snowflake is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town of Snowflake that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Snowflake include; general government, public safety, highways and streets, economic development, library, and recreation and parks. The business-type activities of the Town of Snowflake include; a Water and Sewer utility and a Golf Course operation.

The government-wide financial statements can be found on pages 22-23 of this report.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS - continued

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

The Town of Snowflake maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the special revenue funds.

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

The basic governmental fund financial statements can be found on pages 24-28 of this report.

Proprietary funds. The Town of Snowflake maintains two proprietary funds. Both of these funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Snowflake uses enterprise funds to account for its Water and Sewer utilities and Golf Course enterprise.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer utility and Golf Course enterprise, both of which are considered to be major funds of the Town of Snowflake.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-48 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents require supplementary information concerning the Town of Snowflake's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on page 52 of this report.

Government-wide Financial Analysis

As previously noted, net position may serve as a useful indicator of a government's financial position over time. In the case of the Town of Snowflake, assets exceeded liabilities by \$14,314,283 at the close of the most recent fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS - continued

By far the largest portion of the Town of Snowflake's net position (82 percent, \$11,697,638) reflects its investment in capital assets such as land, buildings, machinery, and equipment, less any related debt used to acquire those assets that are still outstanding. The Town of Snowflake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Snowflake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Town of Snowflake, Arizona
Net Position
June 30, 2013**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,201,430	\$ 2,753,592	\$ 1,025,921	\$ 879,188	\$ 3,227,351	\$ 3,632,780
Capital assets	11,454,409	10,887,968	5,642,711	5,845,959	17,097,120	16,733,927
Total assets	13,655,839	13,641,560	6,668,632	6,725,147	20,324,471	20,366,707
Long-term liabilities	2,638,832	2,797,080	2,961,027	3,214,844	5,599,859	6,011,924
Other liabilities	216,975	236,295	193,354	193,017	410,329	429,312
Total liabilities	2,855,807	3,033,375	3,154,381	3,407,861	6,010,188	6,441,236
Invested in capital assets net of related debt	8,972,640	8,284,922	2,724,998	2,673,941	11,697,638	10,958,863
Restricted	379,571	338,262	610,810	610,810	990,381	949,072
Unrestricted	1,447,821	1,985,001	178,443	32,535	1,626,264	2,017,536
Total net position	\$ 10,800,032	\$ 10,608,185	\$ 3,514,251	\$ 3,317,286	\$ 14,314,283	\$ 13,925,471

An additional portion of the Town of Snowflake's net position, \$990,381 (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,626,264) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Snowflake is able to report positive balances in all three categories of net position, for the government as a whole, and positive balances in the three categories of net position for the government's separate business type activities.

The Town's net position increased by \$388,812 during the current fiscal year. This increase is a result of various capital purchases during the year.

MANAGEMENT DISCUSSION AND ANALYSIS - continued

Changes in Net Position for the year ended June 30, 2013 are as follows:

Town of Snowflake						
Changes in Net Position						
June 30, 2013						
	Governmental		Business-type		Total	
	Activities		Activities			
Revenues:	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 1,226,838	\$ 1,019,622	\$ 1,851,016	\$ 1,748,573	\$ 3,077,854	\$ 2,768,195
Operating grants and contributions	1,392	113,540	-	-	1,392	113,540
Capital grants and contributions	651,551	806,026	-	-	651,551	806,026
General revenues:						
Sales taxes	1,039,145	1,060,338	-	-	1,039,145	1,060,338
State shared sales taxes	457,552	436,804	-	-	457,552	436,804
Intergovernmental	623,291	471,801	-	-	623,291	471,801
Franchise taxes	123,360	130,017	-	-	123,360	130,017
Motor fuel taxes	614,387	560,452	-	-	614,387	560,452
Investment earnings	2,918	2,780	4,381	2,780	7,299	5,560
Vehicle license taxes	274,622	291,394	-	-	274,622	291,394
Other	44,305	154,198	-	-	44,305	154,198
Sales of capital assets	-	-	-	-	-	-
Total revenues	<u>5,059,361</u>	<u>5,046,972</u>	<u>1,855,397</u>	<u>1,751,353</u>	<u>6,914,758</u>	<u>6,798,325</u>
Expenses:						
General government	1,206,701	1,061,303	-	-	1,206,701	1,061,303
Public safety	2,122,500	1,872,380	-	-	2,122,500	1,872,380
Highways and streets	722,752	620,565	-	-	722,752	620,565
Recreation and parks	480,047	540,833	-	-	480,047	540,833
Interest on long-term debt	120,376	127,256	-	-	120,376	127,256
Water and wastewater	-	-	1,251,985	1,195,945	1,251,985	1,195,945
Golf Course	-	-	621,585	617,653	621,585	617,653
Total expenses	<u>4,652,376</u>	<u>4,222,337</u>	<u>1,873,570</u>	<u>1,813,598</u>	<u>6,525,946</u>	<u>6,035,935</u>
Increase (decrease) in net position before transfers	406,985	824,635	(18,173)	(62,245)	388,812	762,390
Transfers	(215,138)	(93,206)	215,138	93,206	-	-
Change in net position	<u>191,847</u>	<u>731,429</u>	<u>196,965</u>	<u>30,961</u>	<u>388,812</u>	<u>762,390</u>
Net position 06/30/2012	10,658,877	9,927,448	3,317,286	3,286,325	13,976,163	13,213,773
Prior Period Adjustment	(50,692)	-	-	-	(50,692)	-
Net position 06/30/2013	<u>\$ 10,800,032</u>	<u>\$ 10,658,877</u>	<u>\$ 3,514,251</u>	<u>\$ 3,317,286</u>	<u>\$ 14,314,283</u>	<u>\$ 13,976,163</u>

MANAGEMENT DISCUSSION AND ANALYSIS - continued

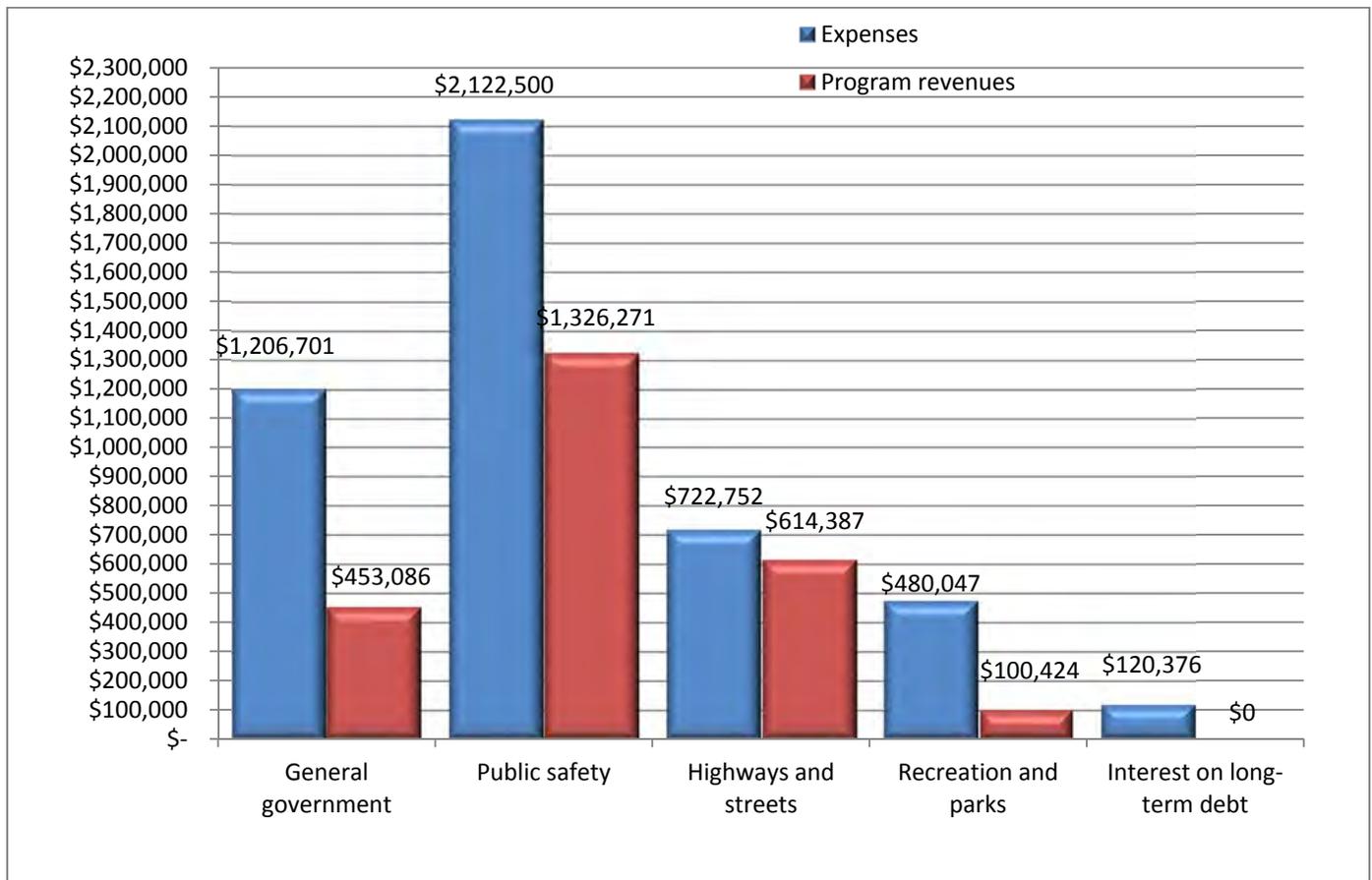
Governmental activities – Governmental activities increased the Town’s net position by 191,847, thereby accounting for 49 percent of the increase in net position of the Town of Snowflake. Key elements of this increase are as follows:

- Charges for services increased by \$207,216 (20 percent) during the year.
- Intergovernmental revenues increased by \$151,490 (32 percent) during the year.
- Motor fuel taxes increased by \$53,935 (10 percent) during the year.
- Total governmental expenses increased by \$430,039 (10 percent) during the year.

Business-type activities – Business-type activities increased the Town of Snowflake’s net position by 196,965. The main factor of the net position increase in business-type activities is:

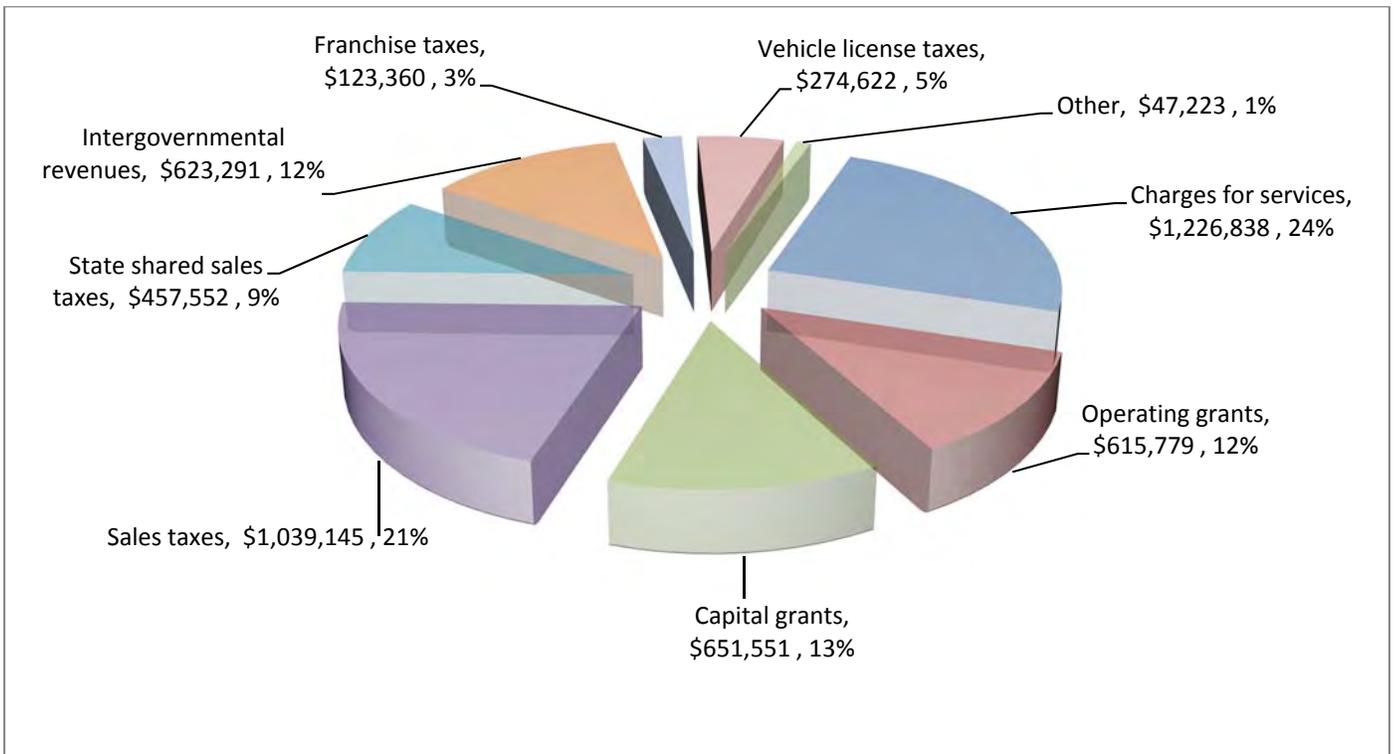
- Business type revenues were higher by \$102,443 (6 percent). Mainly due to a water rate increase.
- Transfers from other funds were higher by \$121,932 (131 percent).

Expenses and Program Revenues - Governmental Activities

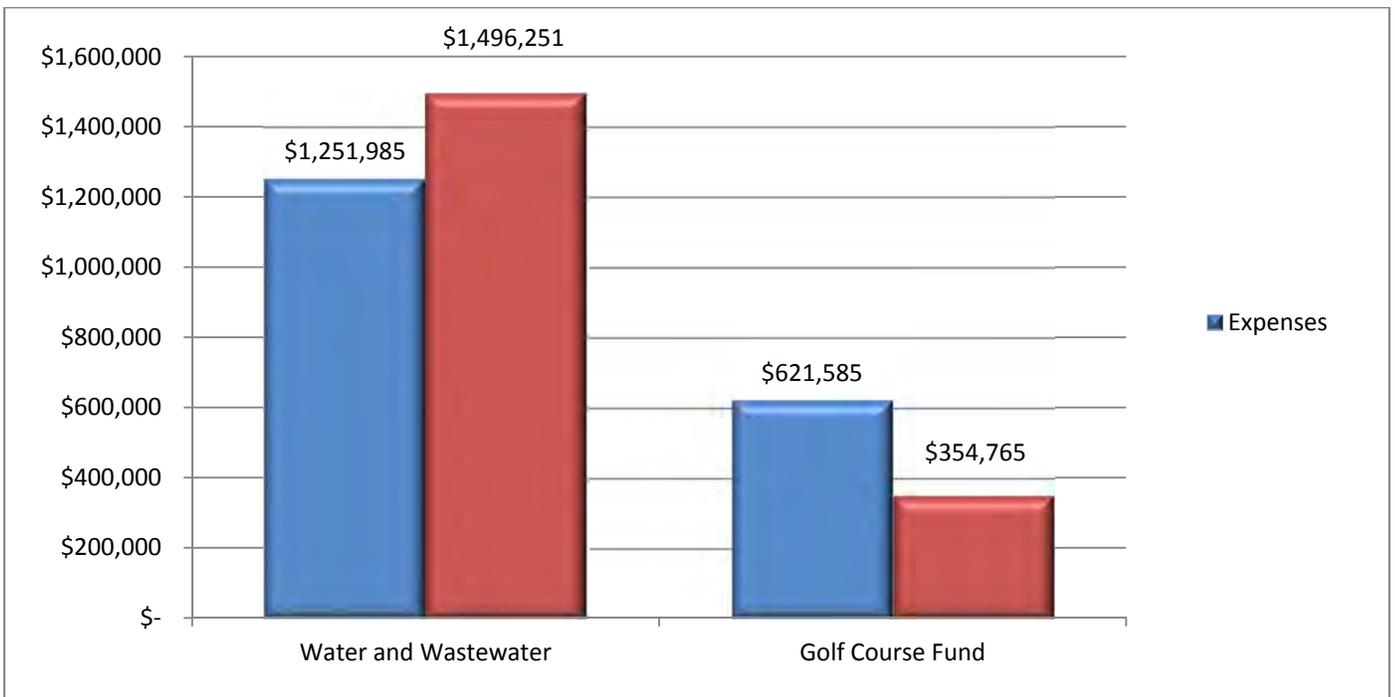


MANAGEMENT DISCUSSION AND ANALYSIS - continued

Revenues by Source - Governmental Activities

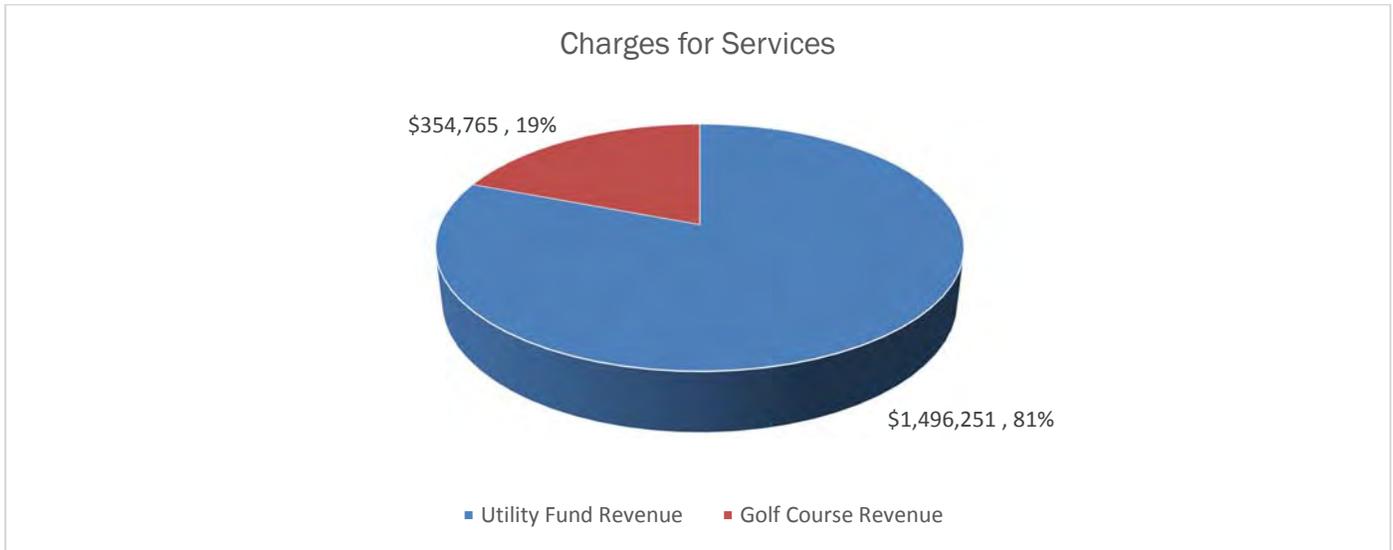


Expenses and Program Revenues - Business-type Activities



MANAGEMENT DISCUSSION AND ANALYSIS - continued

Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Snowflake's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the Town of Snowflake'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 Snowflake's governmental funds reported combined ending fund balances of \$1,984,455, a decrease of 21 percent in comparison with the prior year. Approximately 81 percent constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service (\$213,564), for highways and streets (\$166,007), and prepaid items (\$6,433).

The general fund is the chief operating fund of the Town of Snowflake. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,598,451, while total fund balance reached was \$1,978,262. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33 percent of total general fund expenditures (\$4,823,174), while total fund balance represents 41 percent of that same amount.

MANAGEMENT DISCUSSION AND ANALYSIS - continued

The fund balance of the Town of Snowflake's general fund decreased by \$574,151 during the current fiscal year. Key factors relating to this decrease are as follows:

- Capital expenditures increased by \$194,197 (23 percent) during the year.
- General governmental expenses increased by \$189,262 (21 percent) during the year.

The fund balance for the Highway User Revenue Fund increased by \$41,309 to \$201,046.

Proprietary Funds. The Town of Snowflake's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility fund at the end of the year amounted to \$223,880, and unrestricted net position of the Golf Course fund was \$(45,437). Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Snowflake's business-type activities.

General Fund Budgetary Highlights

The overall general fund budget decreased by 5% from the prior year due to the overall decrease in anticipated revenues and the economic environment in which the Town operates.

General Fund Budgetary Variances

Intergovernmental Revenues received are significantly less than budgeted because of capital grant related revenues were not awarded in the budgeted fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Town of Snowflake's investment in capital assets for its governmental and business type activities as of June 30, 2013, amounts to \$17,097,120 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure. The total net increase in the Town of Snowflake's investment in capital assets for the current fiscal year was \$363,193.

Town of Snowflake's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 530,743	\$ 530,743	\$1,783,317	\$1,783,317	\$ 2,314,060	\$ 2,314,060
Construction in Progress	1,670,566	1,118,967	-	-	1,670,566	1,118,967
Buildings and improvements	2,601,869	2,676,707	3,119,591	3,304,176	5,721,460	5,980,883
Machinery and equipment	1,442,758	1,098,907	739,803	758,466	2,182,561	1,857,373
Infrastructure	5,208,473	5,462,644	-	-	5,208,473	5,462,644
Total	<u>\$11,454,409</u>	<u>\$10,887,968</u>	<u>\$5,642,711</u>	<u>\$5,845,959</u>	<u>\$17,097,120</u>	<u>\$16,733,927</u>

Additional information on the Town of Snowflake's capital assets can be found in note IV on pages 42-43 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS - continued

Long-term debt. At the end of the current fiscal year, the Town of Snowflake had total debt outstanding of \$5,821,756. The entire debt amount is secured solely by specified revenue sources (i.e. revenue bonds).

**Town of Snowflake's Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue bonds	2,481,769	2,653,738	2,917,713	3,172,018	5,399,482	5,825,756
Total	<u>\$ 2,481,769</u>	<u>\$ 2,653,738</u>	<u>\$2,917,713</u>	<u>\$3,172,018</u>	<u>\$ 5,399,482</u>	<u>\$ 5,825,756</u>

The Town of Snowflake’s total debt decreased by \$426,274 during the year, this decrease is attributed to principal paid during the year. The Town maintains an investment grade rating from Standard and Poor’s of A.

State statutes limit the amount of general obligation debt a governmental entity may issue. The debt limitations imposed on the Town by State statute are six percent and twenty percent of outstanding assessed valuation. The Town’s available debt margin at June 30, 2013 is \$1.9 million at 6 percent and \$6.34 million at 20 percent.

Additional information on the Town of Snowflake’s long-term debt can be found in note IV on pages 43-45 of this report.

Economic Factors and Next Year’s Budgets and Rates

The unemployment rate for the Town of Snowflake is currently around 8.5 percent. Inflationary trends in the region compare favorably to national indices. Sales taxes have declined in the recent year due to a general economic downturn, and decreased residential new home construction.

All of these factors were considered in preparing the Town of Snowflake’s budget for the 2014 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town of Snowflake’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following address:

Finance Department
Town of Snowflake
Brian Richards, Finance Director
81 W. 1st St. South
Snowflake, AZ 85937
Telephone: 928-536-7103 ext. 254
Fax: 928-536-2539

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BASIC FINANCIAL STATEMENTS

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Town of Snowflake, Arizona

Statement of Net Position

June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,708,660	\$ 204,338	\$ 1,912,998
Accounts receivable, (net of allowance for uncollectables)	272,773	196,996	469,769
Inventories	-	13,777	13,777
Prepays	6,433	-	6,433
Restricted assets:			
Temporarily restricted:			
Cash	-	454,374	454,374
Investments	213,564	156,436	370,000
Capital assets not being depreciated:			
Land	530,743	1,783,317	2,314,060
Construction In progress	1,670,566	-	1,670,566
Depreciable, net	9,253,100	3,859,394	13,112,494
Total Assets	\$ 13,655,839	\$ 6,668,632	\$ 20,324,471
Liabilities			
Accounts payable	\$ 84,812	\$ 98,908	\$ 183,720
Accrued liabilities	71,975	16,126	88,101
Interest payable	60,188	59,375	119,563
Deposits payable	-	18,945	18,945
Non-current liabilities:			
Due within one year:			
Bonds payable	176,500	260,475	436,975
Compensated absences	62,825	17,325	80,150
Due in more than one year:			
Bonds payable	2,305,269	2,657,238	4,962,507
Compensated absences	94,238	25,989	120,227
Total Liabilities	2,855,807	3,154,381	6,010,188
Net Position			
Net investment in capital assets	8,972,640	2,724,998	11,697,638
Restricted for:			
Highways and streets	166,007	-	166,007
Debt service	213,564	610,810	824,374
Unrestricted	1,447,821	178,443	1,626,264
Total Net Position	\$ 10,800,032	\$ 3,514,251	\$ 14,314,283

Town of Snowflake, Arizona

Statement of Activities Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,206,701	\$ 165,662	\$ -	\$ 287,424	\$ (753,615)	\$ -	\$ (753,615)
Public safety	2,122,500	960,752	1,392	364,127	(796,229)	-	(796,229)
Highways and streets	722,752	-	614,387	-	(108,365)	-	(108,365)
Recreation and parks	480,047	100,424	-	-	(379,623)	-	(379,623)
Interest on long-term debt	120,376	-	-	-	(120,376)	-	(120,376)
Total governmental activities	4,652,376	1,226,838	615,779	651,551	(2,158,208)	-	(2,158,208)
Business-type activities:							
Water and wastewater	1,251,985	1,496,251	-	-	-	244,266	244,266
Golf course	621,585	354,765	-	-	-	(266,820)	(266,820)
Total business-type activities	1,873,570	1,851,016	-	-	-	(22,554)	(22,554)
Total primary government:	\$ 6,525,946	\$ 3,077,854	\$ 615,779	\$ 651,551	\$ (2,158,208)	\$ (22,554)	\$ (2,180,762)
			General revenues				
			Sales taxes		\$ 1,039,145	\$ -	\$ 1,039,145
			State shared sales taxes		457,552	-	457,552
			Franchise taxes		123,360	-	123,360
			Vehicle license taxes		274,622	-	274,622
			Intergovernmental revenues		623,291	-	623,291
			Investment earnings		2,918	4,381	7,299
			Miscellaneous		44,305	-	44,305
			Transfers		(215,138)	215,138	-
			Total general revenues, contributions and transfers		2,350,055	219,519	2,569,574
			Change in net position		191,847	196,965	388,812
			Net position - beginning		10,658,877	3,317,286	13,976,163
			Prior period adjustment		(50,692)	-	(50,692)
			Net position - ending		\$ 10,800,032	\$ 3,514,251	\$ 14,314,283

Town of Snowflake, Arizona

Balance Sheet

Governmental Funds

June 30, 2013

	General	Highway User Revenue	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 1,581,764	\$ 126,896	\$ 1,708,660
Receivables (net of allowance for uncollectibles)	211,540	61,233	272,773
Prepays	6,433	-	6,433
Restricted assets:			
Temporarily restricted:			
Investments - US Bank	178,525	35,039	213,564
Total assets	1,978,262	223,168	2,201,430
<u>Liabilities</u>			
Accounts payable	71,429	13,383	84,812
Accrued liabilities	69,783	2,192	71,975
Interest payable	53,641	6,547	60,188
Total liabilities	194,853	22,122	216,975
<u>Fund Balances</u>			
Nonspendable:			
Prepaid dues	6,433	-	6,433
Restricted for:			
Highways and streets	-	166,007	166,007
Debt service	178,525	35,039	213,564
Unassigned:			
	1,598,451	-	1,598,451
Total fund balances (deficits)	1,783,409	201,046	1,984,455
Total liabilities and fund balances	\$ 1,978,262	\$ 223,168	

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.	11,454,409
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,638,832)
Net position of governmental activities	\$ 10,800,032

Town of Snowflake, Arizona
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	<u>General</u>	<u>Highway User Revenue</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Taxes:			
Local sales tax	\$ 1,039,145	\$ -	\$ 1,039,145
Franchise tax	123,360	-	123,360
Intergovernmental	2,008,408	614,387	2,622,795
Permits and fees	31,143	-	31,143
Charges for services	1,195,695	-	1,195,695
Interest	2,105	813	2,918
Miscellaneous	44,305	-	44,305
Total revenues	<u>4,444,161</u>	<u>615,200</u>	<u>5,059,361</u>
<u>Expenditures</u>			
Current:			
General government	1,100,970	-	1,100,970
Public safety	1,952,548	-	1,952,548
Highways and streets	-	419,911	419,911
Recreation, parks, and cemetery	474,147	-	474,147
Debt service:			-
Principal	151,133	20,836	171,969
Interest	107,282	13,094	120,376
Capital outlay:			-
Highways and streets	-	100,050	100,050
General government	601,629	-	601,629
Recreation, parks, and cemetery	9,984	-	9,984
Public safety	425,481	-	425,481
Total expenditures	<u>4,823,174</u>	<u>553,891</u>	<u>5,377,065</u>
Excess (deficiency) of revenues over expenditures	<u>(379,013)</u>	<u>61,309</u>	<u>(317,704)</u>
<u>Other financing sources (uses)</u>			
Transfers in	100,000	-	100,000
Transfers (out)	(295,138)	(20,000)	(315,138)
Total other financing sources (uses)	<u>(195,138)</u>	<u>(20,000)</u>	<u>(215,138)</u>
Net change in fund balance	(574,151)	41,309	(532,842)
Fund balance - beginning	<u>2,357,560</u>	<u>159,737</u>	<u>2,517,297</u>
Fund balance - ending	<u>\$ 1,783,409</u>	<u>\$ 201,046</u>	<u>\$ 1,984,455</u>

Town of Snowflake, Arizona
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 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	\$	(532,842)
--	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

	1,137,144	
Expenditures for capital assets		
Less current year depreciation	(570,703)	
		566,441

Some 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.

Accrual of long-term compensated absences		(13,721)
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The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets.

Repayment of principal on long-term debt		171,969
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Change in net position of governmental activities	\$	191,847
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Town of Snowflake, Arizona

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual General Fund Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With (Negative)
	Original	Final		
Revenues				
Local sales tax	\$ 1,000,000	\$ 1,000,000	\$ 1,039,145	\$ 39,145
Franchise tax	125,500	125,500	123,360	(2,140)
Intergovernmental	4,700,275	4,700,275	2,008,408	(2,691,867)
Permits and fees	18,000	18,000	31,143	13,143
Charges for services	1,103,355	1,103,355	1,195,695	92,340
Interest	2,500	2,500	2,105	(395)
Miscellaneous and contingencies	341,500	341,500	44,305	(297,195)
Total revenues	7,291,130	7,291,130	4,444,161	(2,846,969)
Expenditures				
Current				
Mayor and council	31,500	31,500	30,465	1,035
Administration	346,250	346,250	336,347	9,903
Town clerk	84,900	84,900	76,389	8,511
Magistrate court	5,200	5,200	4,754	446
Police	1,741,900	1,741,900	1,741,603	297
Fire	348,775	748,775	748,190	585
Building maintenance	257,900	257,900	243,535	14,365
Planning	67,225	67,225	64,227	2,998
Library	159,780	159,780	157,953	1,827
Recreation, parks, and cemetery	446,700	446,700	446,128	572
Community Improvement	3,270,000	2,680,000	601,628	2,078,372
Attorney/Engineer	30,000	220,000	199,267	20,733
Pool	60,600	60,600	52,574	8,026
Other - promotion/contingencies	328,460	328,460	120,114	208,346
Total expenditures	7,179,190	7,179,190	4,823,174	2,356,016
Excess (deficiency) of revenues over expenditures	111,940	111,940	(379,013)	(490,953)
Other financing sources (uses)				
Transfers in	100,000	100,000	100,000	-
Transfers (out)	(188,650)	(188,650)	(295,138)	(106,488)
Total other financing sources (uses)	(88,650)	(88,650)	(195,138)	(106,488)
Net change in fund balance	23,290	23,290	(574,151)	(597,441)
Fund balance - beginning	2,357,560	2,357,560	2,357,560	-
Fund balance - ending	\$ 2,380,850	\$ 2,380,850	\$ 1,783,409	\$ (597,441)

Town of Snowflake, Arizona

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Highway User Revenue Fund Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Intergovernmental				
Highway user revenue	\$ 639,500	\$ 639,500	\$ 614,387	\$ (25,113)
Grants	140,000	140,000	-	(140,000)
Interest	-	-	813	813
Contingency	200,000	200,000	-	(200,000)
Total revenues	979,500	979,500	615,200	(364,300)
Expenditures				
Current				
Highways and streets	859,500	859,500	453,841	405,659
Capital outlay	100,000	100,000	100,050	(50)
Total expenditures	959,500	959,500	553,891	405,609
Excess (deficiency) of revenues over expenditures	20,000	20,000	61,309	41,309
Other financing sources (uses)				
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	(20,000)	(20,000)	(20,000)	-
Net change in fund balances	-	-	41,309	41,309
Fund balance - beginning	159,737	159,737	159,737	-
Fund balance - ending	\$ 159,737	\$ 159,737	\$ 201,046	\$ 41,309

Town of Snowflake, Arizona

Statement of Net Position

Proprietary Funds

June 30, 2013

Business-type Activities - Enterprise Funds			
	Utility Fund	Golf Course Fund	Totals
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 204,338	\$ -	\$ 204,338
Accounts receivable, (net of allowance for uncollectable)	192,935	4,061	196,996
Inventories	-	13,777	13,777
Total current assets	397,273	17,838	415,111
Non-current assets			
Restricted cash	454,374	-	454,374
Restricted investments	65,268	91,168	156,436
Total restricted assets	519,642	91,168	610,810
Capital Assets			
Land	28,911	1,754,406	1,783,317
Buildings and improvements	6,566,957	617,000	7,183,957
Machinery and equipment	888,818	394,049	1,282,867
Less: accumulated depreciation	(3,921,609)	(685,821)	(4,607,430)
Total capital assets (net of accumulated depreciation)	3,563,077	2,079,634	5,642,711
Total non-current assets	4,082,719	2,170,802	6,253,521
Total assets	4,479,992	2,188,640	6,668,632
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	73,202	25,706	98,908
Accrued liabilities	11,653	4,473	16,126
Interest payable	42,340	17,035	59,375
Deposits payable	18,945	-	18,945
Compensated absences	10,901	6,424	17,325
Bonds and contracts payable	204,095	56,380	260,475
Total current liabilities	361,136	110,018	471,154
Long-term liabilities			
Bonds and contracts payable (net)	2,021,163	636,075	2,657,238
Compensated absences	16,352	9,637	25,989
Total long-term liabilities	2,037,515	645,712	2,683,227
Total liabilities	2,398,651	755,730	3,154,381
<u>Net Position</u>			
Net investment in capital assets	1,337,819	1,387,179	2,724,998
Restricted for debt service	519,642	91,168	610,810
Unrestricted	223,880	(45,437)	178,443
Total net position	\$ 2,081,341	\$ 1,432,910	\$ 3,514,251

Town of Snowflake, Arizona
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2013

Business-type Activities - Enterprise Funds

	Utility Fund	Golf Course Fund	Totals
Operating revenues:			
Charges for sales and services:			
Metered water sales	\$ 802,011	\$ -	\$ 802,011
Sewer service charges	625,650	-	625,650
Water connect fees	800	-	800
Other fines and fees	67,790	-	67,790
Green fees	-	96,083	96,083
Cart fees	-	108,435	108,435
Membership dues	-	53,156	53,156
Other charges and fees	-	97,091	97,091
Total operating revenues	<u>1,496,251</u>	<u>354,765</u>	<u>1,851,016</u>
Operating expenses:			
Cost of sales and services	635,076	285,059	920,135
Administration	359,023	266,414	625,437
Depreciation	173,206	36,042	209,248
Total operating expenses	<u>1,167,305</u>	<u>587,515</u>	<u>1,754,820</u>
Operating income (loss)	<u>328,946</u>	<u>(232,750)</u>	<u>96,196</u>
Non-operating revenues (expenses):			
Investment earnings	4,381	-	4,381
Interest expense	(84,680)	(34,070)	(118,750)
Total non-operating revenues (expenses)	<u>(80,299)</u>	<u>(34,070)</u>	<u>(114,369)</u>
Income (loss) before contributions and transfers	248,647	(266,820)	(18,173)
Transfers in	-	295,138	295,138
Transfers out	(80,000)	-	(80,000)
Change in net position	168,647	28,318	196,965
Total net position - beginning of year	<u>1,912,694</u>	<u>1,404,592</u>	<u>3,317,286</u>
Total net position - end of year	<u>\$ 2,081,341</u>	<u>\$ 1,432,910</u>	<u>\$ 3,514,251</u>

Town of Snowflake, Arizona

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2013

Business-type Activities - Enterprise Funds

	Utility Fund	Golf Course Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 1,474,573	\$ 353,301	\$ 1,827,874
Cash paid to suppliers for goods and services	(636,198)	(281,884)	(918,082)
Cash payments to employees for services	(356,215)	(272,269)	(628,484)
Net cash provided (used) by operating activities	482,160	(200,852)	281,308
Cash flows from non-capital financing activities:			
Transfers to other funds	(80,000)	-	(80,000)
Transfers from other funds	-	295,138	295,138
Net cash provided (used) by non-capital financing activities	(80,000)	295,138	215,138
Cash flows from capital and related financing activities:			
Principal paid on bonds	(200,088)	(54,217)	(254,305)
Interest paid on bonds	(84,680)	(34,070)	(118,750)
Acquisition of capital assets	-	(6,000)	(6,000)
Net cash used for capital and related financing activities	(284,768)	(94,287)	(379,055)
Cash flows from investing activities:			
Interest received	4,381	-	4,381
Net cash provided by investing activities	4,381	-	4,381
Net increase (decrease) in cash and cash equivalents	121,773	-	121,773
Cash and cash equivalents beginning of year, including restricted cash and cash equivalents	536,939	-	536,939
Cash and cash equivalents end of year including restricted cash and cash equivalents	\$ 658,712	\$ -	\$ 658,712
Reconciliation of operating income to net cash provided by (used by) operating activities:			
Operating income (loss)	\$ 328,946	\$ (232,750)	\$ 96,196
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	173,206	36,042	209,248
(Increase) decrease in accounts receivable	(22,354)	(1,464)	(23,818)
(Increase) decrease in inventories	-	(1,141)	(1,141)
Increase (decrease) in accounts payable	(1,122)	4,316	3,194
Increase (decrease) in accrued liabilities	2,808	(5,855)	(3,047)
Increase (decrease) in customer deposits	675	-	675
Total adjustments	153,213	31,898	185,111
Net cash provided (used) by operating activities	\$ 482,159	\$ (200,852)	\$ 281,307

I. 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 non-fiduciary 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 non-exchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Financial Reporting Entity

The Town of Snowflake, Arizona (Town) was incorporated on August 2, 1948, under the provisions of the State of Arizona. The Town operates under a Council-Manager form of government and provides the following services: public safety, streets, water, sewer, planning, zoning, recreation, parks, golf, library, and general administrative services.

The accounting policies of the Town conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting standards.

The accompanying financial statements include the Town of Snowflake, which is the primary government. There are no blended component units or discretely presented component units.

Basic Financial Statements

The accompanying financial statements include both Government-wide financial statements and Fund financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund. Significantly, the Town's statement of net position includes both non-current assets and non-current liabilities of the Town.

Government-wide financial statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. The government-wide statements include the *Statement of Net Position*, and the *Statement of Activities*. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and user charges for support.

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

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Inter-fund services provided and used are not eliminated in the process of consolidation.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund financial statements

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental or proprietary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The following fund categories are used by the Town:

Governmental Funds:

Governmental Funds are those through which most of the governmental functions of the Town are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

The *General Fund* is the primary operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There is one special revenue fund that is presented in the basic financial statements.

The *Highway User Revenue Fund* accounts for the revenue and expenditures related to maintenance, construction, and repair of Town streets and right of ways. This fund receives taxes on gasoline from the State and is restricted for authorized transportation purposes.

Proprietary Funds:

Proprietary Funds are used to account for the Town's ongoing activities which are similar to those found in the private sector. The measurement focus is based upon determination of net income, changes in net position, financial position, and cash flows.

The *Utility Fund* accounts for the revenues and expenses related to the operation of the Town's water and wastewater system.

The *Golf Course Fund* accounts for the revenues and expenses related to the operation of the Town's golf course.

Measurement Focus and basis of accounting

Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor 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 45 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.

City sales taxes, franchise 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 period. All other revenue items are considered to be measurable and available only when cash is received by the government.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Measurement Focus – continued

The Town uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

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

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

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period, or soon thereafter, to be used to pay liabilities of the current period. The Town considers revenues to be available if they are collected within 45 days after the end of the period.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Revenues susceptible to accrual include sales taxes, highway user revenues, vehicle license taxes, and interest.

The accrual basis of accounting is followed for all enterprise funds. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Deposits and Investments

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.

State statutes authorize the Town to invest in the State's Local Government Investment Pool, in obligations of the U.S. Treasury, commercial paper and repurchase agreements.

For purposes of the statement of cash flows, the Town considers cash and cash equivalents including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both restricted as well as unrestricted assets.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds (i.e., the current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts.

Inventory and Prepaid Items

Inventory is valued at cost, and consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain debt proceeds of the Town's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net position, because they are maintained in separate accounts and their use is limited by applicable debt covenants.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets – continued

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

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20-40
Improvements	10-20
Equipment	5-25
Infrastructure	20-40

Deferred outflows/inflows of resources

In additions 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. Currently, the Town 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. Currently, The Town does not have any items that qualify for reporting in this category.

Net Assets and Fund Equity

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

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

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

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

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

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Assets and Fund Equity - continued

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

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

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

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.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements.

Proprietary funds operating and non-operating 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 utility fund, and golf course funds are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Town of Snowflake
Notes to the Financial Statements
For the Year Ended June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliations briefly explaining the adjustments necessary to transform the fund financial statements in the governmental activities column of the government-wide financial statements immediately follow each fund financial statement. Additional reconciliations are provided as shown:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Reclass and Eliminations	Statement of Net Position Total
Assets					
Cash and cash equivalents	\$ 1,708,660	\$ -	\$ -	\$ -	\$ 1,708,660
Receivables (net)	272,773				272,773
Prepays	6,433				6,433
Investments-restricted	213,564				213,564
Capital Assets	-	11,454,409			11,505,101
Total Assets	<u>\$ 2,201,430</u>	<u>\$ 11,454,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,706,531</u>
Liabilities and Net Position					
Accounts payable	\$ 84,812	\$ -	\$ -	\$ -	\$ 84,812
Accrued liabilities	71,975				71,975
Interest payable	60,188				60,188
Compensated absences	-		157,063		157,063
Current bonds/contracts payable	-		2,481,769		2,481,769
Fund Balance/Net Position	1,984,455	11,454,409	(2,638,832)		10,850,724
Total Liabilities and Net Position	<u>\$ 2,201,430</u>	<u>\$ 11,454,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,706,531</u>

(1) Capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed; the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net position includes those capital assets among the assets of the Town as a whole.

Cost of capital assets	\$ 21,111,259
Accumulated depreciation	<u>(9,656,850)</u>
	<u>\$ 11,454,409</u>

(2) Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term, are reported in the statement of net position.

Compensated Absences	\$ 157,063
Bonds Payable	<u>2,481,769</u>
	<u>\$ 2,638,832</u>

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - continued

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Adjustments and Eliminations	Statement of Activities Total
Revenues and Other Sources					
Taxes	\$ 3,785,300	\$ -	\$ -	\$ -	\$ 3,785,300
Permits and fees	31,143				31,143
Charges for services	1,195,695				1,195,695
Interest	2,918				2,918
Miscellaneous	44,305				44,305
Total revenue	<u>\$ 5,059,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,059,361</u>
Expenditures/Expenses					
General government	\$ 1,100,970	\$ 100,586	\$ 5,145	\$ -	\$ 1,206,701
Public safety	1,952,548	162,064	7,888		2,122,500
Highways and streets	419,911	301,842	999		722,752
Recreation and parks	474,147	6,211	(311)		480,047
Debt service principal	171,969			(171,969)	-
Debt service interest	120,376				120,376
Capital outlay	1,137,144	(1,137,144)			-
Total expenditures/expenses	<u>5,377,065</u>	<u>(566,441)</u>	<u>13,721</u>	<u>(171,969)</u>	<u>4,652,376</u>
Other financing sources/(uses)					
Transfers in	100,000				100,000
Transfers out	(315,138)				(315,138)
Total other financing sources/(uses)	<u>(215,138)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(215,138)</u>
Net change for the year	<u>\$ (532,842)</u>	<u>\$ 566,441</u>	<u>\$ (13,721)</u>	<u>\$ 171,969</u>	<u>\$ 191,847</u>

(1) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital outlay	\$ 1,137,144
Depreciation expense	<u>(570,703)</u>
	<u>\$ 566,441</u>

(2) Some 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.

Accrual of compensated absences	\$ (13,721)
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III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Basis of Accounting

The Town's accounting records for General government operations (General and Special Revenue Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. Available is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises.

Prior to June 30 of each year, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. A Public hearing is held each year in accordance with legal requirements, in order to obtain comments from local taxpayers. State statutes require that on or before the third Monday in July of each fiscal year, the Town Council must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption; however, they may be decreased. The tentative budget must be published once per week for two consecutive weeks prior to final adoption. Final adoption must take place on or before the second Monday in August.

The Town is subject to the State of Arizona's spending limitation law. 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.

The level of control for each legally adopted budget is at the departmental level. The budget amounts shown in the financial statements are the final authorized amounts as revised by the Town Council during the year. Unused appropriations for all of the above annually budgeted funds lapse at June 30. The budget is prepared on the same basis as the financial statements.

Excess of Expenditures over Appropriations

For the year ended June 30, 2013, no expenditures exceeded appropriations.

Deficit Fund Equity

No funds had a deficit for the year ended June 30, 2013.

IV. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town maintains two bank accounts for all of its funds. At year end, the Town's carrying amount of deposits was \$1,276,753, and the bank balances were \$1,353,988. Of the bank balances, \$500,000 was covered by federal depository insurance. The remaining balances of \$853,988 were not insured and subject to custodial credit risk.

Investments

The Town's investments include \$1,090,069 held in the Local Government Investment Pool under the Office of the State Treasurer of Arizona, \$370,000 in US Government securities held by US Bank acting as trust agent, and \$550 in local petty cash accounts.

IV. DETAILED NOTES ON ALL FUNDS - continued

Deposits and Investments – continued

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The Local Government Investment Pool is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The pool's policy is to invest in fixed-rate securities with a final maturity less than 24 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 180 days. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Town's policy for reducing its exposure to credit risk is to comply with the 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. The State Investment Pool is rated AAAF/S1+ and the weighted average to maturity is 26 days. The balance at June 30, 2013 was \$1,090,069 and is the fair market value. The investments in US Government securities held by US Bank are unrated and the balance at June 30, 2013 was \$370,000.

The Town has no formal policy relating to interest rate risk.

Receivables

Receivables as of June 30, 2013, including allowances for uncollectible accounts, are as follows:

Receivables	Highway			Total
	General	User	Utility	
Taxes	\$ 159,123	\$ 61,233	\$ -	\$ 220,356
Accounts	-	-	210,816	210,816
Grants	25,199	-	-	25,199
Franchise fees	<u>27,218</u>	<u>-</u>	<u>-</u>	<u>27,218</u>
Gross receivables	211,540	61,233	210,816	483,589
Less: allowance for uncollectible	<u>-</u>	<u>-</u>	<u>13,820</u>	<u>13,820</u>
Net total receivables	<u>\$ 211,540</u>	<u>\$ 61,233</u>	<u>\$ 196,996</u>	<u>\$ 469,769</u>

Restricted Assets

The Town's loan covenants with the Water Infrastructure Finance Authority of Arizona (WIFA), requires a debt service reserve to be fully funded by July 1, 2007. This reserve is equal to one year's worth of debt service payments. This reserve has been restricted on the face of the Statement of Net Position – Proprietary Funds, as a restriction of net position, restricted for debt service of \$454,374. Of this amount \$227,187 is restricted for debt service reserve in accordance with the loan covenants through WIFA. In addition, the Town is required to establish a repair and replacement reserve in the amount of \$227,187, with the set-aside required this fiscal year ending June 30, 2013. This amount is included in the above figure of \$454,374. The remaining restrictions of investments are related to the reserve requirement of the 2003 series excise tax revenue obligations, which require a declining reserve.

Town of Snowflake
Notes to the Financial Statements
For the Year Ended June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Non-depreciable assets:				
Land	\$ 530,743	\$ -	\$ -	\$ 530,743
Construction in progress	1,118,967	551,599	-	1,670,566
Total non-depreciable assets	1,649,710	551,599	-	2,201,309
Depreciable assets:				
Buildings and improvements	4,779,186	45,786	-	4,824,972
Machinery and equipment*	3,378,393	539,759	-	3,918,152
Infrastructure	10,166,826	-	-	10,166,826
Total depreciable assets	18,324,405	585,545	-	18,909,950
Accumulated depreciation:				
Buildings	(2,102,479)	(120,624)	-	(2,223,103)
Machinery and equipment	(2,279,486)	(195,908)	-	(2,475,394)
Infrastructure	(4,704,182)	(254,171)	-	(4,958,353)
Total accumulated depreciation	(9,086,147)	(570,703)	-	(9,656,850)
Governmental activities capital assets, net	\$ 10,887,968	\$ 566,441	\$ -	\$ 11,454,409
Business-type activities:				
Non-depreciable assets:				
Land	\$ 1,783,317	\$ -	\$ -	\$ 1,783,317
Total non-depreciable assets	1,783,317	-	-	1,783,317
Depreciable assets:				
Buildings and improvements	7,183,957	-	-	7,183,957
Machinery and equipment	1,276,867	6,000	-	1,282,867
Total depreciable assets	8,460,824	6,000	-	8,466,824
Accumulated depreciation:				
Buildings and improvements	(3,879,781)	(184,585)	-	(4,064,366)
Machinery and equipment	(518,401)	(24,663)	-	(543,064)
Total accumulated depreciation	(4,398,182)	(209,248)	-	(4,607,430)
Business-type activities capital assets, net	\$ 5,845,959	\$ (203,248)	\$ -	\$ 5,642,711

* Beginning balance for Machinery and equipment has been restated.

IV. DETAILED NOTES ON ALL FUNDS – continued

Capital Assets-continued

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

Governmental activities:

General government	\$ 100,586
Public safety	162,064
Highways and streets	301,842
Recreation and parks	<u>6,211</u>

Total depreciation expense -
governmental activities \$ 570,703

Business-type activities:

Utility fund	\$ 173,206
Golf course fund	<u>36,042</u>

Total depreciation expense -
business-type activities \$ 209,248

Construction commitments

The Town has an active construction project as of June 30, 2013. A flood control project is being constructed and is 80% complete.

Inter-fund receivables, payables, and transfers

For the year ended, June 30, 2013, Inter-fund transfers for the year were as follows: The General fund made a transfer of \$295,138 to the Golf Course fund, the Utility fund made a transfer of \$80,000 to the General fund, and the Highway User Revenue fund made a transfer of \$20,000 to the General fund.

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds, in accordance with budgetary authorizations, including amounts provided as subsidies. The transfer of \$80,000 from the Utility fund and \$20,000 from the Highway User Revenue fund to the General fund was for overhead expenditures, and the transfer of \$295,138 from the General Fund to the Golf Course fund was for budgetary reasons, and considered a subsidy.

Capital Leases

The Town has no capital leases outstanding as of June 30, 2013. All capital leases were refunded with a revenue bond issue in June and July of 2003.

Long-Term Debt

The Town has no general obligation debt outstanding. The Town has issued revenue bonds where income derived from construction projects or sales taxes have been pledged to cover the debt service on these bonds. Three Revenue Bond issues are outstanding as of June 30, 2013. The first issue is entirely related to construction and expansion of the Town's wastewater treatment plant in 2002, the original principal amount of this issue is \$3,000,000. This revenue bond issue was in conjunction with the *Water Infrastructure Finance Authority of Arizona*, which is credit-enhancement arm of the Arizona state legislature. The second revenue bond issue is entirely related to an advance refunding of all capital leases of the Town, with an amount added to fund various construction projects in June of 2003. The third revenue bond was issued to construct a new fire station in the amount of \$1,075,000. More information on these revenue bond issues follow.

IV. DETAILED NOTES ON ALL FUNDS – continued

Long-Term Debt - continued

Revenue bonds at June 30, 2013:

Governmental activities:

\$4,270,453 for refunding of capital leases and construction projects, due in semi-annual installments of \$112,613 to \$183,625 through July 1, 2022; interest at 4.72%.

\$1,075,000 for construction of a new fire station, due in semi-annual installments of \$75,468 to \$85,625 through August 1, 2026; interest at 4.5%

Outstanding at June 30, 2013:

Amount attributed to governmental activities is	\$2,481,769
Amount attributed to business-type activities is	\$1,188,232

Business-type activities:

\$3,000,000 for expansion and retrofit of wastewater treatment plant, due in semi-annual installments of \$113,594; through July 2, 2021; interest at 3.49%.

Outstanding at June 30, 2013:

Wastewater treatment plant expansion	\$1,729,481
Business-type activity portion of the above referenced refunding bond	1,188,232

Total debt outstanding:

Governmental activities	\$2,481,769
Business-type activities	<u>2,917,713</u>
Total	<u>\$5,399,482</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	176,500	115,927	260,475	115,457	436,975	231,384
2015	184,200	108,620	271,015	105,733	455,215	214,353
2016	196,000	100,005	285,736	95,071	481,736	195,076
2017	206,800	90,297	294,167	83,485	500,967	173,782
2018	216,500	80,353	306,914	71,421	523,414	151,774
2019	222,300	69,733	317,787	58,868	540,087	128,601
2020	231,000	58,500	330,993	45,819	561,993	104,319
2021	241,800	38,080	342,339	25,968	584,139	64,048
2022	255,500	34,448	352,825	22,785	608,325	57,233
2023	251,169	21,555	155,462	3,570	406,631	25,125
2024	70,000	13,250	-	-	70,000	13,250
2025	75,000	9,625	-	-	75,000	9,625
2026	75,000	5,875	-	-	75,000	5,875
2027	80,000	2,000	-	-	80,000	2,000
	<u>\$ 2,481,769</u>	<u>\$ 748,268</u>	<u>\$ 2,917,713</u>	<u>\$ 628,177</u>	<u>\$ 5,399,482</u>	<u>\$ 1,376,445</u>

IV. DETAILED NOTES ON ALL FUNDS – continued

Long Term Debt - continued

Changes in long-term liabilities:
Non-current liability activity for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable					
Revenue bonds series 2003	\$ 1,748,738	\$ -	\$ (126,969)	\$ 1,621,769	\$ 131,500
Revenue bonds series 2007A	905,000	-	(45,000)	860,000	45,000
Total bonds payable	2,653,738	-	(171,969)	2,481,769	176,500
Compensated absences	143,342	32,342	(18,621)	157,063	62,825
Total long-term liabilities	\$ 2,797,080	\$ 32,342	\$ (190,590)	\$ 2,638,832	\$ 239,325

The General fund and Highway User Revenue fund have separately liquidated their respective liabilities for compensated absences within the current year. In addition, the respective business-type activities of the Utility fund and Golf course fund generally liquidate their respective liabilities in each fund as it relates to compensated absences.

Changes in long-term liabilities:
Non-current liability activity for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities:					
Bonds Payable					
Revenue bonds WIFA	\$ 1,890,756	\$ -	\$ (161,275)	\$ 1,729,481	\$ 166,897
Revenue bonds series 2003	1,281,262	-	(93,030)	1,188,232	93,578
Total bonds payable	3,172,018	-	(254,305)	2,917,713	260,475
Compensated absences	42,826	4,731	(4,243)	43,314	17,325
Total long-term liabilities	\$ 3,214,844	\$ 7,279	\$ (250,186)	\$ 2,961,027	\$ 277,800

Segment Information

Both the water and sewer departments are accounted for in a single fund, the Utility Fund. Repayment of the revenue bonds are supported by both water and sewer revenues, consequently segment information is not presented and information on these revenues can be found in the fund financial statements.

V. OTHER INFORMATION

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 for which the Town carries commercial insurance. As of June 30, 1988, the Town joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The agreement provides that the Pool will be self-sustaining through member premiums. The Town pays an annual premium to the Pool for its general insurance coverage. If the Pool becomes insolvent or is otherwise unable to discharge its legal obligations, the Town (and all other participants) may be assessed an additional contribution based on the Town's current year's contribution divided by the current year's contributions of all participants times the deficiency. The assessment may not exceed the original contribution to the Pool for the year in which the assessment is made. The contribution to the Pool for the year ended June 30, 2013 was \$152,616. The Town continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Related Party Transactions

There were no related party transactions for the year ended June 30, 2013.

Contingent Liabilities

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

Retirement and Pension Plans

The Town contributes to two plans described below. Benefits are established by State statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

Plan Description – The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provision of A.R.S. Title 38, Chapter 5, and Article 2.

Plan Description – The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 171 local boards according to the provisions of A.R.S. Title 38, Chapter 5, and Article 4.

Each plan issues a publicly available report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
3300 North Central Avenue
Phoenix, AZ 85067-3910
(602) 621-3778

PSPRS
1020 East Missouri Avenue
Phoenix, AZ 85014-2613
(602) 255-5575

V. OTHER INFORMATION - continued

Retirement and Pension Plans – continued

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rate.

Active ASRS members and the Town were each required to contribute at the actuarially determined rate of 10.9% for retirement and .24% for disability. The Town's contributions to ASRS for the years ended June 30, 2013, 2012, and 2011, were \$139,643, \$132,861, \$130,654, respectively, which were equal to the required contributions for the year.

For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 8.65% of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 22.31%.

Annual Pension Cost

The Town's pension cost for the PSPRS for the year ended June 30, 2013 was \$162,062, which was equal to the required and actual contributions. The Town's actuarial assumptions for the year ended June 30, 2013, the date of the most recent actuarial valuation, and related information follow.

Contribution Rate	22.31%
Annual Pension Costs	\$162,062
Contributions Made	\$162,062
Actuarial Valuation Date	June 30, 2013
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	25 Years for underfunded 20 Years for overfunded
Asset Valuation Method	7-year smoothed market

Actuarial Assumptions

Investment rate of return	7.85%
Projected Salary Increases	4.50%
Payroll Growth/Inflation Rate	3.50%

State law provides for an annual benefit increase for retirees or their survivors who are over the age fifty-five on the effective day of the increase and for disability retirees regardless of age. These increases are dependent upon the production of excess earnings on a portion of the system's assets and are limited to four percent of the average benefit being paid. The healthcare cost trend rate is unavailable for the fiscal year ended June 30, 2013. (GASB 45)

Trend Information for PSPRS

Information for the Public Safety Personnel Retirement System for the year ended June 30, 2013 follows:

Fiscal Year Ended June 30	Annual Pension Cost	Percent Contributed	Net Pension Obligation
2008	\$ 107,840	100%	\$ -
2009	150,835	100%	-
2010	110,487	100%	-
2011	133,868	100%	-
2012	149,550	100%	-
2013	162,062	100%	-

V. OTHER INFORMATION - continued

Retirement and Pension Plans - continued

Funding Progress for PSPRS

Information for the Public Safety Personnel Retirement System funding progress for the year ended June 30, 2013 (excluding health insurance subsidy).

	1	2	3	4	5	6
Valuation Date	Valuation Value of Assets	Actuarial Accrued Liability	Percent Funded (1)/(2)	Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded Liability as a % of Covered Payroll
June 30, 2008	\$ 1,461,209	\$ 2,415,003	60.50%	\$ 953,794	\$ 726,624	131.30%
2009	1,590,879	2,603,193	61.10%	1,012,314	758,963	133.40%
2010	1,728,178	2,804,369	61.60%	1,076,191	726,368	148.20%
2011	1,869,236	3,110,387	60.10%	1,241,151	728,058	170.47%
2012	1,958,756	3,462,076	56.60%	1,503,320	683,238	220.00%
2013	1,996,104	3,608,559	55.30%	1,612,455	724,838	222.50%

Information for the Public Safety Personnel Retirement System funding progress for the year ended June 30, 2013 (postretirement health insurance subsidy only).

	(1)	(2)	(3)	(4)	(5)	(6)
Valuation Date	Valuation Value of Assets	Actuarial Accrued Liability	Percent Funded (1)/(2)	Unfunded AAL (2)-(1)	Annual Covered Payroll	UAAL As a % of Covered Payroll
June 30, 2008	\$ -	\$ 87,331	0.00%	\$ 87,331	\$ 726,621	12.02%
2009	-	95,680	0.00%	95,680	758,963	12.61%
2010	-	110,487	0.00%	110,487	726,368	15.21%
2011	-	133,868	0.00%	133,868	728,058	18.39%
2012	-	105,075	0.00%	105,075	683,238	15.38%
2013	-	96,022	0.00%	96,022	724,838	13.25%

In accordance with GASB 45, assets within the PSPRS plan are not segregated to fund the post-retirement health insurance subsidy. Accordingly, these benefits may not be considered pre-funded. These liabilities are based on the same assumptions and actuarial cost methods as indicated for the plan. The Town reported a health insurance subsidy payment for the fiscal year ending June 30, 2013, of \$3,000.

V. OTHER INFORMATION - continued

Subsequent Events

On July 9th, 2013, the Town conducted two refunding transactions in order to take advantage of the favorable interest rate environment. The first transaction replaced the 2003 series revenue bonds and paid down the principal balance by \$370,000, with the Town entering into a new financial transaction, with the principal amount being \$2,225,000, 2.3% interest rate and a term of ten years. This new debt, mirrored the existing debt in term length, with a reduction in principal of \$370,000 and a reduction in the stated interest rate to 2.3%. The Town realized significant savings in interest costs.

The second transaction replaced the debt service of the Utility fund, which original issue was in 2002 and carried an interest rate of 3.49%. In addition, the Town borrowed \$700,000 for capital projects in the Utility fund. This new debt service, carries a ten year term, an interest rate of 2.3%, and an outstanding principal amount of \$2,305,000.

Before these refunding transactions, the Town had an outstanding principal balance on these two debt issues of \$4,539,481. Following the refunding, making the regularly scheduled payments, and borrowing an additional \$700,000, the principal balance on these two debt issues is now \$4,530,000, a decrease of \$9,481 in principal.

Prior Period Correction

The estimated useful lives of a number of asset items in the equipment schedule of the Town were reduced from twenty years to ten years. Depreciation expense should have been higher in prior periods because of this change by \$50,692. The effect of reducing the estimated lives of these assets and the increase in depreciation expense in prior periods, had the net effect of reducing "net position - beginning" in the Governmental-Wide Statement of Activities by \$50,692. This change had no effect on the governmental fund financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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Town of Snowflake, Arizona
Required Supplementary Information
Public Safety Personnel Retirement System
Schedule of Funding Progress

Police and Fire

(Excluding Health Insurance Subsidy)

Valuation Date June 30	(1) Valuation Value of Assets	(2) Actuarial Accrued Liability	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2)-(1)	(5) Annual Covered Payroll	(6) UAAL As a % of Covered Payroll
2013	\$ 1,996,104	\$ 3,608,559	55.3%	\$ 1,612,455	\$ 724,838	222.5%
2012	1,958,756	3,462,076	56.6%	1,503,320	683,238	220.0%
2011	1,869,236	3,110,387	60.1%	1,241,151	728,058	170.5%
2010	1,728,178	2,804,369	61.6%	1,076,191	726,368	148.2%
2009	1,590,879	2,603,193	61.1%	1,012,314	758,963	133.4%
2008	1,461,209	2,415,003	60.5%	953,794	726,624	131.3%
2007	1,261,743	2,264,099	55.7%	1,002,356	610,274	164.2%
2006	1,246,925	1,941,239	64.2%	694,314	479,199	144.9%
2005	1,160,370	1,782,884	65.1%	622,514	401,243	155.1%
2004	1,076,737	1,597,249	67.4%	520,512	453,449	114.8%
2003	1,046,091	1,343,912	77.8%	297,821	384,250	77.5%
2002	985,357	1,219,955	80.8%	234,598	389,228	60.3%
2001	1,123,980	1,081,080	104.0%	(42,900)	390,833	-11.0%
2000	1,039,060	1,110,737	93.5%	71,677	351,237	20.4%
1999	892,175	1,044,962	85.4%	152,787	339,252	45.0%
1998	750,275	936,369	80.1%	186,094	343,555	54.2%
1997	648,370	795,342	81.5%	146,972	280,221	52.4%

Health Insurance Subsidy

Valuation Date June 30	(1) Valuation Value of Assets	(2) Actuarial Accrued Liability	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2)-(1)	(5) Annual Covered Payroll	(6) UAAL As a % of Covered Payroll
2013	\$ -	\$ 96,022	0.00%	\$ 96,022	\$ 724,838	13.25%
2012	-	105,075	0.00%	105,075	683,238	15.38%
2011	-	133,868	0.00%	133,868	728,058	18.39%
2010	-	110,487	0.00%	110,487	726,368	15.21%
2009	-	95,680	0.00%	95,680	758,963	12.61%
2008	-	87,331	0.00%	87,331	726,621	12.02%
2007	-	82,109	0.00%	82,109	610,274	13.45%
2006	-	54,915	0.00%	54,915	479,199	11.46%

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STATISTICAL SECTION

This part of the Town of Snowflake's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, not disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	55
<i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	
Revenue Capacity	61
<i>These schedules contain information to help the reader assess the Town's most significant local revenue sources.</i>	
Debt Capacity	63
<i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	65
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	

Town of Snowflake, Arizona
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities										
Net investment in capital assets	\$ 8,972,640	\$ 8,284,922	\$ 7,655,966	\$ 7,508,330	\$ 6,945,750	\$ 6,859,301	\$ 6,514,718	\$ 5,698,363	\$ 5,345,038	\$ 5,368,516
Restricted	379,571	338,262	362,984	293,160	403,720	246,235	1,255,124	220,458	216,398	214,666
Unrestricted	1,447,821	2,035,693	1,908,498	1,813,450	2,031,852	2,883,107	1,512,512	1,930,471	1,160,840	1,936,587
Total governmental activities net position	<u>\$ 10,800,032</u>	<u>\$ 10,658,877</u>	<u>\$ 9,927,448</u>	<u>\$ 9,614,940</u>	<u>\$ 9,381,322</u>	<u>\$ 9,988,643</u>	<u>\$ 9,282,354</u>	<u>\$ 7,849,292</u>	<u>\$ 6,722,276</u>	<u>\$ 7,519,769</u>
Business-Type activities										
Net investment in capital assets	\$ 2,724,998	\$ 2,673,941	\$ 2,397,253	\$ 2,370,950	\$ 2,184,603	\$ 2,165,129	\$ 2,124,487	\$ 2,059,863	\$ 2,116,076	\$ 2,160,338
Restricted	610,810	610,810	747,123	656,248	565,400	478,917	390,488	343,275	158,551	156,665
Unrestricted	178,443	32,535	141,949	168,195	424,059	380,182	401,599	163,306	19,731	(1,263,122)
Total business-type activities net position	<u>\$ 3,514,251</u>	<u>\$ 3,317,286</u>	<u>\$ 3,286,325</u>	<u>\$ 3,195,393</u>	<u>\$ 3,174,062</u>	<u>\$ 3,024,228</u>	<u>\$ 2,916,574</u>	<u>\$ 2,566,444</u>	<u>\$ 2,294,358</u>	<u>\$ 1,053,881</u>
Primary government										
Net investment in capital assets	\$ 11,697,638	\$ 10,958,863	\$ 10,053,219	\$ 9,879,280	\$ 9,130,353	\$ 9,024,430	\$ 8,639,205	\$ 7,758,226	\$ 7,461,114	\$ 7,528,854
Restricted	990,381	949,072	1,110,107	949,408	969,120	725,152	1,645,612	563,733	374,949	371,331
Unrestricted	1,626,264	2,068,228	2,050,447	1,981,645	2,455,911	3,263,289	1,914,111	2,093,777	1,180,571	673,465
Total primary government net position	<u>\$ 14,314,283</u>	<u>\$ 13,976,163</u>	<u>\$ 13,213,773</u>	<u>\$ 12,810,333</u>	<u>\$ 12,555,384</u>	<u>\$ 13,012,871</u>	<u>\$ 12,198,928</u>	<u>\$ 10,415,736</u>	<u>\$ 9,016,634</u>	<u>\$ 8,573,650</u>

Town of Snowflake, Arizona
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting) - (unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental activities:										
General government	\$ 1,206,701	\$ 1,061,303	\$ 1,159,761	\$ 1,208,734	\$ 1,605,940	\$ 1,358,209	\$ 1,514,695	\$ 1,171,397	\$ 1,137,586	\$ 1,219,269
Public safety	2,122,500	1,872,380	1,858,543	1,851,500	1,954,856	1,808,214	1,475,624	1,294,893	1,271,648	1,182,267
Highways and streets	722,752	620,565	691,815	635,067	783,645	671,591	587,925	551,739	481,525	577,462
Recreation and parks	480,047	540,833	527,855	528,592	553,915	562,641	479,144	419,211	483,796	476,978
Economic development	-	-	-	-	-	-	-	-	-	10,395
Interest on long-term debt	120,376	127,256	133,704	140,054	146,155	147,826	109,224	111,447	115,436	156,787
Total governmental activities expenses	<u>4,652,376</u>	<u>4,222,337</u>	<u>4,371,678</u>	<u>4,363,947</u>	<u>5,044,511</u>	<u>4,548,481</u>	<u>4,166,612</u>	<u>3,548,687</u>	<u>3,489,991</u>	<u>3,623,158</u>
Business-type activities:										
Water and sewer	1,251,985	1,195,945	1,224,999	1,302,245	1,233,194	1,197,742	1,126,619	1,086,695	1,082,330	1,094,766
Golf course	621,585	617,653	554,555	570,994	627,625	619,821	598,767	583,282	562,114	617,656
Total business-type activities expenses	<u>1,873,570</u>	<u>1,813,598</u>	<u>1,779,554</u>	<u>1,873,239</u>	<u>1,860,819</u>	<u>1,817,563</u>	<u>1,725,386</u>	<u>1,669,977</u>	<u>1,644,444</u>	<u>1,712,422</u>
Total Expenses	<u>\$ 6,525,946</u>	<u>\$ 6,035,935</u>	<u>\$ 6,151,232</u>	<u>\$ 6,237,186</u>	<u>\$ 6,905,330</u>	<u>\$ 6,366,044</u>	<u>\$ 5,891,998</u>	<u>\$ 5,218,664</u>	<u>\$ 5,134,435</u>	<u>\$ 5,335,580</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 165,662	\$ 142,725	\$ 148,494	\$ 173,982	\$ 184,073	\$ 222,346	\$ 360,638	\$ 311,364	\$ 227,321	\$ 82,576
Public safety	960,752	746,717	736,068	713,533	755,291	813,178	684,900	569,785	513,325	471,209
Recreation and Parks	100,424	130,180	128,736	134,514	105,365	100,429	95,910	90,847	93,794	90,689
Operating grants and contributions	1,392	673,992	717,624	736,307	799,342	812,680	856,519	831,293	883,097	758,874
Capital grants and contributions	651,551	806,026	582,901	630,778	47,116	269,328	463,657	154,979	193,627	255,532
Total governmental activities program revenues	<u>1,879,781</u>	<u>2,499,640</u>	<u>2,313,823</u>	<u>2,389,114</u>	<u>1,891,187</u>	<u>2,217,961</u>	<u>2,461,624</u>	<u>1,958,268</u>	<u>1,911,164</u>	<u>1,658,880</u>
Business -type activities:										
Charges for services:										
Water and sewer	1,496,251	1,383,891	1,353,669	1,372,481	1,343,856	1,419,767	1,543,327	1,414,122	1,116,447	1,055,975
Golf course	354,765	364,682	329,795	346,229	384,272	411,859	409,219	401,415	308,640	337,137
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	<u>1,851,016</u>	<u>1,748,573</u>	<u>1,683,464</u>	<u>1,718,710</u>	<u>1,728,128</u>	<u>1,831,626</u>	<u>1,952,546</u>	<u>1,815,537</u>	<u>1,425,087</u>	<u>1,393,112</u>
Total primary government program revenues	<u>\$ 3,730,797</u>	<u>\$ 4,248,213</u>	<u>\$ 3,997,287</u>	<u>\$ 4,107,824</u>	<u>\$ 3,619,315</u>	<u>\$ 4,049,587</u>	<u>\$ 4,414,170</u>	<u>\$ 3,773,805</u>	<u>\$ 3,336,251</u>	<u>\$ 3,051,992</u>
Net/(expense) revenue										
Governmental activities	\$ (2,772,595)	\$ (1,722,697)	\$ (2,057,855)	\$ (1,974,833)	\$ (3,153,324)	\$ (2,330,520)	\$ (1,704,988)	\$ (1,590,419)	\$ (1,578,827)	\$ (1,964,278)
Business-type activities	(22,554)	(65,025)	(96,090)	(154,529)	(132,691)	14,063	227,160	145,560	(219,357)	(319,310)
Total primary government net expense	<u>\$ (2,795,149)</u>	<u>\$ (1,787,722)</u>	<u>\$ (2,153,945)</u>	<u>\$ (2,129,362)</u>	<u>\$ (3,286,015)</u>	<u>\$ (2,316,457)</u>	<u>\$ (1,477,828)</u>	<u>\$ (1,444,859)</u>	<u>\$ (1,798,184)</u>	<u>\$ (2,283,588)</u>

Town of Snowflake, Arizona
Changes in Net Position (continued)
Last Nine Fiscal Years
(accrual basis of accounting) - (unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Revenues										
Governmental activities:										
Taxes										
Sales taxes	\$ 1,039,145	\$ 1,060,338	\$ 1,127,115	\$ 933,781	\$ 1,183,389	\$ 1,396,429	\$ 1,506,977	\$ 1,361,579	\$ 994,601	\$ 944,832
State shared sales taxes	457,552	436,804	381,877	362,157	392,644	453,546	469,059	474,828	413,176	375,221
Franchise taxes	123,360	130,017	123,838	121,399	121,073	117,921	134,254	106,541	103,673	93,789
Vehicle license taxes	274,622	291,394	256,076	256,954	279,662	294,464	294,625	284,637	255,242	247,408
Intergovernmental revenues	1,237,678	471,801	480,336	637,160	738,459	694,504	560,298	987,212	409,997	402,155
Investment earnings	2,918	2,780	3,143	9,403	2,993	129,148	82,535	52,679	10,449	2,594
Miscellaneous	44,305	154,198	183,954	56,039	110,308	44,388	213,272	66,286	54,030	166,426
Sales of capital assets	-	-	-	4,286	-	-	-	-	-	-
Transfers	(215,138)	(93,206)	(185,976)	(172,728)	(282,525)	(93,591)	(122,970)	(126,526)	(1,459,834)	30,000
Total governmental activities	\$ 2,964,442	\$ 2,454,126	\$ 2,370,363	\$ 2,208,451	\$ 2,546,003	\$ 3,036,809	\$ 3,138,050	\$ 3,207,236	\$ 781,334	\$ 2,262,425
Business-type activities:										
Investment earnings	\$ 4,381	\$ 2,780	\$ 1,046	\$ 3,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers	215,138	93,206	185,976	172,728	282,525	93,591	122,970	126,526	1,459,834	(30,000)
Total business-type activities	219,519	95,986	187,022	175,860	282,525	93,591	122,970	126,526	1,459,834	(30,000)
Total primary government	3,183,961	2,550,112	2,557,385	2,384,311	2,828,528	3,130,400	3,261,020	3,333,762	2,241,168	2,232,425
Change in Net Position										
Governmental activities	\$ 191,847	\$ 731,429	\$ 312,508	\$ 233,618	\$ (607,321)	\$ 706,289	\$ 1,433,062	\$ 1,127,016	\$ (797,493)	\$ 298,147
Business-type activities	196,965	30,961	90,932	21,331	149,834	107,654	350,130	272,086	1,240,477	(349,310)
Total change in Net Position	\$ 388,812	\$ 762,390	\$ 403,440	\$ 254,949	\$ (457,487)	\$ 813,943	\$ 1,783,192	\$ 1,399,102	\$ 442,984	\$ (51,163)

Town of Snowflake, Arizona
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General fund										
Non-Spendable	\$ 6,433	\$ 380,338	\$ 202,541	\$ 205,257	\$ 205,779	\$ 210,206	\$ 1,255,124	\$ 246,549	\$ 241,923	\$ 1,740,338
Restricted	178,525	178,525	-	-	-	-	-	-	-	-
Unassigned	1,598,451	1,798,697	2,048,220	1,900,337	2,100,426	2,760,031	2,564,559	1,743,204	1,020,451	622,486
Total general fund	<u>\$ 1,783,409</u>	<u>\$ 2,357,560</u>	<u>\$ 2,250,761</u>	<u>\$ 2,105,594</u>	<u>\$ 2,306,205</u>	<u>\$ 2,970,237</u>	<u>\$ 3,819,683</u>	<u>\$ 1,989,753</u>	<u>\$ 1,262,374</u>	<u>\$ 2,362,824</u>
All other governmental funds										
Restricted	\$ 201,046	\$ 159,737	\$ 149,420	\$ 114,635	\$ 225,166	\$ -	\$ -	\$ 255,147	\$ 129,410	\$ -
Unassigned, reported in:										
Special Revenue Funds	-	-	-	20,793	12,093	276,318	89,549	(3,145)	53,047	(170,751)
Total all other governmental funds	<u>\$ 201,046</u>	<u>\$ 159,737</u>	<u>\$ 149,420</u>	<u>\$ 135,428</u>	<u>\$ 237,259</u>	<u>\$ 276,318</u>	<u>\$ 89,549</u>	<u>\$ 252,002</u>	<u>\$ 182,457</u>	<u>\$ (170,751)</u>

Town of Snowflake, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
Local sales tax	\$ 1,039,145	\$ 1,060,338	\$ 1,127,115	\$ 933,781	\$ 1,183,389	\$ 1,396,429	\$ 1,506,977	\$ 1,361,579	\$ 994,601	\$ 944,832
State sales tax	457,552	436,804	381,877	362,157	392,644	453,546	469,059	474,828	413,176	375,221
Motor fuel tax	614,387	560,452	613,039	602,502	652,684	721,047	761,936	750,655	743,956	725,709
Franchise tax	123,360	130,017	123,838	121,399	121,073	117,921	134,254	106,541	103,673	93,789
Licenses and permits	31,143	15,111	15,013	32,608	55,869	88,030	183,665	182,725	98,757	81,534
Intergovernmental	1,550,856	1,682,761	1,423,898	1,659,258	1,211,895	1,409,830	1,413,163	987,212	924,560	1,429,957
Charges for services	1,195,695	1,004,511	998,285	988,860	988,860	988,022	957,783	789,271	733,332	89,130
Investment earnings	2,918	2,780	3,143	9,403	2,993	129,148	82,535	52,679	10,449	2,594
Miscellaneous	44,305	154,198	183,954	56,039	110,308	44,388	213,272	66,286	129,828	148,539
Total revenues	5,059,361	5,046,972	4,870,162	4,766,007	4,719,715	5,348,361	5,722,644	4,771,776	4,152,332	3,891,305
Expenditures										
Current:										
General government	1,100,970	911,708	1,013,868	1,065,648	1,474,031	1,227,551	1,393,282	1,055,676	1,039,616	1,117,005
Public safety	1,952,548	1,823,809	1,798,774	1,786,493	1,909,056	1,759,164	1,428,732	1,246,398	1,240,189	1,142,502
Highways and streets	419,911	413,611	512,589	436,947	600,332	487,940	426,485	397,493	337,681	435,640
Economic development			-	-	-	-	-	-	-	10,395
Recreation and parks	474,147	473,462	466,140	467,220	497,233	502,817	426,664	368,361	438,791	430,631
Debt service:										
Principal	171,969	161,199	155,427	152,541	146,771	113,884	98,114	40,400	-	-
Interest	120,376	127,256	133,704	140,054	146,155	147,826	109,224	111,447	115,436	156,787
Capital outlay	1,137,144	925,605	444,525	851,104	366,703	1,678,265	1,124,696	628,551	306,680	501,098
Total expenditures	5,377,065	4,836,650	4,525,027	4,900,007	5,140,281	5,917,447	5,007,197	3,848,326	3,478,393	3,794,058
Excess (Deficiency) of Revenues over expenditures	\$ (317,704)	\$ 210,322	\$ 345,135	\$ (134,000)	\$ (420,566)	\$ (569,086)	\$ 715,447	\$ 923,450	\$ 673,939	\$ 97,247

Town of Snowflake, Arizona
Changes in Fund Balances of Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Other financing sources (uses)										
Transfers in	\$ 100,000	\$ 100,000	\$ 120,793	\$ 80,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 40,000	\$ 30,000
Transfers (out)	(315,138)	(193,206)	(306,769)	(252,728)	(332,525)	(193,591)	(222,970)	(226,526)	(1,459,834)	-
Sales of capital assets	-	-	-	-	-	-	-	-	-	-
Proceeds from lease purchases	-	-	-	-	-	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	1,075,000	-	-	-
Payment of debt from refunding	-	-	-	-	-	-	-	-	-	(576,542)
Sales of capital assets	-	-	-	4,286	-	-	-	-	-	-
Issuance costs for bonds issued	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(215,138)	(93,206)	(185,976)	(168,442)	(282,525)	(93,591)	952,030	(126,526)	(1,419,834)	(546,542)
Net change in fund balances	\$ (532,842)	\$ 117,116	\$ 159,159	\$ (302,442)	\$ (703,091)	\$ (662,677)	\$ 1,667,477	\$ 796,924	\$ (745,895)	\$ (449,295)
Debt service as a percentage of noncapital expenditures	6.90%	7.38%	7.09%	7.23%	6.14%	6.17%	5.34%	4.72%	3.64%	4.76%

Town of Snowflake, Arizona
Local Sales Tax Revenue by Industry
Last Five Fiscal Years
(Unaudited)

	Fiscal Year									
	2013		2012		2011		2010		2009	
	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total
Mining	\$ 5,071	0.5%	\$ 10,295	1.0%	\$ 15,043	1.3%	\$ 11,618	1.2%	\$ 32,679	2.8%
Communication and Utilities	170,319	16.4%	188,295	17.8%	198,160	17.6%	203,721	21.8%	166,221	14.0%
Construction	129,422	12.5%	84,726	8.0%	108,580	9.6%	86,067	9.2%	125,595	10.6%
Manufacturing	11,362	1.1%	23,762	2.2%	16,504	1.5%	13,438	1.4%	62,039	5.2%
Retail	470,736	45.3%	524,351	49.5%	558,868	49.6%	405,779	43.5%	568,499	48.0%
Real Estate Leasing	35,096	3.4%	34,676	3.3%	29,311	2.6%	29,480	3.2%	33,072	2.8%
Restaurant and Bar	98,181	9.4%	84,319	8.0%	81,900	7.3%	76,612	8.2%	76,929	6.5%
Accommodation	32,192	3.1%	31,826	3.0%	36,098	3.2%	29,312	3.1%	37,783	3.2%
Services	77,938	7.5%	76,493	7.2%	77,135	6.8%	71,740	7.7%	75,220	6.4%
Other	8,828	0.8%	1,594	0.2%	5,516	0.5%	6,014	0.6%	5,352	0.5%
Total	<u>\$ 1,039,145</u>	<u>100.0%</u>	<u>\$ 1,060,338</u>	<u>100.0%</u>	<u>\$ 1,127,115</u>	<u>100.0%</u>	<u>\$ 933,781</u>	<u>100.0%</u>	<u>\$ 1,183,389</u>	<u>100.0%</u>

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

Town of Snowflake, Arizona
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

Fiscal Year	State Shared Sales Tax	City Sales Tax	Franchise Tax	Motor Fuel Tax	Vehicle License Tax	State Shared Income Tax
2013	\$ 457,552	\$ 1,039,145	\$ 123,360	\$ 614,387	\$ 274,622	\$ 571,006
2012	436,804	1,060,338	130,017	560,452	291,394	471,800
2011	381,877	1,127,115	123,838	613,039	256,076	480,336
2010	362,157	933,781	121,399	602,502	256,954	637,160
2009	392,644	1,183,389	121,073	652,684	279,662	738,459
2008	453,546	1,396,429	117,921	721,047	294,464	694,504
2007	469,059	1,506,977	134,254	761,936	294,625	560,299
2006	474,828	1,361,579	106,541	750,655	284,637	466,959
2005	413,176	994,601	103,673	743,956	255,242	409,997
2004	375,221	944,832	93,789	725,708	247,409	402,155

Town of Snowflake, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities			Business-Type Activities		Total Debt Primary Government	Percentage of Personal Income ⁽¹⁾	Debt Per Capita ⁽²⁾
	General Obligation Bonds	Revenue Bonds	Capital Leases	Revenue Bonds	Capital Leases			
2013	\$ -	\$ 2,481,769	\$ -	\$ 2,917,713	\$ -	\$ 5,399,482	5.78%	\$ 970
2012	-	2,653,738	-	3,172,018	-	5,825,756	6.99%	1,043
2011	-	2,814,363	-	3,417,235	-	6,231,598	7.27%	1,115
2010	-	2,970,363	-	3,651,827	-	6,622,190	8.65%	1,198
2009	-	3,122,905	-	3,879,805	-	7,002,710	8.94%	1,258
2008	-	3,269,676	-	4,098,653	-	7,368,329	10.87%	1,411
2007	-	3,383,560	-	4,306,072	-	7,689,632	11.55%	1,484
2006	-	2,406,674	-	4,513,839	-	6,920,513	11.01%	1,402
2005	-	2,477,527	-	4,543,439	-	7,020,966	11.57%	1,464
2004	-	2,477,527	-	4,670,320	-	7,147,847	12.22%	1,516

(1) See the schedule of Demographic and Economic Statistics on page 70 for personal income and population data.

(2) Population numbers are based on Arizona Department of Economic Security estimated amounts.

Town of Snowflake, Arizona
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Secondary assessed valuation	\$ 31,688,491	\$ 35,550,051	\$ 38,904,372	\$ 42,659,655	\$ 40,601,288	\$ 40,419,848	\$ 34,144,796	\$ 26,124,914	\$ 24,970,807	\$ 20,328,476
Debt limit @ 20%	6,337,698	7,110,010	7,780,874	8,531,931	8,120,258	8,083,970	6,828,959	5,224,983	4,994,161	4,065,695
Debt limit @ 6%	1,901,309	2,133,003	2,334,262	2,559,579	2,436,077	2,425,191	2,048,688	1,567,495	1,498,248	1,219,709
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin @ 20%	6,337,698	7,110,010	7,780,874	8,531,931	8,120,258	8,083,970	6,828,959	5,224,983	4,994,161	4,065,695
Legal debt margin @ 6%	1,901,309	2,133,003	2,334,262	2,559,579	2,436,077	2,425,191	2,048,688	1,567,495	1,498,248	1,219,709

For statutory purposes, the Town's outstanding revenue bonds are not considered general obligation bonds subject to the statutory limits listed above because the Town's bonds outstanding at June 30, 2012, were secured by sales taxes, and pledged excise tax revenues, rather than property taxes.

Town of Snowflake, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Estimated Population	Median Household Income	Per Capita Personal Income	Total Personal Income	Unemployment Rate	Public School Enrollment
2013	5,564	\$ 53,384	\$ 16,796	\$ 93,452,944	8.5%	2,412
2012	5,587	38,050	14,923	83,374,801	8.7%	2,436
2011	5,590	42,374	15,324	85,661,160	9.1%	2,494
2010	5,528	37,439	13,850	76,562,800	9.1%	2,494
2009	5,565	38,262	14,080	78,355,200	8.6%	2,471
2008	5,221	37,439	12,985	67,794,685	5.4%	2,487
2007	5,180	34,110	12,854	66,583,720	3.4%	2,425
2006	4,935	32,650	12,740	62,871,900	3.9%	2,413
2005	4,795	31,155	12,650	60,656,750	4.4%	2,406
2004	4,715	30,855	12,410	58,513,150	4.6%	2,367

Source: US Census Bureau, Arizona Department of Economic Security, and US Department of Commerce, Arizona Office of Employment and Population Statistics.

Town of Snowflake, Arizona
Principle Employers
Current Year and Nine Years Ago
(Unaudited)

<u>Employers</u>	<u>2013</u>		<u>2004</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Summit Regional Medical Center	926	3.55%	500	1.82%
Northland Pioneer College	600	2.30%	175	0.64%
Navajo County	550	2.11%	425	1.55%
Wal-Mart	450	1.72%	761	2.77%
Peabody Energy	425	1.63%	250	0.91%
Hon-Dah Casino	407	1.56%	400	1.46%
Show Low Unified School District	277	1.06%	250	0.91%
Arizona Public Service	269	1.03%	287	1.05%
Blue Ridge Unified School District	210	0.80%	195	0.71%
PFFJ	156	0.60%	142	0.52%
Total	<u>4,270</u>	<u>16.36%</u>	<u>3,385</u>	<u>12.33%</u>
Total Employment	<u>26,100</u>		<u>27,450</u>	

The 2004 year is presented with the current year because the Town adopted GASB 34 in 2004, and is a comparable base year.

Source: Estimates of various employers and sources.

The principle employers represent a county-wide employment base, because the Town operates in a rural area and most employers are based outside the Town limits.

Town of Snowflake, Arizona
Full Time Equivalent Town Employees by Function
Last Ten Fiscal Years

	Full Time Equivalent Employees									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General government	10	10	10	11	11	11	12	10	10	9
Public safety										
Police										
Officers	14	14	14	14	15	15	15	12	12	12
Civilians	7	7	7	7	7	7	7	7	7	7
Fire										
Full-time	1	1	1	1	1	1	1	1	1	
Volunteers	15	15	15	15	15	16	18	12	12	12
Highways and streets	4.5	4	4	4	4	4	4	4	4	4
Recreation and parks	4	4	4	5	5	5	5	5	5	5
Utility fund	5.5	5	5	6	6	6	6	6	6	5
Golf Course	4	4	4	4	4	4	4	4	4	4
Total	65	64	64	67	68	69	72	61	61	58

Source: Various departments

**Town of Snowflake, Arizona
Operating Indicators by Function/Program
Last Ten Fiscal Years**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public safety										
Police calls for service	19,505	18,520	17,625	15,480	14,489	14,210	13,855	13,641	12,899	13,746
Fire calls for service	400	415	320	305	274	222	286	266	251	287
Highways and streets										
Street miles resurfaced	0.50	0.10	0.50	0.60	0.40	0.20	2.30	1.65	1.10	1.05
Recreation and parks										
Participants	4,400	4,700	4,720	4,510	4,250	4,110	4,055	3,990	4,130	4,080
Water and wastewater										
Water connects	2	3	1	2	14	40	98	85	80	91
Sewer connects	-	1	1	1	7	28	62	60	75	32
Golf course										
Rounds of golf	21,230	22,800	20,130	21,110	23,439	24,098	23,255	24,110	21,655	22,841

Source: Various departments

**Town of Snowflake, Arizona
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2	1	1	1	1
Highways and streets										
Streetlights	415	415	415	415	415	415	415	415	400	380
Lift stations	7	7	7	7	7	7	7	7	7	7
Signalized intersections	1	1	1	1	1	1	1	1	1	
Recreation and parks										
Park areas	3	3	3	3	3	3	3	3	3	3
Pools	1	1	1	1	1	1	1	1	1	1
Water and wastewater										
Well sites	3	3	3	3	3	3	3	3	3	3
Treatment facilities	1	1	1	1	1	1	1	1	1	1
Golf course										
Playable golf holes	27	27	27	27	27	27	27	27	27	27

Source: Various departments

FEDERAL AND STATE REPORTS

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MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
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PHILLIP S. PEINE, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

**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***

Honorable Mayor and
Members of Town Council
Town of Snowflake, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Snowflake, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Snowflake, Arizona's basic financial statements and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Snowflake, Arizona'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 Snowflake, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Snowflake, Arizona's internal control over financial reporting.

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

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

12-01. Capital Asset Management

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Snowflake, Arizona's financial statements are free from 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*.

Purpose of this Report

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



HintonBurdick, PLLC
Flagstaff, Arizona
November 8, 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
Town of Snowflake, Arizona

We have audited the basic financial statements of the Town of Snowflake, Arizona for the year ended June 30, 2013, and have issued our report thereon dated November 8, 2013. Our audit also included test work on the Town of Snowflake'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 Snowflake 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 Snowflake has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by the Town of Snowflake 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 Snowflake 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

HintonBurdick, PLLC
Flagstaff, Arizona
November 8, 2013

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