

TOWN OF TAYLOR, ARIZONA



ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2013

TOWN OF TAYLOR

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**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
Town Council
Taylor, 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 Taylor, 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Taylor, 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 for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and 48 through 51 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 Taylor, Arizona's basic financial statements. The combining and individual nonmajor fund budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the Town of Taylor, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Taylor, Arizona's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC
Flagstaff, Arizona
December 5, 2013

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

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

FINANCIAL HIGHLIGHTS

- Total assets (all funds Governmental and Business-type) decreased by \$1,323,945. Total liabilities decreased by \$544,978 which resulted in total assets in excess of total liabilities (net position) decreasing by \$778,967 at the close of the fiscal year 2013. Total net position (equity) was \$13,010,121 at June 30, 2013.
- The most significant reason for the decrease is due to depreciation expense for Governmental Activities which exceeded capital outlays in the current year by \$308,654.
- Total business-type revenues exceeded total business-type expenses by \$133,502.
- At the end of the current fiscal year, unassigned and assigned fund balances for the General Fund were \$428,172, or 17% of total General Fund FY 13 expenditures, (approximately 2 months of reserves)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

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

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

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

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

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

Reporting the Town’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town’s two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by more than \$13.01 million as of June 30, 2013 as shown in the following condensed statement of net assets. The Town has chosen to account for its Water and Sewer operations in enterprise funds which are shown as Business Activities.

TOWN OF TAYLOR, ARIZONA Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Current and other assets	\$ 1,782,658	\$ 2,709,111	\$ 164,743	\$ 76,542	\$ 1,947,401	\$ 2,785,653
Capital assets	8,436,497	8,745,151	7,576,043	7,753,082	16,012,540	16,498,233
Total assets	<u>10,219,155</u>	<u>11,454,262</u>	<u>7,740,786</u>	<u>7,829,624</u>	<u>17,959,941</u>	<u>19,283,886</u>
Long-term liabilities outstanding	521,872	520,065	4,100,273	4,332,743	4,622,145	4,852,808
Other liabilities	214,301	538,437	113,374	103,553	327,675	641,990
Total liabilities	<u>736,173</u>	<u>1,058,502</u>	<u>4,213,647</u>	<u>4,436,296</u>	<u>4,949,820</u>	<u>5,494,798</u>
Net position:						
Net investment in capital assets	7,999,457	8,224,966	3,480,662	3,427,260	11,480,119	11,652,226
Restricted	767,047	1,683,268	230,660	116,229	997,707	1,799,497
Unrestricted	716,478	487,526	(184,183)	(150,161)	532,295	337,365
Total net position	<u>\$ 9,482,982</u>	<u>\$ 10,395,760</u>	<u>\$ 3,527,139</u>	<u>\$ 3,393,328</u>	<u>\$ 13,010,121</u>	<u>\$ 13,789,088</u>

Governmental Activities

The cost of all Governmental activities this year was \$4.4 million. As shown on the Changes in Net Position statement on the following page, \$658,779 of this cost was paid for by those who directly benefited from the programs. \$766,669 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services totaled \$1.43 million. General taxes, State Revenue Sharing and investment earnings totaled \$1.7 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Economic Development. Each program's revenues and expenses are presented on page 6.

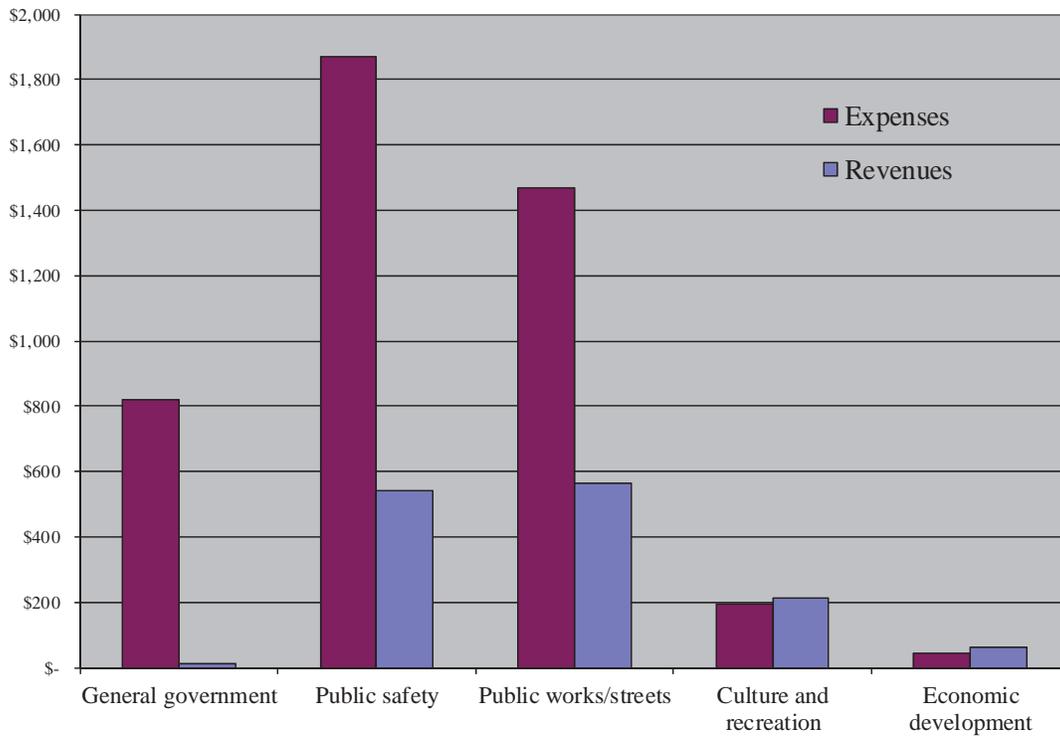
TOWN OF TAYLOR, ARIZONA
Changes in Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Revenues:						
Program revenues:						
Charges for services	\$ 658,779	\$ 685,509	\$ 944,759	\$ 843,221	\$ 1,603,538	\$ 1,528,730
Operating grants and contributions	541,355	616,620	2,450	2,850	543,805	619,470
Capital grants and contributions	225,314	67,585	-	600	225,314	68,185
General revenues:						
Taxes	1,249,811	1,180,211	-	-	1,249,811	1,180,211
State revenue sharing	420,032	347,056	-	-	420,032	347,056
Investment earnings	1,804	2,100	-	-	1,804	2,100
Other revenue (expense)	37,328	4,721	309	660	37,637	5,381
Total revenues	3,134,423	2,903,802	947,518	847,331	4,081,941	3,751,133
Expenses:						
General government	821,915	837,086	-	-	821,915	837,086
Public safety	1,869,293	1,784,738	-	-	1,869,293	1,784,738
Public works/streets	1,466,382	616,691	-	-	1,466,382	616,691
Culture and recreation	195,749	259,898	-	-	195,749	259,898
Economic development	43,666	29,666	-	-	43,666	29,666
Interest on long-term debt	20,196	17,751	-	-	20,196	17,751
Water	-	-	317,537	297,542	317,537	297,542
Sewer	-	-	496,170	487,715	496,170	487,715
Total expenses	4,417,201	3,545,830	813,707	785,257	5,230,908	4,331,087
Increase (decrease) in net position before transfers	(1,282,778)	(642,028)	133,811	62,074	(1,148,967)	(579,954)
Net position, beginning	10,395,760	11,037,788	3,393,328	3,331,254	13,789,088	14,369,042
Prior period adjustment	370,000	-	-	-	370,000	-
Net position, ending	\$ 9,482,982	\$ 10,395,760	\$ 3,527,139	\$ 3,393,328	\$ 13,010,121	\$ 13,789,088

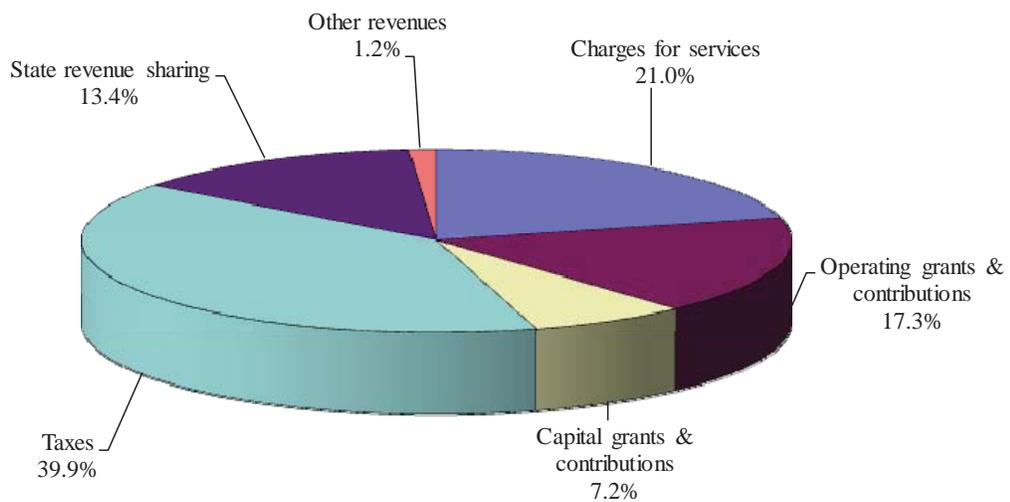
Total resources available during the year to finance governmental operations were \$13.5 million consisting of Net position at July 1, 2012 of \$10.4 million, program revenues of \$1.4 million and General Revenues of \$1.7 million. Total Governmental Activities during the year were \$4.4 million; thus Governmental Net Position was decreased by \$1,282,778.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



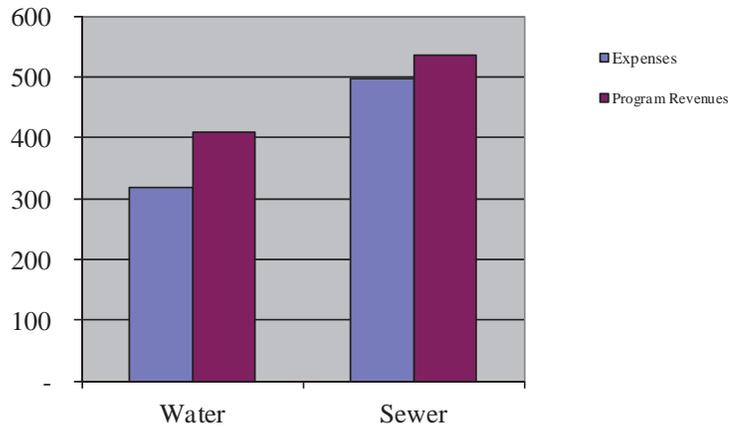
Revenue By Source - Governmental Activities



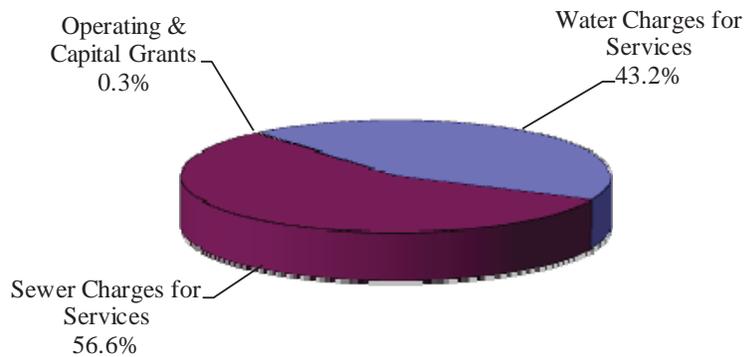
Business Type Activities

Net position of the Business Type activities at June 30, 2013, as reflected in the Statement of Net Position was \$3.5 million. The cost of providing all Proprietary (Business Type) activities this year was \$813,707. As shown in the statement of Changes in Net Position, the amount paid by users of the system was \$944,759. Net Position increased by \$133,811.

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



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town'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's governmental funds reported combined ending fund balances of \$1.2 million, a decrease of \$1,010,942 in comparison with the prior year. Approximately 41% (\$490,410) constitutes assigned or unassigned fund balance, which is available for spending at the government's discretion.

The General Fund has a total fund balance of \$438,841 of which \$428,172 is assigned or unassigned. The fund balance decreased during the current year by \$92,340 mainly due to an increase in governmental expenditures of \$193,481.

The Highway User Revenue Fund has a total fund balance of \$513,592 all of which is restricted for road construction and maintenance. The fund balance decreased during the current year by \$785,766, mainly due to an increase in expenditures for streets of \$822,656.

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

Budgetary Highlights

General fund revenues of \$2,444,109 were less than budgeted revenues of 2,917,542 by \$473,433. Factors contributing to this shortfall include declining local sales tax and no budgeted contingency revenue was received.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of fiscal year 2013, net capital assets of the government activities totaled \$8.4 million and the net capital assets of the business-type activities totaled \$7.6 million. There were no significant capital additions during the year. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 7 to the financial statements.)

Debt

At year-end, the Town had \$521,872 in governmental type debt, and \$4,100,273 in proprietary debt. During the current fiscal year, the Town's total debt decreased by \$230,662. (See note 8 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Taylor Finance Department
PO Box 158
Taylor, Arizona 85939

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 884,284	\$ -	\$ 884,284
Receivables (net of allowance)	245,174	130,330	375,504
Internal balances	270,947	(270,947)	-
Inventories	11,703	47,591	59,294
Restricted assets	550	257,769	258,319
Net investment in capital lease	370,000	-	370,000
Capital assets (not being depreciated):			
Land	979,419	40,000	1,019,419
Construction in progress	282,073	-	282,073
Capital assets (net of accumulated depreciation):			
Buildings	732,502	-	732,502
Improvements	4,267,983	-	4,267,983
System improvements	-	7,525,708	7,525,708
Furniture, equipment & vehicles	333,914	10,335	344,249
Infrastructure/Roads	1,840,606	-	1,840,606
Total assets	<u>10,219,155</u>	<u>7,740,786</u>	<u>17,959,941</u>
Liabilities			
Accounts payable and other current liabilities	205,736	77,641	283,377
Interest payable	8,565	35,733	44,298
Noncurrent liabilities:			
Due within one year	77,543	241,985	319,528
Due in more than one year	444,329	3,858,288	4,302,617
Total liabilities	<u>736,173</u>	<u>4,213,647</u>	<u>4,949,820</u>
Net Position			
Net investment in capital assets	7,999,457	3,480,662	11,480,119
Restricted for:			
Debt service	-	230,660	230,660
Highways & streets	682,189	-	682,189
Public safety	62,238	-	62,238
Economic development	22,620	-	22,620
Unrestricted	716,478	(184,183)	532,295
Total net position	<u>\$ 9,482,982</u>	<u>\$ 3,527,139</u>	<u>\$ 13,010,121</u>

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

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

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities:							
General government	\$ 821,915	\$ 10,224	\$ -	\$ -	\$ (811,691)	\$ -	\$ (811,691)
Public safety	1,869,293	513,771	28,444	703	(1,326,375)	-	(1,326,375)
Public works/streets	1,466,382	85,534	452,459	23,829	(904,560)	-	(904,560)
Culture and recreation	195,749	49,250	-	162,261	15,762	-	15,762
Economic development	43,666	-	60,452	-	16,786	-	16,786
Interest on long-term debt	20,196	-	-	38,521	18,325	-	18,325
Total governmental activities	4,417,201	658,779	541,355	225,314	(2,991,753)	-	(2,991,753)
Business-type activities:							
Water	317,537	408,804	2,450	-	-	93,717	93,717
Sewer	496,170	535,955	-	-	-	39,785	39,785
Total business-type activities	813,707	944,759	2,450	-	-	133,502	133,502
Total primary government	5,230,908	1,603,538	543,805	225,314			
General Revenues:							
Taxes:							
City sales tax					647,477	-	647,477
Franchise tax					63,372	-	63,372
State sales tax (unrestricted)					336,575	-	336,575
Auto lieu tax (unrestricted)					202,387	-	202,387
State taxes - revenue sharing (unrestricted)					420,032	-	420,032
Unrestricted investment earnings					1,804	309	2,113
Miscellaneous					37,328	-	37,328
Total general revenues & transfers					1,708,975	309	1,709,284
Change in net position					(1,282,778)	133,811	(1,148,967)
Net position - beginning					10,395,760	3,393,328	13,789,088
Prior period adjustment					370,000	-	370,000
Net position - ending					\$ 9,482,982	\$ 3,527,139	\$ 13,010,121

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

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

	General	Highway Users Revenue Fund	Nonmajor Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 164,428	\$ 482,383	\$ 237,473	\$ 884,284
Receivables, net:				
Accounts receivable	57,720	-	-	57,720
Intergovernmental	122,845	45,092	19,517	187,454
Due from other funds	270,947	-	-	270,947
Inventory	10,669	1,034	-	11,703
Net investment in capital lease	370,000	-	-	370,000
Restricted assets	550	-	-	550
Total assets	<u>\$ 997,159</u>	<u>\$ 528,509</u>	<u>\$ 256,990</u>	<u>\$ 1,782,658</u>
LIABILITIES:				
Accounts payable	\$ 173,161	\$ 12,309	\$ 2,501	\$ 187,971
Accrued liabilities	14,607	2,608	-	17,215
Customer deposits payable	550	-	-	550
Unearned revenue	370,000	-	-	370,000
Total liabilities	<u>558,318</u>	<u>14,917</u>	<u>2,501</u>	<u>575,736</u>
FUND BALANCES:				
Nonspendable:				
Inventory	10,669	1,034	-	11,703
Restricted:				
Highways and streets	-	512,558	169,631	682,189
Economic development	-	-	22,620	22,620
Assigned:				
Special events	14,181	-	-	14,181
Public safety	-	-	62,238	62,238
Unassigned	413,991	-	-	413,991
Total fund balances	<u>438,841</u>	<u>513,592</u>	<u>254,489</u>	<u>1,206,922</u>
Total liabilities and fund balances	<u>\$ 997,159</u>	<u>\$ 528,509</u>	<u>\$ 256,990</u>	<u>\$ 1,782,658</u>

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

TOWN OF TAYLOR ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Total fund balances - governmental funds \$ 1,206,922

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

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

Governmental capital assets	\$ 17,687,175	
Accumulated depreciation	<u>(9,250,678)</u>	
		8,436,497

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

370,000

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

Notes and loans payable	\$ (386,970)	
Leases payable	(50,070)	
Landfill post-closure payable	(58,836)	
Accrued interest payable	(8,565)	
Compensated absences	<u>(25,996)</u>	
		<u>(530,437)</u>

Total net position - governmental activities \$ 9,482,982

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

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

	General	Highway Users Revenue Fund	Nonmajor Funds	Total Governmental Funds
REVENUES:				
Taxes				
Sales taxes	\$ 647,477	\$ -	\$ -	\$ 647,477
Franchise taxes	63,372	-	-	63,372
Licenses and permits	10,224	-	-	10,224
Intergovernmental	997,106	452,459	193,247	1,642,812
Charges for services	630,865	-	-	630,865
Interest revenue	1,526	278	-	1,804
Contributions and donations	-	-	20,500	20,500
Other revenues	93,539	23,829	-	117,368
Total revenues	<u>2,444,109</u>	<u>476,566</u>	<u>213,747</u>	<u>3,134,422</u>
EXPENDITURES:				
Current:				
General government	578,265	-	-	578,265
Public safety	1,623,724	-	261,804	1,885,528
Public works/streets	-	1,247,874	41,113	1,288,987
Culture and recreation	230,260	-	-	230,260
Economic development	-	-	43,666	43,666
Capital outlay	59,049	14,458	-	73,507
Debt service:				
Principal retirement	25,523	-	-	25,523
Interest on long-term debt	19,628	-	-	19,628
Total expenditures	<u>2,536,449</u>	<u>1,262,332</u>	<u>346,583</u>	<u>4,145,364</u>
Excess (deficiency) of revenues over (under) expenditures	(92,340)	(785,766)	(132,836)	(1,010,942)
Fund balances, beginning of year	<u>531,181</u>	<u>1,299,358</u>	<u>387,325</u>	<u>2,217,864</u>
Fund balances, end of year	<u><u>\$ 438,841</u></u>	<u><u>\$ 513,592</u></u>	<u><u>\$ 254,489</u></u>	<u><u>\$ 1,206,922</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF TAYLOR ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds		\$ (1,010,942)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation expense and capital outlay in the current period.</p>		
Capital outlay	\$ 352,184	
Depreciation expense	<u>(660,838)</u>	(308,654)
<p>Repayment of long term debt principal is an expenditure in the governmental funds but reduces long-term liabilities in the statement of net position.</p>		
		68,129
<p>Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net position.</p>		
		(91,010)
<p>Accrued Interest for Long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.</p>		
		38,625
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>21,074</u>
Change in net position of governmental activities		<u><u>\$ (1,282,778)</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF TAYLOR ARIZONA
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Budget & Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 652,500	\$ 652,500	\$ 710,849	\$ 58,349
Licenses, permits and fees	15,000	15,000	10,224	(4,776)
Intergovernmental revenue	1,026,342	1,026,342	997,106	(29,236)
Charges for services	666,700	666,700	630,865	(35,835)
Interest	1,000	1,000	1,526	526
Other revenues	556,000	556,000	93,539	(462,461)
Total revenues	<u>2,917,542</u>	<u>2,917,542</u>	<u>2,444,109</u>	<u>(473,433)</u>
EXPENDITURES:				
Current:				
General government	561,050	561,050	578,265	(17,215)
Public safety	1,629,494	1,629,494	1,623,724	5,770
Culture and recreation	261,050	261,050	230,260	30,790
Capital outlay	500,000	500,000	59,049	440,951
Debt service	57,000	57,000	45,151	11,849
Total expenditures	<u>3,008,594</u>	<u>3,008,594</u>	<u>2,536,449</u>	<u>472,145</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,052)</u>	<u>(91,052)</u>	<u>(92,340)</u>	<u>(1,288)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	10,000	10,000	-	(10,000)
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balance	(81,052)	(81,052)	(92,340)	(11,288)
Fund balance, beginning of year	<u>531,181</u>	<u>531,181</u>	<u>531,181</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 450,129</u></u>	<u><u>\$ 450,129</u></u>	<u><u>\$ 438,841</u></u>	<u><u>\$ (11,288)</u></u>

The accompanying notes are an integral part of the financial statements

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

	Water Fund	Sewer Fund	Combined Total
Assets:			
Current assets:			
Cash	\$ -	\$ -	\$ -
Receivables (net of allowance)	70,409	59,921	130,330
Due from other funds	134,240	-	134,240
Inventory	47,074	517	47,591
Restricted assets	29,505	228,264	257,769
Total current assets	<u>281,228</u>	<u>288,702</u>	<u>569,930</u>
Noncurrent assets:			
Land	-	40,000	40,000
Furniture, equipment & vehicles	110,655	66,937	177,592
Distribution system	3,009,887	6,488,441	9,498,328
Accumulated depreciation	(935,765)	(1,204,112)	(2,139,877)
Total noncurrent assets	<u>2,184,777</u>	<u>5,391,266</u>	<u>7,576,043</u>
Total assets	<u>2,466,005</u>	<u>5,679,968</u>	<u>8,145,973</u>
Liabilities:			
Current liabilities:			
Accounts payable	22,125	26,449	48,574
Accrued liabilities	1,122	836	1,958
Customer deposits	25,909	1,200	27,109
Due to other funds	-	405,187	405,187
Interest payable	-	35,733	35,733
Notes payable - current	1,491	204,421	205,912
Capital leases payable - current	34,073	-	34,073
Compensated absences - current	1,200	800	2,000
Total current liabilities	<u>85,920</u>	<u>674,626</u>	<u>760,546</u>
Noncurrent liabilities:			
Compensated absences	1,761	1,131	2,892
Capital leases payable	54,039	-	54,039
Notes payable	31,354	3,770,003	3,801,357
Total long-term debt	<u>87,154</u>	<u>3,771,134</u>	<u>3,858,288</u>
Total liabilities	<u>173,074</u>	<u>4,445,760</u>	<u>4,618,834</u>
Net Position:			
Net investment in capital assets	2,063,820	1,416,842	3,480,662
Restricted	3,596	227,064	230,660
Unrestricted	225,515	(409,698)	(184,183)
Total net position	<u>\$ 2,292,931</u>	<u>\$ 1,234,208</u>	<u>\$ 3,527,139</u>

The accompanying notes are an integral part of the financial statements

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

	Water Fund	Sewer Fund	Combined Total
Operating revenues:			
Charges for services	\$ 407,896	\$ 535,264	\$ 943,160
Other revenues	908	691	1,599
Total operating revenues	<u>408,804</u>	<u>535,955</u>	<u>944,759</u>
Operating expenses:			
Salaries	53,563	45,105	98,668
Employee benefits	17,003	22,597	39,600
Service, supplies, and other	171,877	209,041	380,918
Depreciation	68,971	139,981	208,952
Total operating expenses	<u>311,414</u>	<u>416,724</u>	<u>728,138</u>
Operating income	<u>97,390</u>	<u>119,231</u>	<u>216,621</u>
Non-operating revenues (expenses):			
Interest income	192	117	309
Interest expense and fiscal charges	(6,123)	(79,446)	(85,569)
Connection and impact fees	2,450	-	2,450
Total non-operating revenue (expense)	<u>(3,481)</u>	<u>(79,329)</u>	<u>(82,810)</u>
Income before contributions and transfers	93,909	39,902	133,811
Contributions and transfers:			
Transfers in	-	49,544	49,544
Transfers out	(49,544)	-	(49,544)
Change in net position	44,365	89,446	133,811
Total net position, beginning of year	<u>2,248,566</u>	<u>1,144,762</u>	<u>3,393,328</u>
Total net position, end of year	<u><u>\$ 2,292,931</u></u>	<u><u>\$ 1,234,208</u></u>	<u><u>\$ 3,527,139</u></u>

The accompanying notes are an integral part of the financial statements

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

	Water Fund	Sewer Fund	Combined Total
Cash flows from operating activities:			
Cash received from customers, service fees	\$ 383,140	\$ 529,324	\$ 912,464
Cash received from customers, other	908	691	1,599
Cash paid to suppliers	(171,880)	(195,562)	(367,442)
Cash paid to employees	(71,318)	(69,562)	(140,880)
Net cash flows from operating activities	<u>140,850</u>	<u>264,891</u>	<u>405,741</u>
Cash flows from noncapital financing activities:			
Proceeds/(payments) to other funds	(19,793)	75,031	55,238
Transfers from/(to) other funds	(49,544)	49,544	-
Net cash flows from noncapital financing activities	<u>(69,337)</u>	<u>124,575</u>	<u>55,238</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(31,913)	-	(31,913)
Principal paid on long-term debt	(34,036)	(196,405)	(230,441)
Interest paid	(6,123)	(79,446)	(85,569)
Connection & impact fees	2,450	-	2,450
Net cash flows from capital and related financing activities	<u>(69,622)</u>	<u>(275,851)</u>	<u>(345,473)</u>
Cash flows from investing activities:			
Interest on investments	192	117	309
Net change in cash and cash equivalents	2,083	113,732	115,815
Cash and cash equivalents, beginning of year	27,422	114,532	141,954
Cash and cash equivalents, end of year	<u>\$ 29,505</u>	<u>\$ 228,264</u>	<u>\$ 257,769</u>
Reconciliation of operating income to net cash flows from operating activities:			
Net operating income	\$ 97,390	\$ 119,231	\$ 216,621
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation/amortization	68,971	139,981	208,952
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables	(24,756)	(5,940)	(30,696)
(Increase)/decrease in inventory	1,882	1,190	3,072
Increase/(decrease) in payables	(1,885)	12,289	10,404
Increase/(decrease) in accrued liabilities & deposits	(752)	(1,860)	(2,612)
Net cash flows from operating activities	<u>\$ 140,850</u>	<u>\$ 264,891</u>	<u>\$ 405,741</u>

The accompanying notes are an integral part of the financial statements

TOWN OF TAYLOR ARIZONA
Statement of Fiduciary Net Position
Pension Trust Fund
June 30, 2013

	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS:	
Cash and cash equivalents	\$ 165,462
Intergovernmental receivable	<u>10,887</u>
Total assets	<u>176,349</u>
NET POSITION:	
Net position held in trust for pension benefits and other purposes	<u><u>\$ 176,349</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF TAYLOR ARIZONA
Statement of Changes in Fiduciary Net Position
Pension Trust Fund
For the Year Ended June 30, 2013

	<u>Volunteer Firefighters' Relief and Pension</u>
ADDITIONS:	
Contributions:	
Employer and plan member	\$ 5,443
Other sources	<u>5,443</u>
Total contributions	<u>10,886</u>
Investment income:	
Net appreciation (depreciation) in fair value of investments	22,168
Interest earnings	<u>-</u>
Net investment income	<u>22,168</u>
Total additions	<u>33,054</u>
DEDUCTIONS:	
Contract services	3,166
Benefits	<u>3,887</u>
Total deductions	<u>7,053</u>
Change in net position	26,001
Net position held in trust for pension benefits:	
Beginning of year	<u>150,348</u>
End of year	<u><u>\$ 176,349</u></u>

The accompanying notes are an integral part of the financial statements

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

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting entity

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

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

Blended component unit. The **Town of Taylor, Arizona Municipal Property Corporation's** (MPC) board of directors consists of three members which are appointed by the Town of Taylor, Arizona's Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in purchasing land through a note payable due to a private trust separate from the Town. The Town has a "moral obligation" for the repayment of the MPC's note payable. All related receivables and payables between the Town and the MPC have been eliminated. The MPC has a June 30 year end. For financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the Town's operations.

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

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation – government-wide financial statements

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

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

Basis of presentation – fund financial statements

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major enterprise funds:

The **Water Fund** accounts for the activities related to the Town's water distribution operations.

The **Sewer Fund** accounts for the activities related to the Town's sewer collection and treatment operations.

Additionally, the Town reports the following fund types:

The **Pension Trust Fund** accounts for the activities of the Firefighters' Pension, which accumulates resources for pension benefit payments to qualified firefighters.

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

Note 1. Summary of Significant Accounting Policies, Continued

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

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

Measurement focus and basis of accounting

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

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

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

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

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

Cash and cash equivalents

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

Investments

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "internal balances" in the Statement of Net Position and as "Due to" or "Due from" other funds in the fund financial statements. All trade accounts receivable in the General Fund and proprietary funds are shown net of an allowance for doubtful accounts.

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

Note 1. Summary of Significant Accounting Policies, Continued

Inventories and prepaid items

Inventories for consist of various parts and supplies and fuel on hand and are valued at cost using the first-in/first-out (FIFO) method.

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Land and construction in progress are not depreciated. The other property, plant and equipment and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	25 to 50 years
Treatment facilities and improvements	20-50 years
Machinery, vehicles and equipment	5 to 10 years
Storm drains and inlets	20 years
Infrastructure - Streets and sidewalks	20 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has no items that qualify for reporting in this category.

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

Note 1. Summary of Significant Accounting Policies, Continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has no items that qualify for reporting in this category.

Net position flow assumption

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

Fund balance flow assumptions

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

Fund balance policies

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

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

Revenues and expenditures/expenses

Program revenues

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

Property taxes

The Town does not currently have any primary or secondary real property tax levies.

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

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

Compensated absences

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds operating and nonoperating revenues and expenses

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the City implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

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

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

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

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a voter-approved alternative expenditure limitation that was adopted on March 16, 2011.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No Supplementary budgetary appropriations were made during the year.

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

Note 3. Stewardship, Compliance, and Accountability, Continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Expenditures over Appropriations

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

Highway User Revenue Funds

Highway user revenue fund monies received by the town pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized purposes.

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

Note 4. Deposits and Investments

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

Cash and cash equivalents	\$ 884,284
Restricted cash and cash equivalents	258,319
Fiduciary Fund cash and cash equivalents	165,462
Total	<u>\$ 1,308,065</u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the Town's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2013 cash on hand was \$500 and the carrying amount of the Town's deposits was \$626,396. As of June 30, 2013 the bank balance of the Town's deposits was \$683,185 in non-interest bearing accounts. None of the Town's bank balance was exposed to custodial credit risk because it was insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

Investments

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP) with no regulatory oversight. The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

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

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P1" by Moody's investors or "A1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

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

Note 4. Deposits and Investments, Continued

As of June 30, 2013 the Town had the following investments and maturities:

	Fair Value	Credit Rating (1)	Weighted Average Maturity (2)
Cash on deposit	\$ 626,396	N/A	N/A
Cash on hand	500	N/A	N/A
Equity Mutual Funds	146,051	N/A	N/A
Local Governments Investment Pool	535,118	AAAF/S1+	25 days
	<u>\$ 1,308,065</u>		

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

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

Interest rate risk

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

Credit risk

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

Note 5. Restricted Assets

Restricted assets consist of the following at June 30, 2013

	Governmental Activities	Business-type Activities
Debt reserves	\$ -	\$ 230,660
Customer deposits	550	27,109
	<u>\$ 550</u>	<u>\$ 257,769</u>

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

Note 6. Net Investment in Capital Lease

The Town has entered into a lease agreement as a lessor for the sale of emergency training towers to a regional training facility. The lease agreement qualifies as a capital lease for accounting purposes as title to the assets transfer to the regional training facility at the end of the lease term. The original principal amount of the lease totaling \$500,000 has been accrued as a receivable on both the General fund financial statements and the governmental activities column of the government-wide financial statements. The lease receivable is offset to unearned revenue on the fund financial statements and is recognized when received on an annual basis. The following is an annual schedule of future minimum lease payments receivable:

Year Ending June 30,	
2014	\$ 42,225
2015	40,975
2016	39,725
2017	38,475
2018	42,100
2019-2023	202,750
2024-2025	<u>78,425</u>
Total remaining lease payments	\$ 484,675
Less: Amount representing interest	<u>(114,675)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 370,000</u></u>

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

Note 7. Capital Assets

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

Governmental Activities:	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Capital assets, not being depreciated:				
Land	\$ 979,419	\$ -	\$ -	\$ 979,419
Construction in progress	353,261	61,322	(132,510)	282,073
Total capital assets, not being depreciated	<u>1,332,680</u>	<u>61,322</u>	<u>(132,510)</u>	<u>1,261,492</u>
Capital assets, being depreciated:				
Buildings	1,016,574	-	-	1,016,574
Improvements	10,427,480	317,362	-	10,744,842
Furniture, equipment & vehicles	1,945,018	106,010	-	2,051,028
Infrastructure	2,613,239	-	-	2,613,239
Total capital assets, being depreciated	<u>16,002,311</u>	<u>423,372</u>	<u>-</u>	<u>16,425,683</u>
Less accumulated depreciation for:				
Buildings	(261,150)	(22,922)	-	(284,072)
Improvements	(6,096,892)	(379,967)	-	(6,476,859)
Furniture, equipment & vehicles	(1,589,827)	(127,287)	-	(1,717,114)
Infrastructure	(641,971)	(130,662)	-	(772,633)
Total accumulated depreciation	<u>(8,589,840)</u>	<u>(660,838)</u>	<u>-</u>	<u>(9,250,678)</u>
Total capital assets, being depreciated, net	<u>7,412,471</u>	<u>(237,466)</u>	<u>-</u>	<u>7,175,005</u>
Governmental activities capital assets, net	<u>\$ 8,745,151</u>	<u>\$ (176,144)</u>	<u>\$ (132,510)</u>	<u>\$ 8,436,497</u>

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

Governmental Activities:	
General government	\$ 302,611
Public safety	106,609
Public works/streets	184,215
Culture & recreation	67,403
Total depreciation expense - governmental activities	<u>\$ 660,838</u>

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

Note 7. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Capital assets, not being depreciated:				
Land and water rights	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets, being depreciated:				
Water system	2,977,974	31,913	-	3,009,887
Sewer system	6,488,441	-	-	6,488,441
Furniture, equipment & vehicles	177,592	-	-	177,592
Total capital assets, being depreciated	<u>9,644,007</u>	<u>31,913</u>	<u>-</u>	<u>9,675,920</u>
Less accumulated depreciation for:				
Water system	(762,159)	(67,351)	-	(829,510)
Sewer system	(1,006,483)	(136,627)	-	(1,143,110)
Furniture, equipment & vehicles	(162,283)	(4,974)	-	(167,257)
Total accumulated depreciation	<u>(1,930,925)</u>	<u>(208,952)</u>	<u>-</u>	<u>(2,139,877)</u>
Total capital assets, being depreciated, net	<u>7,713,082</u>	<u>(177,039)</u>	<u>-</u>	<u>7,536,043</u>
Business-type activities capital assets, net	<u>\$ 7,753,082</u>	<u>\$ (177,039)</u>	<u>\$ -</u>	<u>\$ 7,576,043</u>

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

Business-Type Activities:	
Water	\$ 68,971
Sewer	<u>139,981</u>
Total depreciation expense - business-type activities	<u>\$ 208,952</u>

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

Note 8. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

	<u>Balance 6/30/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2013</u>	<u>Current Portion</u>
Governmental Activities:					
Note payable	\$ 5,646	\$ -	\$ (5,646)	\$ -	\$ -
Loan payable	390,000	-	(20,000)	370,000	25,000
Deferred amount on:					
Premium on loan payable	18,513	-	(1,543)	16,970	1,543
Capital leases	-	91,010	(40,940)	50,070	26,000
Landfill post-closure payable	58,836	-	-	58,836	10,000
Compensated absences	47,070	-	(21,074)	25,996	15,000
Total Governmental activity					
Long-term liabilities	<u>\$ 520,065</u>	<u>\$ 91,010</u>	<u>\$ (89,203)</u>	<u>\$ 521,872</u>	<u>\$ 77,543</u>
Business-Type Activities:					
Notes payable	\$ 4,205,119	\$ -	\$ (197,850)	\$ 4,007,269	\$ 205,912
Capital leases	120,702	-	(32,590)	88,112	34,073
Compensated absences	6,921	866	(2,895)	4,892	2,000
Total Business-type activity					
Long-term liabilities	<u>\$ 4,332,742</u>	<u>\$ 866</u>	<u>\$ (233,335)</u>	<u>\$ 4,100,273</u>	<u>\$ 241,985</u>

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

Note 8. Long-Term Debt, Continued

The following is a listing of notes and loans outstanding as of June 30, 2013:

Loans and Notes Payable:

Governmental Activities:

Loan payable to the Greater Arizona Development Authority (GADA), secured by future excise tax and state shared revenue, bearing interest at 2.375% to 5%, due in semi-annual principal and interest installments ranging from \$38,450 to \$42,850, maturing July 1, 2024. \$ 370,000

Business-Type Activities:

Sewer excise revenue loan payable to the Water Infrastructure Finance Authority of Arizona (WIFA), secured by all future sewer revenue, bearing interest at 2% to 3.89%, due in semi-annual principal and interest installments of approximately \$283,800, maturing July 1, 2028. 3,974,424

Water excise revenue loan payable to the Water Infrastructure Finance Authority of Arizona (WIFA), secured by all future water revenue, bearing interest at 3.143% due in semi-annual principal and interest installments of approximately \$4,495, maturing July 1, 2029. This loan was approved in July 2009 with a maximum principal balance of \$110,000, of which \$82,113 was drawn before the loan was closed. Of the amount drawn, \$44,000 is forgivable principal through ARRA assistance. 32,845

Total Loans and Notes Payable \$ 4,377,269

Debt service requirements to maturity, including WIFA draw downs available, are as follows:

Years ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 25,000	\$ 17,225	\$ 209,696	\$ 80,172
2015	25,000	15,975	213,951	75,917
2016	25,000	14,725	218,294	71,575
2017	25,000	13,475	222,725	67,143
2018	30,000	12,100	231,992	62,621
2019-2023	165,000	37,750	1,174,535	244,609
2024-2028	75,000	3,425	1,296,783	122,362
2029-2030	-	-	439,293	8,706
	<u>\$ 370,000</u>	<u>\$ 114,675</u>	<u>\$ 4,007,269</u>	<u>\$ 733,105</u>

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

Note 9. Capital Leases Payable

The Town has entered into two lease agreements, which are considered capital leases in accordance with Generally Accepted Accounting Principles. The following is an annual schedule of future minimum lease payments together with the present value of the net minimum lease payments for the fiscal years ending June 30:

<u>June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	\$ 26,000	\$ 37,659
2015	26,000	37,659
2016	-	18,829
Total remaining lease payments	52,000	94,147
Less: amount representing interest	(1,930)	(6,035)
Present value of net remaining minimum lease payments	<u>\$ 50,070</u>	<u>\$ 88,112</u>

A summary of assets acquired through capital leases follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Water system	\$ -	\$ 300,000
Vehicles and equipment	91,010	-
Accumulated depreciation	(18,202)	(44,667)
Net total	<u>\$ 72,808</u>	<u>\$ 255,333</u>

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

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2013, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 270,947	\$ -
Water Fund	134,240	-
Sewer Fund	-	405,187
	\$ 405,187	\$ 405,187

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances. The majority of the Sewer Fund amount due to other funds is not expected to be repaid within one year.

Interfund transfers for the current fiscal year are as follows:

	Transfers In	
Transfers Out:	Sewer Fund	Total
Water Fund	\$ 49,544	\$ 49,544
	\$ 49,544	\$ 49,544

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

Note 11. Retirement and Pension Plans

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

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix AZ 85067-3910 or by calling (602) 240-2002 or (800) 621-3778.

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

Note 11. Retirement and Pension Plans, Continued

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$ 80,553	\$ 5,275	\$ 2,235
2012	75,146	4,765	1,760
2013	73,729	4,676	1,726

Firefighters' Relief and Pension Fund

The Town of Taylor, Arizona Volunteer Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the Town and a board of trustees for the Town's volunteer firefighters.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pensions, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves service without eligibility for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

No pension provision changes occurred during the year that affected the required contributions made by the Town or its voluntary firefighters.

The Firefighters' Relief and Pension Fund held no securities of the Town or other related parties during the fiscal year or as of the close of the fiscal year.

The State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2013, the State's contribution was \$5,205.

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

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis.

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

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

Note 13. Related Party

During the fiscal year ended June 30, 2013, the Town entered into a contract with Hatch Asphalt Maintenance, LLC for pothole repair. The total payments to Hatch Asphalt Maintenance, LLC for this project were \$45,208. The owner of Hatch Asphalt Maintenance, LLC has a related party serving on the Town Council. The awarded contract followed the required bidding procedures.

During the fiscal year ended June 30, 2013, the Town also entered into a contract with Apache Underground & Excavating, LLC for the detention basin excavation project. The total payments to Apache Underground & Excavating, LLC for this project were \$52,223. The owner of Apache Underground & Excavating, LLC is serving on the Town Council. The awarded contract followed the required bidding procedures.

Note 14. Commitments and Contingencies

The Town is involved with various matters of litigation from year to year. It is the opinion of Town officials that these cases will either be handled by the Town's insurance coverage or that they will not have a material affect on the Town's financial condition. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town does not anticipate any such amounts.

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

Note 15. Prior Period Adjustment

On the government-wide statement of net position, the governmental activities have shown unearned revenue for net investment in capital lease that has not yet been received (see Note 6 for more information regarding the net investment in capital lease.) However, since the government-wide statements are based on the accrual method of accounting, the revenue should have been recognized at inception. A prior period adjustment has been recorded for \$370,000 to remove the unearned revenue and increase net position.

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TOWN OF TAYLOR, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Detail Budget-to-Actual

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

Major Special Revenue Funds

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

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share of motor fuel tax revenues which are set aside for the maintaining, repairing, and upgrading of streets.

TOWN OF TAYLOR, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
General Fund
Budget & Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Tax revenue	\$ 584,000	\$ 584,000	\$ 647,477	\$ 63,477
Franchise tax	68,500	68,500	63,372	(5,128)
Total taxes	<u>652,500</u>	<u>652,500</u>	<u>710,849</u>	<u>58,349</u>
Licenses, permits and fees:				
Licenses and permits	3,000	3,000	1,054	(1,946)
Building permits	12,000	12,000	9,170	(2,830)
Total licenses, permits and fees	<u>15,000</u>	<u>15,000</u>	<u>10,224</u>	<u>(4,776)</u>
Intergovernmental:				
Intergovernmental revenue	1,026,342	1,026,342	997,106	(29,236)
Total intergovernmental	<u>1,026,342</u>	<u>1,026,342</u>	<u>997,106</u>	<u>(29,236)</u>
Charges for services:				
Charges for services	666,700	666,700	630,865	(35,835)
Total charges for services	<u>666,700</u>	<u>666,700</u>	<u>630,865</u>	<u>(35,835)</u>
Interest:				
Interest revenue	1,000	1,000	1,526	526
Total interest	<u>1,000</u>	<u>1,000</u>	<u>1,526</u>	<u>526</u>
Other revenues:				
Miscellaneous	556,000	556,000	93,539	(462,461)
Total other revenues	<u>556,000</u>	<u>556,000</u>	<u>93,539</u>	<u>(462,461)</u>
Total revenues	<u>2,917,542</u>	<u>2,917,542</u>	<u>2,444,109</u>	<u>(473,433)</u>

(continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
General government:				
Mayor & council	27,126	27,126	22,325	4,801
Administration	362,500	362,500	323,630	38,870
Non-departmental	57,724	57,724	121,383	(63,659)
Cemetery	25,900	25,900	24,331	1,569
Airport	87,800	87,800	86,596	1,204
Total general government	561,050	561,050	578,265	(17,215)
Public safety:				
Code enforcement	77,750	77,750	75,783	1,967
Judicial	90,739	90,739	87,370	3,369
Fire	123,500	123,500	123,424	76
Police	783,855	783,855	783,855	-
Ambulance	553,650	553,650	553,292	358
Total public safety	1,629,494	1,629,494	1,623,724	5,770
Culture & recreation:				
Parks & recreation	128,050	128,050	118,686	9,364
Special events	113,000	113,000	95,483	17,517
Non-departmental	20,000	20,000	16,091	3,909
Total culture & recreation	261,050	261,050	230,260	30,790
Debt service:				
Principal	35,646	35,646	25,523	10,123
Interest	21,354	21,354	19,628	1,726
Total debt service	57,000	57,000	45,151	11,849
Capital outlay:				
Capital outlay	500,000	500,000	59,049	440,951
Total capital outlay	500,000	500,000	59,049	440,951
Total expenditures	3,008,594	3,008,594	2,536,449	472,145

(continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess (deficiency) of revenues over (under) expenditures	(91,052)	(91,052)	(92,340)	(1,288)
OTHER FINANCING SOURCES (USES):				
Transfers in	10,000	10,000	-	(10,000)
Total other financing sources (uses)	10,000	10,000	-	(10,000)
Net change in fund balance	(81,052)	(81,052)	(92,340)	(11,288)
Fund balance, beginning of year	531,181	531,181	531,181	-
Fund balance, end of year	\$ 450,129	\$ 450,129	\$ 438,841	\$ (11,288)

TOWN OF TAYLOR, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Highway User Revenue Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 1,508,214	\$ 1,508,214	\$ 452,459	\$ (1,055,755)
Interest income	100	100	278	178
Other revenues	1,000	1,000	23,829	22,829
	<u>1,509,314</u>	<u>1,509,314</u>	<u>476,566</u>	<u>(1,032,748)</u>
EXPENDITURES:				
Salaries	78,000	78,000	106,015	(28,015)
Employee benefits	29,000	29,000	43,716	(14,716)
Services, supplies, and other	1,435,500	1,435,500	1,098,143	337,357
Capital outlay	792,000	792,000	14,458	777,542
	<u>2,334,500</u>	<u>2,334,500</u>	<u>1,262,332</u>	<u>1,072,168</u>
Excess (deficiency) of revenues over (under) expenditures	(825,186)	(825,186)	(785,766)	39,420
Fund balance, beginning of year	<u>1,299,358</u>	<u>1,299,358</u>	<u>1,299,358</u>	<u>-</u>
Fund balance, end of year	<u>\$ 474,172</u>	<u>\$ 474,172</u>	<u>\$ 513,592</u>	<u>\$ 39,420</u>

TOWN OF TAYLOR, ARIZONA
SUPPLEMENTARY INFORMATION
COMBINING FINANCIAL STATEMENTS AND
INDIVIDUAL FUND
BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

- **Grants Fund** – This fund is used to account for federal and state grants and other contributions that are restricted for specific use.
- **LTAF Fund** – This fund is used to account for the Town’s share of lottery proceeds which are set aside for transportation costs and the maintaining, repairing, and upgrading of streets.
- **Real Arizona Development Council Fund** – This fund is used to account for contributions and donations from the White Mountain area municipalities and businesses which are set aside for economic development.

TOWN OF TAYLOR, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue			Total
	Grants Fund	LTAF	Real Arizona Development Council	
ASSETS:				
Cash and cash equivalents	\$ 53,668	\$ 169,631	\$ 14,174	\$ 237,473
Receivables, net:				
Intergovernmental	11,071	-	8,446	19,517
Total assets	<u>\$ 64,739</u>	<u>\$ 169,631</u>	<u>\$ 22,620</u>	<u>\$ 256,990</u>
LIABILITIES:				
Accounts payable	\$ 2,501	\$ -	\$ -	\$ 2,501
Total liabilities	<u>2,501</u>	<u>-</u>	<u>-</u>	<u>2,501</u>
FUND BALANCES:				
Restricted:				
Highways and streets	-	169,631	-	169,631
Economic development	-	-	22,620	22,620
Assigned:				
Public safety	62,238	-	-	62,238
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>62,238</u>	<u>169,631</u>	<u>22,620</u>	<u>254,489</u>
Total liabilities and fund balances	<u>\$ 64,739</u>	<u>\$ 169,631</u>	<u>\$ 22,620</u>	<u>\$ 256,990</u>

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

	Special Revenue			Total
	Grants Fund	LTAF	Real Arizona Development Council	
REVENUES:				
Intergovernmental	\$ 153,295	\$ -	\$ 39,952	\$ 193,247
Contributions and donations	-	-	20,500	20,500
Total revenues	<u>153,295</u>	<u>-</u>	<u>60,452</u>	<u>213,747</u>
EXPENDITURES:				
Current:				
Public safety	261,804	-	-	261,804
Public works/streets	878	40,235	-	41,113
Economic development	-	-	43,666	43,666
Total expenditures	<u>262,682</u>	<u>40,235</u>	<u>43,666</u>	<u>346,583</u>
Excess (deficiency) of revenues over (under) expenditures	(109,387)	(40,235)	16,786	(132,836)
Fund balances, beginning of year	<u>171,625</u>	<u>209,866</u>	<u>5,834</u>	<u>387,325</u>
Fund balances, end of year	<u>\$ 62,238</u>	<u>\$ 169,631</u>	<u>\$ 22,620</u>	<u>\$ 254,489</u>

TOWN OF TAYLOR, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Grants Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 722,500	\$ 722,500	\$ 153,295	\$ (569,205)
Total revenues	<u>722,500</u>	<u>722,500</u>	<u>153,295</u>	<u>(569,205)</u>
EXPENDITURES:				
Public safety	672,500	672,500	261,804	410,696
Public works/streets	<u>75,000</u>	<u>75,000</u>	<u>878</u>	<u>74,122</u>
Total expenditures	<u>747,500</u>	<u>747,500</u>	<u>262,682</u>	<u>484,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,000)</u>	<u>(25,000)</u>	<u>(109,387)</u>	<u>(84,387)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	20,000	20,000	-	(20,000)
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>
Total other financing sources (uses):	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balance	(15,000)	(15,000)	(109,387)	(94,387)
Fund balance, beginning of year	<u>171,625</u>	<u>171,625</u>	<u>171,625</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 156,625</u></u>	<u><u>\$ 156,625</u></u>	<u><u>\$ 62,238</u></u>	<u><u>\$ (94,387)</u></u>

TOWN OF TAYLOR, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
LTAf Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Total revenue	-	-	-	-
EXPENDITURES:				
Services, supplies, and other	50,000	50,000	40,235	9,765
Total expenditures	50,000	50,000	40,235	9,765
Excess (deficiency) of revenues over (under) expenditures	(50,000)	(50,000)	(40,235)	9,765
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 balance	(70,000)	(70,000)	(40,235)	29,765
Fund balance, beginning of year	209,866	209,866	209,866	-
Fund balance, end of year	<u>\$ 139,866</u>	<u>\$ 139,866</u>	<u>\$ 169,631</u>	<u>\$ 29,765</u>

TOWN OF TAYLOR, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Real Arizona Development Council Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ 39,952	\$ 39,952
Contributions	42,000	42,000	20,500	(21,500)
Total revenue	<u>42,000</u>	<u>42,000</u>	<u>60,452</u>	<u>18,452</u>
EXPENDITURES:				
Economic development	<u>50,000</u>	<u>50,000</u>	<u>43,666</u>	<u>6,334</u>
Total expenditures	<u>50,000</u>	<u>50,000</u>	<u>43,666</u>	<u>6,334</u>
Excess (deficiency) of revenues over (under) expenditures	(8,000)	(8,000)	16,786	24,786
Fund balance, beginning of year	<u>5,834</u>	<u>5,834</u>	<u>5,834</u>	<u>-</u>
Fund balance (deficit), end of year	<u><u>\$ (2,166)</u></u>	<u><u>\$ (2,166)</u></u>	<u><u>\$ 22,620</u></u>	<u><u>\$ 24,786</u></u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

The Honorable Mayor and
Town Council
Town of Taylor, Arizona

We have audited, in accordance with the auditing standards accepted in the United States of America and the standards applicable to the 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 Taylor, 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 Taylor, Arizona's, basic financial statements, and have issued our report thereon dated December 5, 2013

Internal Control over Financial Reporting

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

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

Our consideration of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with 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
December 5, 2013

MEMBERS:

CHAD B. ATKINSON, CPA
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MARK E. TICHENOR, CPA

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

The Honorable Mayor and
Town Council
Taylor, Arizona

We have audited the basic financial statements of the Town of Taylor, Arizona for the year ended June 30, 2013, and have issued our report thereon dated December 5, 2013. Our audit also included test work on the Town of Taylor'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 Taylor 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 Taylor has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the Town of Taylor 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 Taylor 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.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
Flagstaff, Arizona
December 5, 2013