

**TOWN OF TUSAYAN, ARIZONA**



**FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2012**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

**TOWN OF TUSAYAN**

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**Independent Auditors' Report on  
Financial Statements**

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Tusayan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan as of June 30, 2012, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, on our consideration of the Town of Tusayan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 34 through 36 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.

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

HintonBurdick, PLLC  
January 15, 2013

**TOWN OF TUSAYAN, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2012**

As management of the Town of Tusayan (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, 2012. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total assets exceeded total liabilities (net position) by \$3,098,791 at the end of the fiscal year.
- Total revenues from all sources were \$2,574,617 and the total cost of all Town programs was \$1,085,438 resulting in an increase of net position of \$1,489,179.
- Sales tax collections were \$2,319,706.
- Total costs incurred for the Town Hall Modular construction during the fiscal year was \$185,411.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$2,504,521.
- At the end of the fiscal year, restricted fund balance for the HURF Fund was \$39,034.

**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 its changes. Net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, an increase or decrease 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 currently does not maintain any proprietary activities; all activities are accounted for as governmental activities.

### **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 may establish 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 funds use the accounting approach as explained below.

- Governmental funds – All 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.

## 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 \$3.1 million as of June 30, 2012 as shown in the following condensed statement of net position.

### TOWN OF TUSAYAN, ARIZONA Statement of Net Position

	Governmental activities	
	6/30/2012	6/30/2011
Current and other assets	\$ 2,671,896	\$ 1,419,916
Capital assets	555,236	260,586
Total assets	<u>3,227,132</u>	<u>1,680,502</u>
Long-term liabilities outstanding	-	-
Other liabilities	128,341	70,891
Total liabilities	<u>128,341</u>	<u>70,891</u>
Net position:		
Net investment in capital assets	555,236	260,586
Restricted	39,034	70,820
Unrestricted	<u>2,504,521</u>	<u>1,278,205</u>
Total net position	<u>\$ 3,098,791</u>	<u>\$ 1,609,611</u>

#### Governmental Activities

The cost of all Governmental activities this year was \$1,085,438 as shown on the Changes in Net Position statement on the following page. \$12,772 of this cost was paid for by those who directly benefited from the programs. \$47,133 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$59,905. General taxes, State Revenue Sharing and investment earnings totaled \$2.51 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Economic Development. Each program's net cost (total cost less revenues generated by the activities) are presented on the following page. The net cost shows the extent to which the Town's general revenues or taxes support each of the Town's programs.

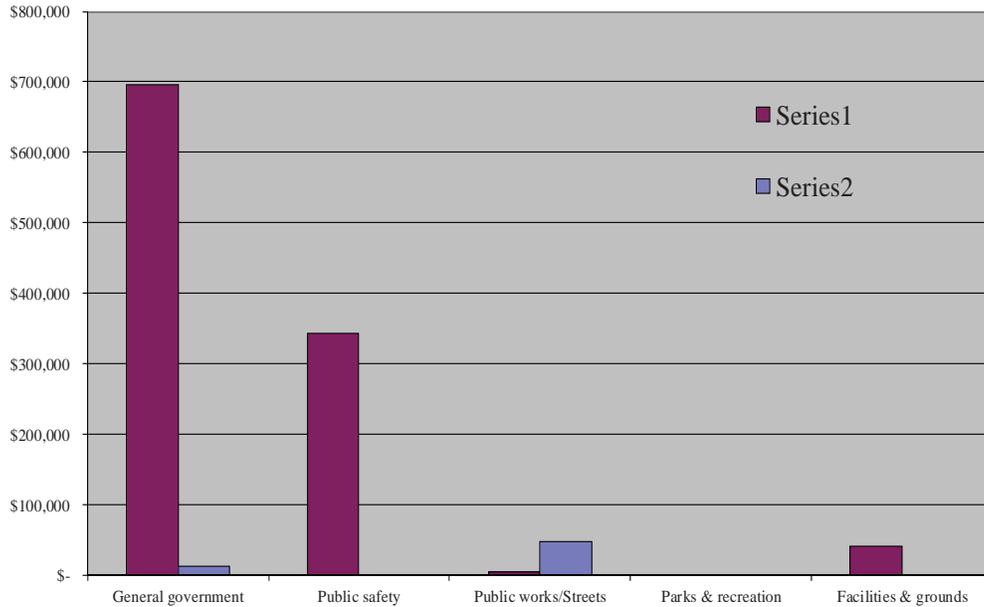
**TOWN OF TUSAYAN, ARIZONA**  
**Changes in Net Position**

	Governmental activities	
	6/30/2012	6/30/2011
Revenues:		
Program revenues:		
Charges for services	\$ 12,772	\$ 5,672
Operating grants and contributions	47,133	70,820
Capital grants and contributions	-	-
General revenues:		
Taxes	2,385,192	2,104,628
Urban revenue sharing	126,601	145,999
Investment earnings	2,803	2,010
Other revenue/(expense)	116	-
Total revenues	2,574,617	2,329,129
Expenses:		
General government	696,302	347,490
Public safety	342,544	262,908
Public works/Streets	4,823	600
Parks and recreation	-	-
Facilities and grounds	41,769	-
Interest on long-term debt	-	-
Total expenses	1,085,438	610,998
Increase (Decrease) in net assets before transfers	1,489,179	1,718,131
Transfers	-	-
Net position, beginning	1,609,612	(108,520)
Net position, ending	\$ 3,098,791	\$ 1,609,611

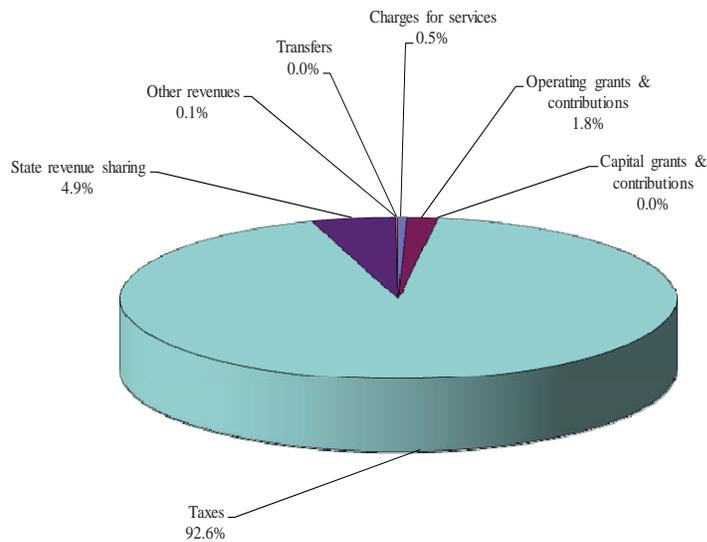
Total resources available during the year to finance governmental operations were \$4.18 million consisting of net position at July 1, 2011 of \$1.6 million, program revenues of \$59,905 and General Revenues of \$2.51 million. Total Governmental Activities during the year were \$1,085,438; thus Governmental Net Position increased by \$1.9 to a total of \$3,098,791.

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**



## **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 \$2,543,555, an increase of \$1,194,529 in comparison with the prior year. Approximately 98.5% or \$2,504,521 constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance, or \$39,034, is restricted to indicate that it is not available for new spending because it has already been committed to pay for highways and streets.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the General fund was \$2,504,521. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance at year end represents 152% of the total General Fund fiscal year 2012 expenditures. During the year, the General Fund balance increased by \$1,226,315. The Town budgeted to increase the fund balance by \$248,700. The excess revenues over expenditures (fund balance) are anticipated to be expended in future years.

The Highway User Revenue Fund has a total fund balance of \$39,034, all of which is restricted for road construction and maintenance. The fund balance decreased during the current year by \$31,786. There were expenditures totaling \$78,919 for street lighting in the current year.

### **Budgetary Highlights**

General Fund revenues of \$2,527,484 were \$250,984 greater than budgeted revenues of \$2,276,500. Greater than anticipated revenue from taxes was the major factor contributing to this variance. General Fund expenditures were \$726,631 less than budgeted. The Town had many planned expenditures that were not made during the year.

## **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 land, buildings, improvements other than buildings, equipment, vehicles, park facilities and roads. At the end of fiscal year 2012, net capital assets of the government activities totaled \$555,236. The Town completed the Town Hall Modular construction during fiscal year 2012 at a total cost of \$466,198, including furnishings and equipment. In addition, the Town contributed \$18,522 toward Phase I of the Community Park, all of which was in construction in progress at the end of fiscal year 2012. Depreciation on capital assets for government activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

## **Debt**

At year-end, the Town did not have any long-term debt.

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Town Budget for fiscal year 2012/2013, the Town Council and management were cautious as to the growth of revenues and expenditures due to a slow economy. Overall governmental fund operating expenditures were budgeted to increase slightly due to increased levels of service and \$1 million is budgeted for anticipated activity associated with the water enterprise fund. In addition, the Town anticipates applying for and receiving a CDBG grant in the amount of \$500,000 to be used for community development projects.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact: Town of Tusayan, Finance Department, P.O. Box 709, Tusayan, Arizona 86023.

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**BASIC FINANCIAL STATEMENTS**

**TOWN OF TUSAYAN, ARIZONA**  
**Statement of Net Position**  
**June 30, 2012**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,431,261
Receivables (net of allowance)	206,529
Temporarily restricted assets:	
Cash and cash equivalents	34,106
Capital assets (net of accumulated depreciation):	
Land	-
Construction in progress	18,522
Buildings	443,138
Improvements other than buildings	74,096
System improvements	-
Furniture, equipment & vehicles	19,480
Infrastructure/Roads	-
Total assets	3,227,132
<b>Liabilities</b>	
Accounts payable and other current liabilities	128,341
Noncurrent liabilities:	
Due within one year	-
Due in more than one year	-
Total liabilities	128,341
<b>Net Position</b>	
Net investment in capital assets	555,236
Restricted for:	
Highways & streets	39,034
Unrestricted	2,504,521
Total Net Position	\$ 3,098,791

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

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>	
		<b>Charges for Services</b>	<b>Operating Grants &amp; Contributions</b>	<b>Capital Grants &amp; Contributions</b>	<b>Governmental Activities</b>	<b>Total</b>
Governmental activities:						
General government	\$ 696,302	\$ 12,772	\$ -	\$ -	\$ (683,530)	\$ (683,530)
Public safety	342,544	-	-	-	(342,544)	(342,544)
Public works/Streets	4,823	-	47,133	-	42,310	42,310
Parks & recreation	-	-	-	-	-	-
Facilities & grounds	41,769	-	-	-	(41,769)	(41,769)
Interest on long-term debt	-	-	-	-	-	-
Total governmental activities	<u>1,085,438</u>	<u>12,772</u>	<u>47,133</u>	<u>-</u>	<u>(1,025,533)</u>	<u>(1,025,533)</u>
Total primary government	<u>\$ 1,085,438</u>	<u>\$ 12,772</u>	<u>\$ 47,133</u>	<u>\$ -</u>	<u>\$ (1,025,533)</u>	<u>\$ (1,025,533)</u>
General Revenues:						
Taxes:						
City sales tax					2,319,706	2,319,706
State sales tax					43,602	43,602
Auto lieu tax					21,884	21,884
Urban revenue sharing					126,601	126,601
Unrestricted investment earnings					2,803	2,803
Miscellaneous					116	116
Total general revenues & transfers					<u>2,514,712</u>	<u>2,514,712</u>
Change in net position					1,489,179	1,489,179
Net position - beginning					<u>1,609,612</u>	<u>1,609,612</u>
Net position - ending					<u>\$ 3,098,791</u>	<u>\$ 3,098,791</u>

**TOWN OF TUSAYAN ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

<b>Assets</b>	<u>General Fund</u>	<u>Highway Users Revenue Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,431,261	\$ -	\$ 2,431,261
Receivables, net:			
Intergovernmental	201,601	4,928	206,529
Restricted Cash and Investments	<u>-</u>	<u>34,106</u>	<u>34,106</u>
Total Assets	<u>\$ 2,632,862</u>	<u>\$ 39,034</u>	<u>\$ 2,671,896</u>
 <b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts Payable	\$ 122,726	\$ -	\$ 122,726
Accrued wages and benefits	<u>5,615</u>	<u>-</u>	<u>5,615</u>
Total Liabilities	<u>128,341</u>	<u>-</u>	<u>128,341</u>
Fund Balances:			
Restricted for:			
Public works/streets	-	39,034	39,034
Unassigned	<u>2,504,521</u>	<u>-</u>	<u>2,504,521</u>
Total fund balances	<u>2,504,521</u>	<u>39,034</u>	<u>2,543,555</u>
Total Liabilities and fund balances	<u>\$ 2,632,862</u>	<u>\$ 39,034</u>	<u>\$ 2,671,896</u>

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

**TOWN OF TUSAYAN ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2012**

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Total fund balances - governmental funds \$ 2,543,555

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	\$	563,639	
Accumulated depreciation		<u>(8,403)</u>	
			555,236

Total net position - governmental activities \$ 3,098,791

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

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2012**

<b>REVENUES</b>	General Fund	Highway Users Revenue Fund	Total Governmental Funds
Sales taxes	\$ 2,319,706	\$ -	\$ 2,319,706
Licenses and permits	12,772	-	12,772
Intergovernmental	192,087	47,133	239,220
Interest revenue	2,803	-	2,803
Other revenues	116	-	116
Total revenues	<u>2,527,484</u>	<u>47,133</u>	<u>2,574,617</u>
 <b>EXPENDITURES</b>			
Current:			
General government	696,302	-	696,302
Public safety	342,544	-	342,544
Parks & recreation	18,522	-	18,522
Facilities & grounds	243,801	-	243,801
Capital outlay	-	78,919	78,919
Total expenditures	<u>1,301,169</u>	<u>78,919</u>	<u>1,380,088</u>
Excess of Revenues			
Over (Under) Expenditures	1,226,315	(31,786)	1,194,529
Fund balances, beginning of year	<u>1,278,206</u>	<u>70,820</u>	<u>1,349,026</u>
Fund balances, end of year	<u><u>\$ 2,504,521</u></u>	<u><u>\$ 39,034</u></u>	<u><u>\$ 2,543,555</u></u>

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

**TOWN OF TUSAYAN 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, 2012**

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

Net change in fund balances - total governmental funds	\$ 1,194,529
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 303,053	
Depreciation expense	<u>(8,403)</u>	
		294,650

Change in net position of governmental activities	<u><u>\$ 1,489,179</u></u>
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The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2012**

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Taxes	\$ 2,000,000	\$ 2,000,000	\$ 2,319,706	\$ 319,706
Licenses, permits and fees	75,500	75,500	12,772	(62,728)
Intergovernmental revenue	177,000	177,000	192,087	15,087
Interest	-	-	2,803	2,803
Other revenues	24,000	24,000	116	(23,884)
Total revenues	<u>2,276,500</u>	<u>2,276,500</u>	<u>2,527,484</u>	<u>250,984</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,311,000	1,311,000	696,302	614,698
Public safety	370,000	370,000	342,544	27,456
Parks & recreation	150,000	150,000	18,522	131,478
Facilities & grounds	196,800	196,800	243,801	(47,001)
Total expenditures	<u>2,027,800</u>	<u>2,027,800</u>	<u>1,301,169</u>	<u>726,631</u>
Excess of Revenues Over (Under) Expenditures	<u>248,700</u>	<u>248,700</u>	<u>1,226,315</u>	<u>977,615</u>
Fund balance, beginning of year	<u>1,278,206</u>	<u>1,278,206</u>	<u>1,278,206</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,526,906</u>	<u>\$ 1,526,906</u>	<u>\$ 2,504,521</u>	<u>\$ 977,615</u>

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

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Agency Fund**  
**June 30, 2012**

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	<u>STILO Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ -</u>
Total assets	<u>-</u>
<b>LIABILITIES</b>	
Accounts payable	<u>\$ -</u>
Total liabilities	<u>-</u>
<b>NET ASSETS</b>	
Net Assets (Deficit) Held in Trust	<u><u>\$ -</u></u>

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 1.           Summary of Significant Accounting Policies**

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**General**

The accounting policies of the Town of Tusayan Arizona (the Town) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**Reporting Entity**

The Town was incorporated in April, 2010, under the provisions of Article 13, Sections 1 through 6, of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The Town is a municipal corporation governed by an elected five member council. The council members appoint the mayor and vice-mayor. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The financial statements include all funds that account for activities over which the Town's elected mayor and council exercise primary financial management and oversight responsibility. Currently, there are no blended or discretely presented component units reported with the Town.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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The Town reports the following major governmental funds:

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

The **Highway User Special Revenue Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.

Additionally, the Town reports the following fund type:

The **Agency Fund** accounts for assets held by the Town as an agent for a developer, the STILO Group. The developer is paying for planning services and all application costs based upon an agreement between the developer and the Town. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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

**Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits, deposits in cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy for investments is provided at Note 4. 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.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

---

**Note 1. Summary of Significant Accounting Policies, Continued**

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**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to” or “due from other funds. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

**Prepaid Items**

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items, when applicable.

**Inventories**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental 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 \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Deferred Revenue**

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

**Compensated Absences**

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 position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Currently, the Town has no full time employees and no liabilities for compensated absences.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position and Fund Equity**

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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

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

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

**Net position-unrestricted** is all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

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

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

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

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

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

**Estimates**

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

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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

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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 15.

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 17.

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**Note 3. Stewardship, Compliance, and Accountability**

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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).

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 3. Stewardship, Compliance, and Accountability, Continued**

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4. The Town follows a voter-approved alternative expenditure limitation that was adopted on July 14, 2010.
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.

**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, 2012.

**Encumbrances**

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

**Taxes**

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

Normally, property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 4. Deposits and Investments**

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

Cash and cash equivalents	\$ 2,431,261
Investments	-
Restricted cash and cash equivalents	34,106
	<u>\$ 2,465,367</u>

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2012, cash on hand was \$0, and the carrying amount of the Town's deposits was \$2,465,367. As of June 30, 2012, the Town's bank balance of \$2,508,157 was fully insured or collateralized.

**Investments**

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

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

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investments in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P-1" by Moody's investors or "A-1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2012 the Town did not hold any funds in the LGIP or any other investments.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 4. Deposits and Investments, Continued**

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**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.

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**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

**Note 5. Capital Assets**

<b>Governmental Activities:</b>	<b>Balance 6/30/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2012</b>
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	260,586	203,933	(445,997)	18,522
Total capital assets, not being depreciated	<u>260,586</u>	<u>203,933</u>	<u>(445,997)</u>	<u>18,522</u>
Capital assets, being depreciated:				
Buildings	-	445,997	-	445,997
Improvements other than buildings	-	78,919	-	78,919
Furniture, equipment & vehicles	-	20,201	-	20,201
Infrastructure	-	-	-	-
Total capital assets, being depreciated	<u>-</u>	<u>545,117</u>	<u>-</u>	<u>545,117</u>
Less accumulated depreciation for:				
Buildings	-	(2,859)	-	(2,859)
Improvements other than buildings	-	(4,823)	-	(4,823)
Furniture, equipment & vehicles	-	(721)	-	(721)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>-</u>	<u>(8,403)</u>	<u>-</u>	<u>(8,403)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>536,714</u>	<u>-</u>	<u>536,714</u>
Governmental activities capital assets, net	<u>\$ 260,586</u>	<u>\$ 740,647</u>	<u>\$ (445,997)</u>	<u>\$ 555,236</u>

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

<b>Governmental Activities:</b>	
General government	\$ 3,580
Public safety	-
Public works/streets	4,823
Parks & recreation	-
Facilities & grounds	-
Total depreciation expense - governmental activities	<u>\$ 8,403</u>

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 6. Long-Term Debt**

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The Town does not have any long-term obligations or capital leases outstanding for the year ended June 30, 2012.

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**Note 7. Retirement and Pension Plans**

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The Town had no full time employees or retirement plans for the year ended June 30, 2012.

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**Note 8. Risk Management**

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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 general liability, professional liability, auto liability and physical damage 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.

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**Note 9. Contingencies**

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

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 TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2012**

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**Note 10.            Stabilization Arrangement**

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The Town has established a General Fund reserve policy to set aside funds that may be needed in the event of an emergency or other unknown event that may adversely affect the Town's financial condition. An emergency reserve of \$250,000, an operating reserve of \$750,000 and a budget stabilization reserve of \$500,000 must be maintained before any expenditure can be authorized. The trigger amount for usage of the operating reserve and the budget stabilization reserve is \$300,000. As of June 30, 2012 the total reserve is \$1,500,000 and is included in the unassigned fund balance of the General Fund.

**TOWN OF TUSAYAN, 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 government 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 restricted for the maintaining, repairing, and upgrading of streets.

**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2012**

<b>REVENUES:</b>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Taxes:</b>				
City sales tax	\$ 2,000,000	\$ 2,000,000	\$ 2,319,706	\$ 319,706
Total Taxes	2,000,000	2,000,000	2,319,706	319,706
<b>Licenses, Permits and Fees:</b>				
Licenses and Permits	500	500	4,460	3,960
Building permits	75,000	75,000	8,312	(66,688)
Total Licenses, Fees and Permits	75,500	75,500	12,772	(62,728)
<b>Intergovernmental:</b>				
State sales tax	35,000	35,000	43,602	8,602
Auto lieu tax	17,000	17,000	21,884	4,884
Urban revenue sharing	125,000	125,000	126,601	1,601
Total Intergovernmental	177,000	177,000	192,087	15,087
<b>Interest:</b>				
Interest Revenue	-	-	2,803	2,803
Total Interest	-	-	2,803	2,803
<b>Other Revenues:</b>				
Misc Revenue	24,000	24,000	116	(23,884)
Total Other Revenues	24,000	24,000	116	(23,884)
<b>TOTAL REVENUES</b>	<b>2,276,500</b>	<b>2,276,500</b>	<b>2,527,484</b>	<b>250,984</b>

(continued)

**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2012 (Continued)**

<b>EXPENDITURES</b>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>General Government:</b>				
Mayor & Council	86,500	86,500	90,144	(3,644)
City Manager	308,000	308,000	283,621	24,379
Legal	159,000	159,000	87,409	71,591
Planning & Development	485,000	485,000	215,553	269,447
Magistrate	122,500	122,500	19,575	102,925
Contingency	150,000	150,000	-	150,000
Total General Government	<u>1,311,000</u>	<u>1,311,000</u>	<u>696,302</u>	<u>614,698</u>
<b>Public Safety:</b>				
Sheriff	370,000	370,000	342,544	27,456
Total Public Safety	<u>370,000</u>	<u>370,000</u>	<u>342,544</u>	<u>27,456</u>
<b>Parks &amp; Recreation</b>				
Parks & Recreation	150,000	150,000	18,522	131,478
Total Parks & Recreation	<u>150,000</u>	<u>150,000</u>	<u>18,522</u>	<u>131,478</u>
<b>Facilities &amp; Grounds:</b>				
Facilities & Grounds	196,800	196,800	243,801	(47,001)
Total Facilities & Grounds	<u>196,800</u>	<u>196,800</u>	<u>243,801</u>	<u>(47,001)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,027,800</u>	<u>2,027,800</u>	<u>1,301,169</u>	<u>726,631</u>
Excess of Revenues Over/(Under) Expenditures	248,700	248,700	1,226,315	977,615
Fund balance, beginning of year	<u>1,278,206</u>	<u>1,278,206</u>	<u>1,278,206</u>	-
Fund balance, end of year	<u><u>\$ 1,526,906</u></u>	<u><u>\$ 1,526,906</u></u>	<u><u>\$ 2,504,521</u></u>	<u><u>\$ 977,615</u></u>

**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Highway User Revenue Special Revenue Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 45,000	\$ 45,000	\$ 47,133	\$ 2,133
Interest income	-	-	-	-
Other revenues	-	-	-	-
Total revenue	<u>45,000</u>	<u>45,000</u>	<u>47,133</u>	<u>2,133</u>
<b>EXPENDITURES:</b>				
Current:				
Salaries, wages & benefits	-	-	-	-
Services, supplies, and other	-	-	-	-
Capital outlay	<u>25,000</u>	<u>25,000</u>	<u>78,919</u>	<u>(53,919)</u>
Total expenditures	<u>25,000</u>	<u>25,000</u>	<u>78,919</u>	<u>(53,919)</u>
Excess of Revenues Over (Under) Expenditures	<u>20,000</u>	<u>20,000</u>	<u>(31,786)</u>	<u>(51,786)</u>
Fund balance, beginning of year	<u>70,820</u>	<u>70,820</u>	<u>70,820</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 90,820</u></u>	<u><u>\$ 90,820</u></u>	<u><u>\$ 39,034</u></u>	<u><u>\$ (51,786)</u></u>

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

We have audited the basic financial statements of the Town of Tusayan, Arizona as of and for the year ended June 30, 2012, and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the Town of Tusayan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Tusayan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and recommendations letter dated January 15, 2013, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. We consider the following deficiencies as described in the schedule of findings and recommendations letter dated January 15, 2013 to be material weaknesses.

11-1 Year-End Accounting and Financial Statement Controls

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. We consider the following deficiencies as described in the schedule of findings and recommendations letter dated January 15, 2013 to be significant deficiencies.

- 11-2 Segregation of Duties
- 11-3 Policies and Procedures

### **Compliance and Other Matters**

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

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated January 15, 2013.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC  
January 15, 2013

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

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

We have audited the basic financial statements of the Town of Tusayan, Arizona for the year ended June 30, 2012, and have issued our report thereon dated January 15, 2013. Our audit also included test work on the Town of Tusayan'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 Tusayan 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 Tusayan has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by the Town of Tusayan 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 Tusayan complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.



HintonBurdick, PLLC  
January 15, 2013