

COLORADO CITY, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS:

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

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

Independent Auditors' Report

The Honorable Mayor and Town Council
Town of Colorado City, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Colorado City, 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 financial statements are the responsibility of Colorado City's management. Our responsibility is to express an opinion 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 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Colorado City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective 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 March 29, 2013, on our consideration of Colorado City's internal control structure over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering 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 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

HintonBurdick, PLLC

HintonBurdick, PLLC
March 29, 2013

**COLORADO CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Town of Colorado City (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 net position increased by \$2,154,128, which resulted in total assets in excess of total liabilities (net position) of \$8,908,659 at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$2,090,813.
- Total business-type revenues exceeded total business-type expenses by \$63,315, which includes affiliate net income of \$63,122.
- The Town's equity in affiliates increased from 2,459,122 at June 30, 2011 to \$2,522,244 at June 30, 2012.
- Total revenues from all sources were approximately \$7.2 million, including revenue from affiliates of approximately \$2.1 million.
- The total cost of all Town programs was approximately \$5.1 million, including expenses from affiliates of approximately \$2.0 million.
- The General Fund reported excess revenues over (under) expenditures of \$212,993 before inter-fund transfers and (\$31,222) after inter-fund transfers.
- Actual revenues in the General Fund were less than the final budget by \$65,212, while actual expenditures were \$291,405 less than the final budget. Transfers out were more than the final budget by \$57,415.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$621,119 or 42% of total General Fund expenditures, excluding transfers (36% including transfers out).

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 change. Net position, essentially 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 are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's property tax base or condition of the Town's roads to accurately assess the overall health of the Town.

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

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, community development, 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 all of 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.
- 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.

Reporting the Town's Fiduciary Responsibilities

The Town is the trustee, or fiduciary, for certain amounts held for a specific purpose for others. These fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The Town is responsible for ensuring that the assets are used for their intended purpose. Therefore, fiduciary activities are excluded from the Town's other financial statements because the assets cannot be used to finance operations.

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 \$8,908,659 as of June 30, 2012 as shown in the following condensed statement of net position. The Town has chosen to account for its investment in affiliates and contract services operations in enterprise funds which are shown as Business-type Activities.

Colorado City Statement of Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 1,518,691	\$ 853,599	\$ 40,982	\$ -	\$ 1,559,673	\$ 853,599
Capital assets	5,992,561	3,829,880	-	-	5,992,561	3,829,880
Investment in affiliates	-	-	2,522,244	2,459,122	2,522,244	2,459,122
Total assets	<u>7,511,252</u>	<u>4,683,479</u>	<u>2,563,226</u>	<u>2,459,122</u>	<u>10,074,478</u>	<u>7,142,601</u>
Long-term liabilities outstanding	258,249	232,847	-	-	258,249	232,847
Other liabilities	866,781	155,223	40,789	-	907,570	155,223
Total liabilities	<u>1,125,030</u>	<u>388,070</u>	<u>40,789</u>	<u>-</u>	<u>1,165,819</u>	<u>388,070</u>
Net position:						
Net investment in capital assets	5,773,080	3,640,448	2,522,244	2,459,122	8,295,324	6,099,570
Restricted	75	11,603	-	-	75	11,603
Unrestricted	613,067	643,358	193	-	613,260	643,358
Total net position	<u>\$ 6,386,222</u>	<u>\$ 4,295,409</u>	<u>\$ 2,522,437</u>	<u>\$ 2,459,122</u>	<u>\$ 8,908,659</u>	<u>\$ 6,754,531</u>

Governmental Activities

The cost of all governmental activities this year was \$2,157,008 as shown on the statement of changes in net position on the following page—\$193,895 of this cost was paid for by those who directly benefited from the programs, \$2,778,688 was subsidized by grants received from other governmental organizations and others for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services but excluding general revenues were \$2,972,583. General revenues totaled \$1,275,238.

The Town's programs include: General Government, Public Safety, Public Works/Airport/Streets, Culture/Parks and Recreation, and Community Development. Program revenues and each program's expenses are presented on the following page.

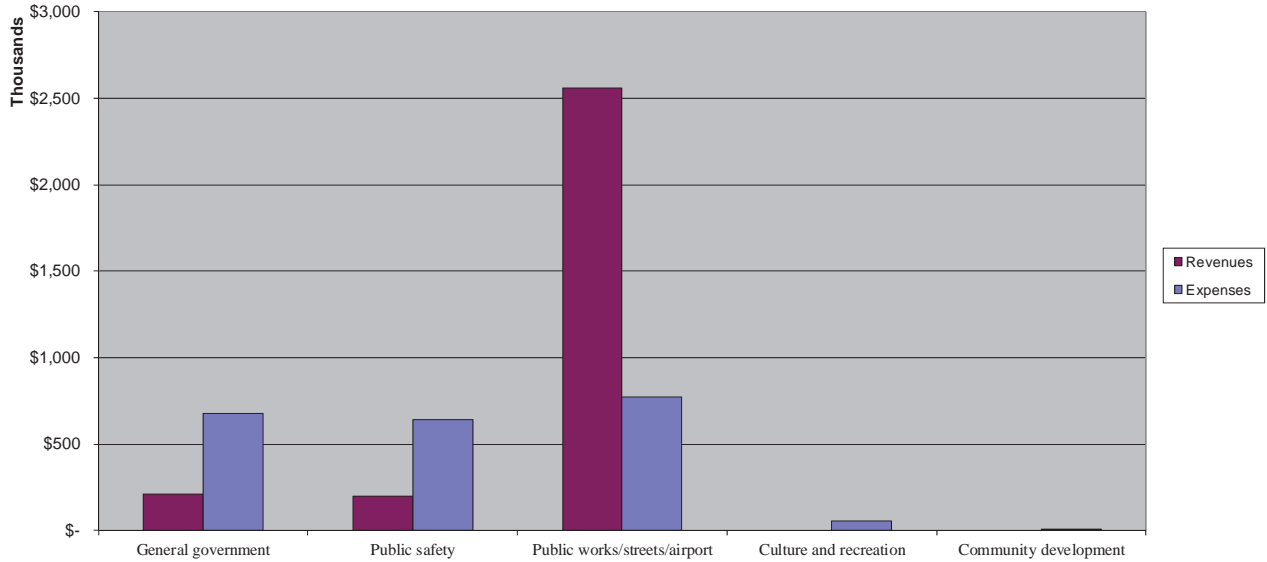
**Colorado City
Changes in Net Position**

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 193,895	\$ 139,455	\$ 875,789	\$ 1,094,273	\$ 1,069,684	\$ 1,233,728
Operating grants and contributions	633,195	540,976	-	-	633,195	540,976
Capital grants and contributions	2,145,493	505,754	-	-	2,145,493	505,754
General revenues:						
Taxes	857,694	802,343	-	-	857,694	802,343
State revenue sharing	406,896	397,118	-	-	406,896	397,118
Other revenue (expense)	10,648	7,623	-	-	10,648	7,623
Affiliate revenue	-	-	2,095,759	1,971,317	2,095,759	1,971,317
Total revenues	<u>4,247,821</u>	<u>2,393,269</u>	<u>2,971,548</u>	<u>3,065,590</u>	<u>7,219,369</u>	<u>5,458,859</u>
Expenses:						
General government	679,211	649,225	-	-	679,211	649,225
Public safety	643,645	651,884	-	-	643,645	651,884
Public works/streets/airport	771,453	612,071	-	-	771,453	612,071
Culture and recreation	54,534	46,977	-	-	54,534	46,977
Community development	1,995	5,259	-	-	1,995	5,259
Interest on long-term debt	6,170	12,213	-	-	6,170	12,213
Contract service	-	-	875,596	1,091,107	875,596	1,091,107
Affiliate expenses	-	-	2,032,637	1,739,458	2,032,637	1,739,458
Total expenses	<u>2,157,008</u>	<u>1,977,629</u>	<u>2,908,233</u>	<u>2,830,565</u>	<u>5,065,241</u>	<u>4,808,194</u>
Increase (decrease) in net position before transfers	2,090,813	415,640	63,315	235,025	2,154,128	650,665
Transfers	-	34,391	-	(34,391)	-	-
Increase (decrease) in net position	2,090,813	450,031	63,315	200,634	2,154,128	650,665
Net position, beginning	4,295,409	3,845,378	2,459,122	2,258,488	6,754,531	6,103,866
Net position, ending	<u>\$ 6,386,222</u>	<u>\$ 4,295,409</u>	<u>\$ 2,522,437</u>	<u>\$ 2,459,122</u>	<u>\$ 8,908,659</u>	<u>\$ 6,754,531</u>

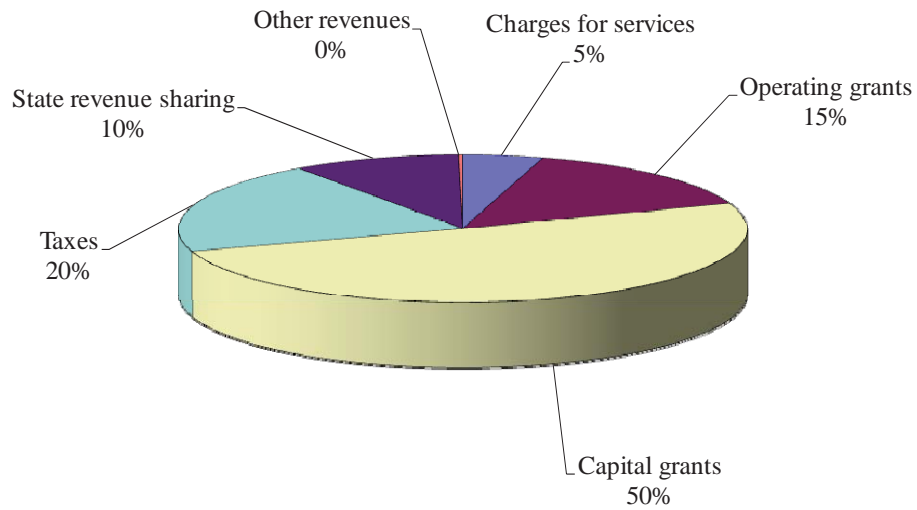
Total resources available during the year to finance governmental operations were \$8,543,230 consisting of net position at July 1, 2011 of \$4,295,409, program revenues of \$2,972,583 and general revenues of \$1,275,238. Total expenses of governmental activities during the year were \$2,157,008; thus governmental net position increased by \$2,090,813 to \$6,386,222.

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)

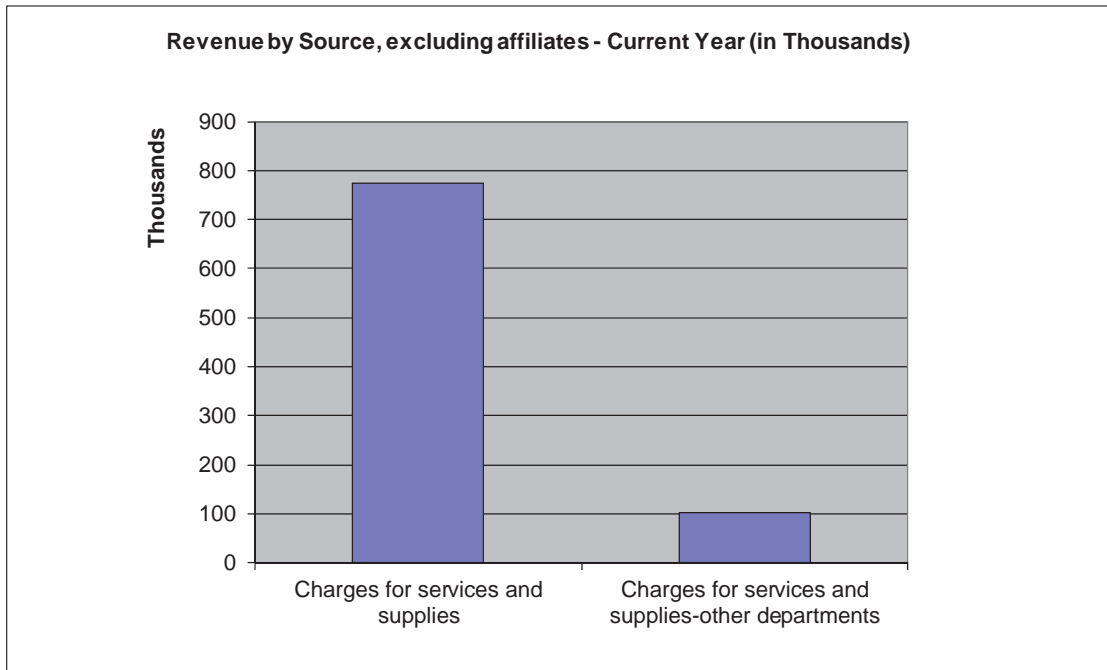


Revenue By Source - Governmental Activities

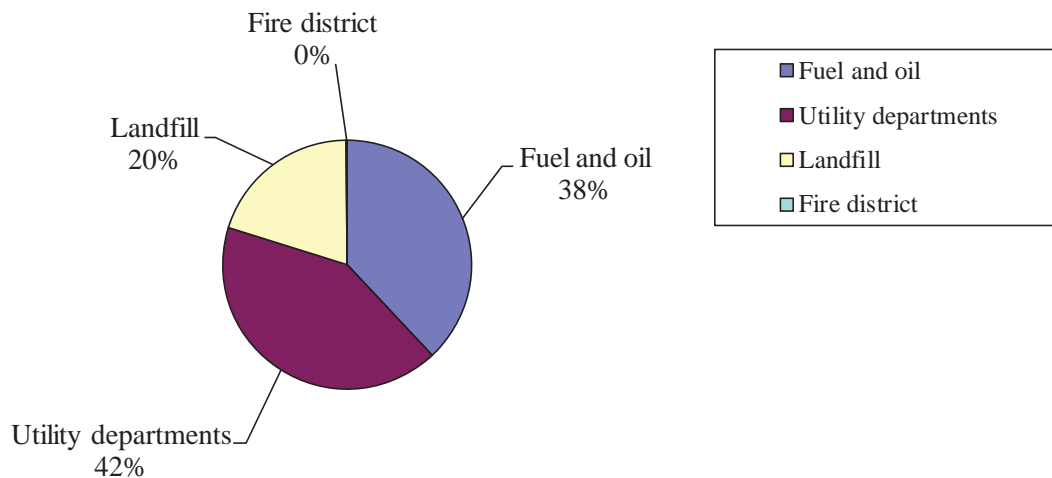


Business-type Activities

Net position of the business-type activities at June 30, 2012, as reflected in the statement of net position was \$2,522,437. The cost of providing all proprietary (business-type) activities this year was approximately \$2.9 million, which includes approximately \$2.0 million of affiliate expenses. As shown in the statement of changes in net position, the amounts paid by users of the system were approximately \$0.9 million, and revenues from affiliates were approximately \$2.1 million. Net position increased by \$63,315.



Operating Expenses, excluding affiliates- Current Year



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 a combined ending fund balance of \$633,636, a decrease of \$42,750 from the prior year. Approximately 98% of this total amount, or \$621,119, constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is in nonspendable form (e.g. prepaids) or restricted because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the general fund was \$621,119 and total fund balance is \$633,561. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance and unassigned fund balance represents 43% and 42%, respectively, of total general fund expenditures before inter-fund transfers. During the fiscal year, the Town's general fund balance decreased by \$31,222. Key factors in this decrease are as follows:

- The Town budgeted for a \$200,000 decrease.
- Actual revenues and expenditures were under budget by \$65,212 and \$291,405, respectively.
- Transfers out were over budget by \$57,415.
- Most of the departments were significantly under budget.

The Highway User Revenue Fund has a fund balance of zero. All activity is for road construction and maintenance. The net revenues (expenditures), before transfers, for the current fiscal year were (\$46,890) and \$27,073 for the prior fiscal year. The General Fund budgets to transfer and cover any of the excess expenditures in the fund in order to maintain a zero fund balance.

The Miscellaneous Grants Fund has a fund balance of \$75, all of which is restricted for capital outlay. Essentially all activity is for various capital projects of the Town that are primarily funded by grants. The General Fund budgets to transfer any grant matching requirements relating to these projects.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Total net position of the Contract Service fund and Affiliates were \$2,522,437, consisting of \$2,522,244 in net investment in affiliates and \$193 in unrestricted net position.

General Fund Budgetary Highlights

The actual expenditures for the General Fund at fiscal year-end were \$291,405 less than final appropriations. The budget to actual variance in expenditures was due in part to cost control. Actual transfers out were \$57,415 more than the final budget. The overrun was primarily due to unbudgeted transfers to the miscellaneous grant fund for grant matching funds. Actual revenues were less than the final budget by \$65,212, which is primarily due to less charges for services and miscellaneous revenues than anticipated. Department budget line item adjustments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations (not in total) for unanticipated expenditures after adoption of the original budget.

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, park facilities and roads. At the end of fiscal year 2012, net capital assets of the governmental activities totaled \$5,992,561. Depreciation on capital assets is recognized in the government-wide financial statements (see notes to the financial statements).

Debt

At fiscal year-end, the Town had \$219,481 in governmental-type debt \$0 in business-type debt, excluding all affiliate debt. The debt is a liability of the government. During the current fiscal year, the Town's total debt increased by \$30,049, excluding all affiliate debt. See the notes to the financial statements for further details.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town's budget for fiscal year 2012/2013, the Town Council and management expect a year with little or no growth of revenues and expenditures. Overall, General Fund operating expenditures were budgeted so as to anticipate a minimal or no cost increase from the level of fiscal year 2011/2012. The Town is currently not experiencing significant growth, which could impact future revenue sharing; therefore, the Town intends to budget and control expenditures so that excess fund balances can be carried forward for expenditure in future years. The Town intends to assign some of these excess funds as contingency reserves.

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 Vance Barlow, Town Clerk, Colorado City, P.O. Box 70, Colorado City, AZ, 86021.

BASIC FINANCIAL STATEMENTS

COLORADO CITY, ARIZONA
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 361,019	\$ -	\$ 361,019
Receivables (net of allowance)	997,686	121,699	1,119,385
Prepays	12,442	-	12,442
Inventories	-	29,745	29,745
Internal balances	110,462	(110,462)	-
Temporarily restricted assets:			
Cash and cash equivalents	37,082	-	37,082
Investment in affiliates	-	2,522,244	2,522,244
Capital assets (net of accumulated depreciation):			
Land	284,981	-	284,981
Buildings	553,168	-	553,168
Improvements other than buildings	469,207	-	469,207
Automobiles and trucks	181,307	-	181,307
Machinery and equipment	281,828	-	281,828
Office furniture and equipment	9,145	-	9,145
Infrastructure	2,095,044	-	2,095,044
Construction in progress	2,117,881	-	2,117,881
Total assets	<u>7,511,252</u>	<u>2,563,226</u>	<u>10,074,478</u>
Liabilities			
Accounts payable and other current liabilities	834,626	40,789	875,415
Unearned revenue	32,155	-	32,155
Noncurrent liabilities:			
Due within one year	91,644	-	91,644
Due in more than one year	166,605	-	166,605
Total liabilities	<u>1,125,030</u>	<u>40,789</u>	<u>1,165,819</u>
Net Position			
Net investment in capital assets	5,773,080	-	5,773,080
Net investment in affiliates	-	2,522,244	2,522,244
Restricted for:			
Capital projects	75	-	75
Unrestricted	613,067	193	613,260
Total net position	<u>\$ 6,386,222</u>	<u>\$ 2,522,437</u>	<u>\$ 8,908,659</u>

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

COLORADO CITY, ARIZONA
Statement of Activities
For the Year Ended June 30, 2012

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
Governmental activities:							
General government	\$ 679,211	\$ 188,170	\$ 25,365	\$ -	\$ (465,676)	\$ -	\$ (465,676)
Public safety	643,645	5,725	193,640	-	(444,280)	-	(444,280)
Public works/streets/airport	771,453	-	414,190	2,145,493	1,788,230	-	1,788,230
Culture and recreation	54,534	-	-	-	(54,534)	-	(54,534)
Community development	1,995	-	-	-	(1,995)	-	(1,995)
Interest on long-term debt	6,170	-	-	-	(6,170)	-	(6,170)
Total governmental activities	2,157,008	193,895	633,195	2,145,493	815,575	-	815,575
Business-type activities:							
Contract service fund	875,596	875,789	-	-	-	193	193
Investment in affiliate	2,032,637	2,095,759	-	-	-	63,122	-
Total business-type activities	2,908,233	2,971,548	-	-	-	63,315	63,315
Total primary government	\$ 5,065,241	\$ 3,165,443	\$ 633,195	\$ 2,145,493	\$ 815,575	\$ 63,315	\$ 878,890
General Revenues:							
Taxes:							
State sales taxes					376,867	-	376,867
City sales taxes					255,714	-	255,714
Fee-in-Lieu					225,113	-	225,113
State revenue sharing					406,896	-	406,896
Unrestricted investment earnings					648	-	648
Gain on sale of capital assets					10,000	-	10,000
Total general revenues					1,275,238	-	1,275,238
Change in net position					2,090,813	63,315	2,154,128
Net position - beginning					4,295,409	2,459,122	6,754,531
Net position - ending					\$ 6,386,222	\$ 2,522,437	\$ 8,908,659

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

COLORADO CITY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Highway User Revenue Fund	Miscellaneous Grants Fund	Debt Service Fund	Total Governmental Funds
Assets					
Cash	\$ 361,019	\$ -	\$ -	\$ -	\$ 361,019
Due from other governments	73,457	99,415	806,090	-	978,962
Due from other funds	253,922	-	-	-	253,922
Prepays	12,442	-	-	-	12,442
Cash - restricted	-	-	37,082	-	37,082
Total assets	\$ 701,290	\$ 99,415	\$ 843,172	\$ -	\$ 1,643,877
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 22,904	\$ 7,278	\$ 791,774	\$ -	\$ 821,956
Accrued liabilities	12,670	-	-	-	12,670
Due to other funds	-	92,137	51,323	-	143,460
Unearned revenue	32,155	-	-	-	32,155
Total liabilities	67,729	99,415	843,097	-	1,010,241
Fund balances:					
Nonspendable	12,442	-	-	-	12,442
Restricted for:					
Capital outlay	-	-	75	-	75
Unassigned	621,119	-	-	-	621,119
Total fund balances	633,561	-	75	-	633,636
Total liabilities and fund balance	\$ 701,290	\$ 99,415	\$ 843,172	\$ -	

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.

Cost of capital assets	\$ 8,553,976	
Accumulated depreciation	(2,561,415)	5,992,561

Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.

Notes/leases payable and compensated absences	(258,249)	
Reimbursement receivable relating to comp. absences	18,274	(239,975)
Net position of governmental activities		<u>\$ 6,386,222</u>

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

COLORADO CITY, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Revenues	General Fund	Highway User Revenue Fund	Miscellaneous Grants Fund	Debt Service Fund	Total Governmental Funds
Taxes	\$ 857,695	\$ -	\$ -	\$ -	\$ 857,695
Licenses and permits	7,103	-	-	-	7,103
Intergovernmental revenue	624,546	414,190	2,145,492	-	3,184,228
Charges for services	61,252	-	-	-	61,252
Interest income	637	-	11	-	648
Fines and forfeitures	19,099	-	-	-	19,099
Miscellaneous	117,796	-	-	-	117,796
Total revenues	<u>1,688,128</u>	<u>414,190</u>	<u>2,145,503</u>	<u>-</u>	<u>4,247,821</u>
Expenditures					
Current:					
General government	706,812	-	-	-	706,812
Public safety	614,049	-	-	-	614,049
Public works/streets/airport	106,368	336,007	-	-	442,375
Culture and recreation	45,911	-	-	-	45,911
Community development	1,995	-	-	-	1,995
Debt service:					
Principal	-	-	-	117,105	117,105
Interest	-	-	-	6,170	6,170
Capital outlay	-	125,073	2,231,081	147,154	2,503,308
Total expenditures	<u>1,475,135</u>	<u>461,080</u>	<u>2,231,081</u>	<u>270,429</u>	<u>4,437,725</u>
Excess (deficiency) of revenues over (under) expenditures	<u>212,993</u>	<u>(46,890)</u>	<u>(85,578)</u>	<u>(270,429)</u>	<u>(189,904)</u>
Other financing sources (uses):					
Capital leases	-	-	-	147,154	147,154
Transfers in	-	108,871	74,050	123,275	306,196
Transfers out	(244,215)	(61,981)	-	-	(306,196)
Total other financing sources (uses)	<u>(244,215)</u>	<u>46,890</u>	<u>74,050</u>	<u>270,429</u>	<u>147,154</u>
Net change in fund balances	(31,222)	-	(11,528)	-	(42,750)
Fund balances - beginning of year	664,783	-	11,603	-	676,386
Fund balances - end of year	<u>\$ 633,561</u>	<u>\$ -</u>	<u>\$ 75</u>	<u>\$ -</u>	<u>\$ 633,636</u>

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

COLORADO CITY, 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

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

Net change in fund balances - total governmental funds	\$	(42,750)
<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.</p>		
Capital outlay	\$ 2,480,633	
Depreciation expense	<u>(317,952)</u>	2,162,681
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount relates to compensated absences.</p>		
		931
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt issued, including capital lease financing	(147,154)	
Principal paid on debt	<u>117,105</u>	<u>(30,049)</u>
Change in net position of governmental activities		<u>\$ 2,090,813</u>

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

COLORADO CITY, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

Revenues	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Taxes	\$ 830,500	\$ 830,500	\$ 857,695	\$ 27,195
Licenses and permits	21,800	21,800	7,103	(14,697)
Intergovernmental revenue	627,940	627,940	624,546	(3,394)
Charges for services	105,000	105,000	61,252	(43,748)
Interest income	2,500	2,500	637	(1,863)
Fines and forfeitures	18,600	18,600	19,099	499
Miscellaneous	147,000	147,000	117,796	(29,204)
Total revenues	<u>1,753,340</u>	<u>1,753,340</u>	<u>1,688,128</u>	<u>(65,212)</u>
Expenditures				
Current:				
Administration and contingencies	732,500	723,500	593,531	129,969
Airport	147,750	162,750	106,368	56,382
Building department	45,390	35,390	29,724	5,666
Community development	16,000	16,000	1,995	14,005
Law enforcement	393,700	368,700	345,783	22,917
Parks and recreation	65,000	65,000	45,911	19,089
Dispatch	223,700	252,700	238,542	14,158
Magistrate court	142,500	142,500	113,281	29,219
Total expenditures	<u>1,766,540</u>	<u>1,766,540</u>	<u>1,475,135</u>	<u>291,405</u>
Excess of revenues over (under) expenditures	<u>(13,200)</u>	<u>(13,200)</u>	<u>212,993</u>	<u>226,193</u>
Other financing sources (uses):				
Transfers out	<u>(186,800)</u>	<u>(186,800)</u>	<u>(244,215)</u>	<u>(57,415)</u>
Total other financing sources and uses	<u>(186,800)</u>	<u>(186,800)</u>	<u>(244,215)</u>	<u>(57,415)</u>
Net change in fund balance	<u>(200,000)</u>	<u>(200,000)</u>	<u>(31,222)</u>	<u>168,778</u>
Fund balance - beginning of year	<u>664,783</u>	<u>664,783</u>	<u>664,783</u>	<u>-</u>
Fund balance, end of year	<u>\$ 464,783</u>	<u>\$ 464,783</u>	<u>\$ 633,561</u>	<u>\$ 168,778</u>

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

COLORADO CITY, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

	Contract Service Fund	Affiliates	Total
Assets			
Current assets:			
Due from other governments	\$ 121,699	\$ -	\$ 121,699
Fuel inventory	29,745	-	29,745
Total current assets	<u>151,444</u>	<u>-</u>	<u>151,444</u>
Noncurrent assets:			
Investment in joint venture	-	2,522,244	2,522,244
Total assets	<u>151,444</u>	<u>2,522,244</u>	<u>2,673,688</u>
Liabilities			
Current liabilities:			
Accounts payable	40,789	-	40,789
Due to other funds	110,462	-	110,462
Total current liabilities	<u>151,251</u>	<u>-</u>	<u>151,251</u>
Net position			
Net investment in affiliates	-	2,522,244	2,522,244
Unrestricted	<u>193</u>	<u>-</u>	<u>193</u>
Total net position	<u>\$ 193</u>	<u>\$ 2,522,244</u>	<u>\$ 2,522,437</u>

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

COLORADO CITY, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2012

Operating revenues	<u>Contract Service Fund</u>	<u>Affiliates</u>	<u>Total</u>
Charges for services and supplies	\$ 773,637	\$ -	\$ 773,637
Charges for services and supplies-other departments	<u>102,152</u>	<u>-</u>	<u>102,152</u>
Total operating revenues	<u>875,789</u>	<u>-</u>	<u>875,789</u>
Operating expenses			
Costs of sales and services:			
Fuel and oil	332,779	-	332,779
Utility departments	366,102	-	366,102
Landfill	175,532	-	175,532
Fire district	<u>1,183</u>	<u>-</u>	<u>1,183</u>
Total operating expenses	<u>875,596</u>	<u>-</u>	<u>875,596</u>
Operating income	<u>193</u>	<u>-</u>	<u>193</u>
Nonoperating revenues (expenses)			
Net income from affiliates	<u>-</u>	<u>63,122</u>	<u>63,122</u>
Total nonoperating revenue (expenses)	<u>-</u>	<u>63,122</u>	<u>63,122</u>
Change in net position	193	63,122	63,315
Total net position, beginning of year	<u>-</u>	<u>2,459,122</u>	<u>2,459,122</u>
Total net position, end of year	<u>\$ 193</u>	<u>\$ 2,522,244</u>	<u>\$ 2,522,437</u>

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

COLORADO CITY, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Contract Service Fund
Cash flows from operating activities	
Cash received from customers, service fees	\$ 741,583
Cash received from quasi-external transfers	102,152
Cash paid to suppliers	(325,129)
Cash paid to employees	(518,606)
Net cash flows from operating activities	-
Cash flows from noncapital financing activities	
Transfers out	-
Net cash flows from noncapital financing activities	-
Cash flows from capital and related financing activities	
Acquisition of capital assets	-
Net cash flows from capital and related financing activities	-
Cash flows from investing activities	
Interest on investments	-
Net cash flows from investing activities	-
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$193
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	-
Changes in operating assets and liabilities:	
(Increase)/decrease in due from other governments	(20,260)
(Increase)/decrease in fuel inventory	(11,794)
Increase/(decrease) in due to other funds	(8,928)
Increase/(decrease) in accounts payable	40,789
Net cash flows from operating activities	\$ -

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

COLORADO CITY, ARIZONA
Statement of Fiduciary Net Position
Agency Fund
June 30, 2012

	<u>Fiduciary Fund Types Trust/Agency</u>
Assets	
Current assets:	
Restricted cash and cash equivalents	<u>\$ 51,648</u>
Total assets	<u><u>\$ 51,648</u></u>
Liabilities	
Current liabilities:	
Trust/agency liabilities	<u>\$ 51,648</u>
Total liabilities	<u>51,648</u>
Net position	
Total net position	<u><u>\$ -</u></u>

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

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

General

The accounting policies of the Town of Colorado City, 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

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity. However, the Town has a joint venture equity interest in Twin City Power, the Arizona Strip Landfill Governmental Financing Corporation, the Water Departments of Hildale/Colorado City and the Gas Departments of Hildale/Colorado City.

The accompanying financial statements include all activities of 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.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

Separate financial statements are provided for governmental funds, 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.

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. 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 other financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than as expenditures 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.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

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

The **Miscellaneous Grants Special Revenue Fund** accounts for federal and state grants and other contributions that are restricted to expenditure for particular purposes.

The Town reports the following major proprietary funds:

The **Contract Service Fund** accounts for operations that provide services to other departments or other agencies of the government, or to other governments, on a cost-reimbursement basis.

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.

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

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

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

Receivables and Payables

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

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. 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 \$2,500 and an estimated useful life in excess of one year. 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.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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

Buildings	20-40 years
Improvements	20 years
Automobiles and trucks	5-10 years
Machinery and equipment	5-10 years
Infrastructure	20 years

Compensated Absences

For governmental funds, amounts of accumulated personal leave and compensatory time 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. Accumulated personal leave and compensatory time 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.

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.

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

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies, Continued

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.

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

Unrestricted net position represents the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or restricted net position.

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.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of Colorado City. 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. State law requires that, prior to April 1, the Economic Estimates Commission provides the Town with a final expenditure limit for the coming fiscal year.
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.

Supplementary budgetary appropriations were made during the year.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual schedules of revenues, expenditures and changes in fund balances – budget to actual reports 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, if any.

Taxes

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

NOTE 3. Deposits and Investments

The Town's central treasury consists of the following at fiscal year end:

Cash on hand	\$ 350
Cash in bank	74,282
Cash in State Treasurer's Investment Pool	<u>375,117</u>
Total deposits and investments	<u><u>\$ 449,749</u></u>

A reconciliation of cash and investments as shown in the basic financial statements follows:

Cash and cash equivalents	\$ 361,019
Cash - restricted	37,082
Fiduciary fund cash and cash equivalents	<u>51,648</u>
Total	<u><u>\$ 449,749</u></u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments, Continued

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. Colorado City does not have a formal policy for custodial credit risk. As of June 30, 2012, none of the Town's bank balance of \$145,319 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 fund 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.

As of June 30, 2012 the Town had the following deposits and investments:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Cash on deposit	\$ 74,282	N/A	N/A
Cash on hand	350	N/A	N/A
Local Governments Investment Pool 5*	<u>375,117</u>	AAAF/S1+	26 days
	<u>\$ 449,749</u>		

*The fair value of the Town's position in the pool is the same as the value of the pool shares.

(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.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments, Continued

Interest rate risk

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

Credit risk

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

NOTE 4. Receivables

Receivables, including due from other governments, in the governmental funds consist primarily of revenues relating to the following: sales taxes, vehicle taxes, highway urban revenues and affiliate and other reimbursements. No allowance for uncollectible accounts has been established as collection of all amounts is expected. Receivables (due from other governments) in the contract service proprietary fund consist of revenues relating to affiliate reimbursements. No allowance for uncollectible accounts has been established as collection of all amounts is expected.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets

The following summarizes the changes in capital assets for governmental activities for the year ended June 30, 2012:

Governmental Activities:	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2012</u>
Capital assets, not being depreciated:				
Land	\$ 284,981	\$ -	\$ -	\$ 284,981
Construction in progress	275,213	2,154,317	(311,649)	2,117,881
Total capital assets, not being depreciated	<u>560,194</u>	<u>2,154,317</u>	<u>(311,649)</u>	<u>2,402,862</u>
Capital assets, being depreciated:				
Buildings	786,766	24,193	-	810,959
Improvements other than buildings	745,784	-	-	745,784
Machinery and equipment	841,118	81,450	(10,000)	912,568
Office furniture and equipment	87,982	-	-	87,982
Automobiles and trucks	708,200	99,215	(25,002)	782,413
Infrastructure	2,378,301	433,107	-	2,811,408
Total capital assets, being depreciated	<u>5,548,151</u>	<u>637,965</u>	<u>(35,002)</u>	<u>6,151,114</u>
Less accumulated depreciation for:				
Buildings	(236,790)	(21,001)	-	(257,791)
Improvements other than buildings	(235,617)	(40,960)	-	(276,577)
Machinery and equipment	(574,029)	(66,711)	10,000	(630,740)
Office furniture and equipment	(74,541)	(4,296)	-	(78,837)
Automobiles and trucks	(574,394)	(51,714)	25,002	(601,106)
Infrastructure	(583,094)	(133,270)	-	(716,364)
Total accumulated depreciation	<u>(2,278,465)</u>	<u>(317,952)</u>	<u>35,002</u>	<u>(2,561,415)</u>
Total capital assets, being depreciated, net	<u>3,269,686</u>	<u>320,013</u>	<u>-</u>	<u>3,589,699</u>
Governmental activities capital assets, net	<u>\$ 3,829,880</u>	<u>\$ 2,474,330</u>	<u>\$ (311,649)</u>	<u>\$ 5,992,561</u>

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

Governmental Activities:	
General government	\$ 16,871
Public safety	29,821
Public works/streets/airport	262,637
Parks and recreation	8,623
Total depreciation expense - governmental activities	<u>\$ 317,952</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2012</u>	<u>Current Portion</u>
Governmental Activities:					
General obligation debt:					
Notes payable	\$ 69,528	\$ -	\$ 23,903	\$ 45,625	15,347
Capital leases	119,904	147,154	93,202	173,856	60,790
Compensated absences	43,415	41,356	46,003	38,768	15,507
Total governmental activities	<u>232,847</u>	<u>188,510</u>	<u>163,108</u>	<u>258,249</u>	<u>91,644</u>
Total long-term liabilities	<u>\$ 232,847</u>	<u>\$ 188,510</u>	<u>\$ 163,108</u>	<u>\$ 258,249</u>	<u>\$ 91,644</u>

Debt service requirements on notes payable at June 30, 2012 are as follows:

Year Ended June 30,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 15,347	\$ 2,255
2014	16,171	1,431
2015	<u>14,107</u>	<u>563</u>
Total	<u>\$ 45,625</u>	<u>\$ 4,249</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-Term Liabilities, Continued

The following is a listing of long-term obligations as of June 30, 2012:

Notes Payable:

Governmental activities:

5.26% note payable to ADOT Aeronautics Division, due
in quarterly principal and interest installments of \$4,400,
maturing May 15, 2015. \$ 45,625

Lease Obligations:

Governmental activities:

Leases payable in various installment methods through
fiscal year 2016, at interest ranging from 4.49% to 6.59%. 173,856

Compensated Absences

38,768

Total long-term liabilities

258,249

Less current portions:

Governmental activities (91,644)

Net long-term liabilities

\$ 166,605

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 7. Capital Leases

The Town has entered into a number of lease agreements that are considered capital leases in accordance with accounting standards. The leases are for the acquisition of the items listed below and have varying annual payments through fiscal year 2016. The following is a schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ending June 30:

	Vibromax Compactor	2012 Chrysler 300	Kenworth 950 Wheel Loader	2012 Ford F-150s	2011 Ford Expedition	Total
2013	\$ 10,930	\$ 13,305	\$ 22,731	\$ 22,013	\$ 10,568	\$ 79,547
2014	10,930	13,305	-	22,013	10,568	56,816
2015	10,931	13,305	-	20,177	-	44,413
2016	10,931	4,051	-	-	-	14,982
Total remaining lease payments:	43,722	43,966	22,731	64,203	21,136	195,758
Less: amount representing interest:	6,352	7,160	1,355	5,140	1,895	21,902
Present value of net remaining minimum lease payments:	<u>\$ 37,370</u>	<u>\$ 36,806</u>	<u>\$ 21,376</u>	<u>\$ 59,063</u>	<u>\$ 19,241</u>	<u>\$ 173,856</u>

A summary of assets acquired through capital leases as of June 30, 2012 is as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Machinery and equipment	\$ 183,300	\$ 21,011	\$ 93,332
Automobiles and trucks	128,863	7,583	8,077
Total	<u>\$ 312,163</u>	<u>\$ 28,594</u>	<u>\$ 101,409</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates

The Town has the following investments which are accounted for using the equity method:

Twin City Power

The Twin City Power Joint Management, Operations and Maintenance Agreement (Twin City Power) was formed on April 29, 1994 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Electric Distribution Systems Management Operation and Maintenance Agreement."

Each City/Town has acquired its own electric system which is independently owned and financed and reflected in the funds of Twin City Power. Each City's/Town's ownership percentage in Twin City Power is based upon their original investments in their City's system and subsequent specific contributions. Common operating revenues and expenditures are allocated on the basis of the proportion that the annual energy sales to each City's/Town's electric customers bears to the total annual energy sales.

The "Utility Board" consists of seven Members, three appointed by the Mayor and Council of Hildale City and four Members appointed by the Mayor and Council of Colorado City. Each Member is entitled to one vote; however, budgeting and financing is done by each City's/Town's council and merely ratified by the "Utility Board."

Twin City Power's audited financial statements as of June 30, 2012 can be obtained at the following address:

Hildale City
320 E. Newel Avenue
Hildale, Utah 84784

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Twin City Power, (Continued)

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with Twin City Power and their allocation between the Cities for the year ended June 30, 2012:

	Distribution		Generation	Total
	Hildale City	Colorado City	Hildale City	
Total assets	\$ 16,825	\$ 26,616	\$ 1,157,959	\$ 1,201,400
Current liabilities	\$ 652	\$ 652	\$ 20,000	\$ 21,304
Long-term liabilities	-	-	-	-
Total liabilities	652	652	20,000	21,304
Net position	16,173	25,964	1,137,959	1,180,096
Total net position	16,173	25,964	1,137,959	1,180,096
Total liabilities and net position	\$ 16,825	\$ 26,616	\$ 1,157,959	\$ 1,201,400
Total operating revenues	\$ -	\$ -	\$ -	\$ -
Total operating expenses	-	-	-	-
Operating income (loss)	-	-	-	-
Nonoperating revenue (expense)	(16,457)	(16,480)	622	(32,315)
Change in net position	\$ (16,457)	\$ (16,480)	\$ 622	\$ (32,315)

See Note 14 for details on the liquidation status of Twin City Power.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Water Departments of Hildale/Colorado City

The Twin City Water Joint Management, Operations and Maintenance Agreement (the Water Departments) was formed on February 22, 1996 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City/Town has acquired its own water system which is independently owned and financed and reflected in the funds of the Water Departments. Each City's/Town's ownership percentage in the Water Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's/Town's boundary. Common operating revenues and expenditures are also allocated based on said percentages.

The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

The Water Departments' audited financial statements as of June 30, 2012, can be obtained at the following address:

Hildale City
 320 E. Newel Avenue
 Hildale, Utah 84784

Notes payable for the Water Departments consist of the following at June 30, 2012:

	Hildale City	Colorado City	Total
Note payable to Twin City Water Authority bearing interest at 5.00 percent, due in monthly principal and interest installments of \$1,583, maturing June 26, 2018.	\$ 30,254	\$ 56,185	\$ 86,439

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Water Departments, (Continued)

Maturities of notes payable are as follows:

Year Ended June 30,	Hildale City		Colorado City	
	Principal	Interest	Principal	Interest
2013	\$ 5,051	\$ 1,597	\$ 9,381	\$ 2,966
2014	5,310	1,339	9,861	2,486
2015	5,582	1,067	10,366	1,982
2016	5,867	781	10,896	1,451
2017	6,167	481	11,454	894
2018	2,277	166	4,227	308
	<u>\$ 30,254</u>	<u>\$ 5,431</u>	<u>\$ 56,185</u>	<u>\$ 10,087</u>

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Water Departments and their allocation between the Cities for the year ended June 30, 2012:

	Hildale City	Colorado City	Total
Total assets	<u>\$ 462,813</u>	<u>\$ 1,046,243</u>	<u>\$ 1,509,056</u>
Current liabilities	\$ 76,016	\$ 140,563	\$ 216,579
Long-term liabilities	25,879	48,048	73,927
Total liabilities	<u>101,895</u>	<u>188,611</u>	<u>290,506</u>
Net position	<u>360,918</u>	<u>857,632</u>	<u>1,218,550</u>
Total net position	<u>360,918</u>	<u>857,632</u>	<u>1,218,550</u>
Total liabilities and net assets	<u>\$ 462,813</u>	<u>\$ 1,046,243</u>	<u>\$ 1,509,056</u>
Total operating revenues	\$ 319,467	\$ 599,547	\$ 919,014
Total operating expenses	312,129	588,572	900,701
Operating income (loss)	7,338	10,975	18,313
Nonoperating revenue (expense)	(704)	(1,203)	(1,907)
Change in net position	<u>\$ 6,634</u>	<u>\$ 9,772</u>	<u>\$ 16,406</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Gas Departments of Hildale/Colorado City

The Gas Distribution Systems Management, Operations and Maintenance Agreement (the Gas Departments) was formed on June 22, 2009 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City/Town has acquired its own gas system which is independently owned and financed and reflected in the funds of the Gas Departments. Each City's/Town's ownership percentage in the Gas Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's/Town's boundary. Common operating revenues and expenses are also allocated based on said percentages.

The Utility Board of Trustees have been assigned the responsibility for the Gas Departments. The board consists of seven trustees, three appointed by the Mayor and Council of Hildale City and four appointed by the Mayor and Council of Colorado City. Each trustee is entitled to one vote.

The Gas Departments' audited financial statements as of June 30, 2012, can be obtained at the following address:

Hildale City
320 E. Newel Avenue
Hildale, Utah 84784

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Gas Departments, (Continued)

Notes payable for the Gas Departments consist of the following at June 30, 2012:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Note payable to Standard Fuel, due in monthly principal installments of \$1,000, non-interest bearing, maturing in September 2016.	\$ -	\$ 52,409	\$ 52,409
Note payable to Scott Jessop, due in monthly principal installments of \$1,000, non-interest bearing, maturing in September 2014.	-	29,428	29,428
Note payable to PACCAR Financial Corp., due in monthly principal and interest installments of \$1,917, bearing interest at 9.95%, maturing in July 2013, secured by Kenworth truck.	-	21,549	21,549
Total	<u>\$ -</u>	<u>\$ 103,386</u>	<u>\$ 103,386</u>

Maturities of notes payable are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 45,192	\$ 1,812
2014	24,357	54
2015	17,428	-
2016	12,000	-
2017	4,409	-
	<u>\$ 103,386</u>	<u>\$ 1,866</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Gas Departments, (Continued)

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Gas Departments and their allocation between the Cities for the year ended June 30, 2012:

	Hildale City	Colorado City	Total
Total assets	\$ 1,248,568	\$ 1,493,922	\$ 2,742,490
Current liabilities	\$ 12,529	\$ 132,017	\$ 144,546
Long-term liabilities	571	59,076	59,647
Total liabilities	13,100	191,093	204,193
Net position	1,235,468	1,302,829	2,538,297
Total net position	1,235,468	1,302,829	2,538,297
Total liabilities and net position	\$ 1,248,568	\$ 1,493,922	\$ 2,742,490
Total operating revenues	\$ 317,964	\$ 1,079,126	\$ 1,397,090
Total operating expenses	340,441	1,042,702	1,383,143
Operating income (loss)	(22,477)	36,424	13,947
Nonoperating revenue (expense)	1,145	1,207	2,352
Change in net position	\$ (21,332)	\$ 37,631	\$ 16,299

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Arizona Strip Landfill Governmental Financing Corporation

The Arizona Strip Governmental Financing Corporation (the Corporation) was incorporated on May 4, 1996 pursuant to an interlocal agreement between the Town of Colorado City, Arizona and the Town of Fredonia, Arizona. The Corporation is a nonprofit corporation/joint venture formed by the two towns for the purpose of financing, permitting, constructing and operating a landfill and municipal solid waste collection system. The respective shares of the Corporation as of June 30, 2012 are 76% for the Town and 24% for Fredonia.

The Corporation has entered into lease agreements that are considered capital leases in accordance with accounting standards. The following is the Town's estimated proportionate share (76%) of the Corporation's future minimum lease payments with the present value of the net minimum lease payments:

	<u>Year Ended</u> <u>June 30,</u>	<u>Total</u>
	2013	\$ 75,293
	2014	75,293
	2015	75,293
	2016	<u>37,648</u>
Total remaining lease payments		263,527
Less: amount representing interest		<u>21,220</u>
Present value of net remaining minimum lease payments		<u>\$ 242,307</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Investment in Affiliates, Continued

Arizona Strip Landfill Governmental Financing Corporation, Continued

Each town appoints two members to the board of directors. The board exercises full power to conduct, manage and direct the business and affairs of the Corporation.

The Corporation's financial statements as of June 30, 2012 can be obtained at the following address:

Town of Colorado City
25 South Central Street
Colorado City, Arizona 86021

The following is a summary of the total assets, liabilities, revenues and expenditures associated with the Corporation and the allocation between the Towns for the year ended June 30, 2012.

	<u>Fredonia Town</u>	<u>Colorado City</u>	<u>Total</u>
Total assets	<u>\$ 208,452</u>	<u>\$ 660,100</u>	<u>\$ 868,552</u>
Current liabilities	\$ 31,725	\$ 100,461	\$ 132,186
Long-term liabilities	70,679	223,820	294,499
Total liabilities	<u>102,404</u>	<u>324,281</u>	<u>426,685</u>
Net position	<u>106,048</u>	<u>335,819</u>	<u>441,867</u>
Total net position	<u>106,048</u>	<u>335,819</u>	<u>441,867</u>
Total liabilities and net position	<u>\$ 208,452</u>	<u>\$ 660,100</u>	<u>\$ 868,552</u>
Total operating revenues	\$ 139,378	\$ 441,365	\$ 580,743
Total operating expenses	<u>126,747</u>	<u>401,363</u>	<u>528,110</u>
Operating income (loss)	12,631	40,002	52,633
Nonoperating revenue (expense)	<u>(2,464)</u>	<u>(7,803)</u>	<u>(10,267)</u>
Change in net position	<u>\$ 10,167</u>	<u>\$ 32,199</u>	<u>\$ 42,366</u>

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 9. Risk Management

The Town maintains insurance for general liability, auto liability, employee dishonesty, airport liability and workers compensation through the Arizona Municipal Risk Retention Pool.

NOTE 10. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Arizona Strip Landfill Corporation (See Note 8) to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill began accepting waste May 1, 1997. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Arizona Strip Landfill Corporation (the Company) reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$61,989 reported as landfill closure and postclosure care liability at June 30, 2012 on the Company's books, represents the cumulative amount of closure and postclosure costs reported to date based on the use of the estimated capacity of the landfill. An estimated 40.56% of the landfill capacity had been used by June 30, 2012. The Company will recognize the remaining estimated cost of closure and postclosure care of \$90,842 as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2012. The Company expects to close the landfill in the year 2032. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Company will record the remaining estimated cost of closure and postclosure care as the estimated capacity is filled. The Company has utilized a local government guarantee rather than establishing a trust fund or other financial mechanism to demonstrate financial responsibility for closure and postclosure care costs.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 11. Restricted Fund Balance

At June 30, 2012 the Town's restricted fund balance consists of the following:

<u>Miscellaneous Grant Special Revenue Fund</u>	<u>Balance at 6/30/2012</u>
Economic development	<u>\$ 75</u>
Total	<u><u>\$ 75</u></u>

NOTE 12. Interfund Balances and Transfers

As of June 30, 2012 the Town's interfund balances consist of the following:

<u>Due To</u>	<u>Due From</u>			<u>Total</u>
	<u>Highway User Revenue Fund</u>	<u>Miscellaneous Grants Fund</u>	<u>Contract Service Fund</u>	
General Fund	\$ 92,137	\$ 51,323	\$ 110,462	\$ 253,922
Total	<u><u>\$ 92,137</u></u>	<u><u>\$ 51,323</u></u>	<u><u>\$ 110,462</u></u>	<u><u>\$ 253,922</u></u>

These interfund balances resulted from the lag time 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. All interfund balances are expected to be repaid within the next fiscal year.

COLORADO CITY, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 12. Interfund Balances and Transfers, Continued

The Town made the following interfund transfers during the fiscal year:

	Transfers out		
Transfers in	General Fund	Highway User Revenue Fund	Total
Highway User Revenue Fund	\$ 108,871	\$ -	\$ 108,871
Misc. Grants Fund	74,050	-	74,050
Non-major governmental:			
Debt Service Fund	61,294	61,981	123,275
Total	\$ 244,215	\$ 61,981	\$ 306,196

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

NOTE 13. Contingencies

The Town is involved with various matters of litigation. It is deemed possible but not necessarily probable that the Town may experience negative financial impacts as a result of the litigation; however, the effects of any pending or threatened litigation are not measurable and cannot be estimated as of the date of the financial statements.

NOTE 14. Liquidation – Twin City Power

Twin City Power (TCP) has been working with the trustee of the defaulted revenue bonds to achieve the best outcome, given the circumstances, for those who have been obtaining electrical power from TCP. Effective June 30, 2009, a number of agreements relating to the liquidation of TCP were reached and significant extraordinary items were included in the financial statements for the year then ended, including the recognition of the release of the bonds, the transfer of the generating assets and the related debt relief. TCP ceased regular operations on July 1, 2009. Some of the June 30, 2009 agreements also related to extraordinary items for the year ended June 30, 2010. For the years ended June 30, 2012 and 2011, there were no further extraordinary items relating to the liquidation.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Budgetary Comparison Schedules

For the Following Funds:

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted or committed to expenditures for a particular purpose.

- The **Highway User Revenue Fund** accounts for the Town's share of motor fuel tax revenues and lottery proceeds that are set aside for the maintaining, repairing and upgrading of streets.
- The **Miscellaneous Grants Fund** accounts for federal and state grants and other contributions that are restricted to expenditures for particular purposes. More specifically, this fund accounts for the following projects:
 - The CDBG Central St. fund accounts for revenue from CDBG grants for the S. Central St. CDBG SSP project and expenses related to those revenues.
 - The CDBG Arizona Ave. fund accounts for revenue from CDBG grants for the Arizona Ave. project and expenses related to those revenues.
 - The County Flood Control fund accounts for federal and state grants and other contributions that are restricted for use toward flood control.
 - The ADOT Aeronautics fund accounts for federal and state grants and other contributions that are restricted for a specific purpose.
 - The FAA Airport Grant fund accounts for revenue from FAA grants and expenses related to those revenues.
 - The Economic Development fund accounts for federal and state grants and other contributions that are to be used for economic development.
 - The CDBG RA funds account for revenue from CDBG grants for the Central St. Pavement (Chip Seal) and dispatch expansion projects and expenses related to those revenues.

COLORADO CITY, ARIZONA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Highway User Revenue Special Revenue Fund
Budget-and-Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 500,000	\$ 500,000	\$ 414,190	\$ (85,810)
Total revenues	500,000	500,000	414,190	(85,810)
Expenditures				
Salaries and employee benefits	181,000	181,000	150,802	30,198
Service, supplies and other	198,800	198,800	185,205	13,595
Capital outlay	180,000	180,000	125,073	54,927
Total expenditures	559,800	559,800	461,080	98,720
Excess of revenues over (under) expenditures	(59,800)	(59,800)	(46,890)	12,910
Other financing sources (uses):				
Transfers in	122,800	122,800	108,871	(13,929)
Transfers out	(63,000)	(63,000)	(61,981)	1,019
Total other financing sources (uses)	59,800	59,800	46,890	(12,910)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

COLORADO CITY, ARIZONA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Miscellaneous Grants Special Revenue Fund
Budget-and-Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 4,778,520	\$ 4,778,520	\$ 2,145,492	\$ (2,633,028)
Interest income	-	-	11	11
Total revenues	<u>4,778,520</u>	<u>4,778,520</u>	<u>2,145,503</u>	<u>(2,633,017)</u>
Expenditures				
Capital outlay	<u>4,778,520</u>	<u>4,778,520</u>	<u>2,231,081</u>	<u>2,547,439</u>
Total expenditures	<u>4,778,520</u>	<u>4,778,520</u>	<u>2,231,081</u>	<u>2,547,439</u>
Excess of revenues over (under) expenditures	-	-	(85,578)	(85,578)
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>74,050</u>	<u>74,050</u>
Net change in fund balance	-	-	(11,528)	(11,528)
Fund balance, beginning of year	<u>11,603</u>	<u>11,603</u>	<u>11,603</u>	<u>-</u>
Fund balance, end of year	<u>\$ 11,603</u>	<u>\$ 11,603</u>	<u>\$ 75</u>	<u>\$ (11,528)</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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MEMBERS:

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

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

**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 Colorado City, Arizona

We have audited the financial statements of Colorado City, Arizona as of and for the year ended June 30, 2012, and have issued our report thereon dated March 29, 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Colorado City'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 Colorado City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Colorado City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in a separate findings and recommendations letter dated March 29, 2013, that we consider to be significant deficiencies in internal control over financial reporting.

- 11-01 Contract Service Fund Misstatements and Reconciliation
- 10-01 Misstatements
- 07-02 Segregation of Duties

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Colorado City'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 items that we reported to management of Colorado City in a separate letter dated March 29, 2013.

This report is intended solely for the information and use of the mayor, council, management and various federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



HintonBurdick, PLLC
March 29, 2013

MEMBERS:

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

The Honorable Mayor and Town Council
Town of Colorado City, Arizona

We have audited the basic financial statements of the Town of Colorado City, Arizona for the year ended June 30, 2012, and have issued our report thereon dated March 29, 2013. Our audit also included test work on the Town of Colorado City'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 Colorado City 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 Colorado City has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by Colorado City 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 Colorado City complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.


HintonBurdick, PLLC
March 29, 2013