

TOWN OF CLIFTON, ARIZONA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012

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YEAR ENDED JUNE 30, 2012**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the Town Council
Town of Clifton, Arizona
Clifton, 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 the Town of Clifton, Arizona (Town), 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 the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clifton, Arizona, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the Police and Fire Schedules of Funding Progress on page 39, and budgetary comparison information on pages 40 through 42 be presented to supplement the basic financial statements. 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Mesa, Arizona
October 1, 2012



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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

We (the Town of Clifton, Arizona (Town)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2012. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operations.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town of Clifton, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$5,038,125 (net assets). Of this amount \$1,898,145 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Town of Clifton, Arizona's governmental funds reported combined ending fund balances of \$2,726,526, an increase of \$330,655 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,875,433 or 103% of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) exceeded budgeted revenues by \$171,604 for fiscal year 2012. Additionally, budgetary basis expenditures were only 81% (\$400,690(19%) in savings) of the final budget in the General Fund.
- ◆ General Fund budgetary revenues exceeded budgetary expenditures by \$231,750; which represented a positive variance of \$572,294 from the original budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of these Financial Statements for the Town of Clifton, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and Highway Users Revenue Fund, and notes to basic financial statements.

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the Town of Clifton, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Town of Clifton, Arizona is improving or deteriorating.

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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

Both of the government-wide financial statements distinguish functions of the Town of Clifton, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Clifton, Arizona include general government, public safety, highways and streets, culture and recreation. The business-type activities include sewer operations.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund Financial Statements

Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the Town. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Clifton, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Clifton, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- ◆ *Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 12 - 20 of this report.

- ◆ *Proprietary Funds* – The Town of Clifton, Arizona maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Clifton, Arizona uses an enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer fund, which is considered to be a major fund of the Town of Clifton, Arizona.

The basic proprietary fund financial statements can be found on pages 16 - 18 of this report.

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

- ◆ *Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Clifton, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 19 - 20 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements (pages 21 -38) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required Supplementary Information other than MD&A

Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Town has chosen to present these budgetary statements as part of required supplementary information on pages 40 through 42. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information on page 39.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2012 showing that assets exceeded liabilities by \$5,038,125.

**Table A-1
The Town's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 2,377,562	\$ 2,012,227	\$ 8,848	\$ 25,553	\$ 2,386,410	\$ 2,037,780
Internal Balances	517,542	528,646	(517,542)	(528,646)	-	-
Capital Assets						
Non-depreciable	116,099	102,865	-	-	116,099	102,865
Depreciable	1,986,532	1,958,814	735,338	759,724	2,721,870	2,718,538
Total Assets	<u>4,997,735</u>	<u>4,602,552</u>	<u>226,644</u>	<u>256,631</u>	<u>5,224,379</u>	<u>4,859,183</u>
Other Liabilities	162,729	139,261	2,321	3,273	165,050	142,534
Non-current Liabilities:						
Due Within One Year	<u>20,768</u>	<u>15,100</u>	<u>436</u>	<u>1,877</u>	<u>21,204</u>	<u>16,977</u>
Total Liabilities	<u>183,497</u>	<u>154,361</u>	<u>2,757</u>	<u>5,150</u>	<u>186,254</u>	<u>159,511</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	2,102,631	2,061,679	735,338	759,724	2,837,969	2,821,403
Restricted	302,011	259,887	-	-	302,011	259,887
Unrestricted	2,409,596	2,126,625	(511,451)	(508,243)	1,898,145	1,618,382
Total Net Assets	<u>\$ 4,814,238</u>	<u>\$ 4,448,191</u>	<u>\$ 223,887</u>	<u>\$ 251,481</u>	<u>\$ 5,038,125</u>	<u>\$ 4,699,672</u>

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

The net assets of the Town are \$5,038,125 in fiscal year 2012 in the governmental and business-type activities.

Net assets consist of three components. The largest portion of the Town of Clifton, Arizona's net assets (56%) reflects its investment in capital assets (e.g., land, buildings, sewer collection system, furniture, equipment and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town of Clifton, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Clifton, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Clifton, Arizona's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,898,145) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Clifton, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

**Table A-2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 342,752	\$ 340,043	\$ 92,267	\$ 88,668	\$ 435,019	\$ 428,711
Operating Grants and Contributions	323,295	317,195	-	-	323,295	317,195
Capital Grants and Contributions	231,486	298,403	-	-	231,486	298,403
General Revenues:						
Local Taxes	585,759	509,914	-	-	585,759	509,914
Property Taxes	263,253	184,078	-	-	263,253	184,078
Franchise Taxes	68,278	69,750	-	-	68,278	69,750
State Shared Revenues	809,432	685,289	-	-	809,432	685,289
Investment Earnings	13,257	18,010	-	-	13,257	18,010
Gain (Loss) on Disposal of Capital Assets	-	190	-	-	-	190
Total Revenues	2,637,512	2,422,872	92,267	88,668	2,729,779	2,511,540
EXPENSES						
General Government	662,545	600,480	-	-	662,545	600,480
Public Safety	886,662	800,633	-	-	886,662	800,633
Highways and Streets	578,595	695,726	-	-	578,595	695,726
Culture and Recreation	143,663	104,949	-	-	143,663	104,949
Sewer	-	-	119,861	98,549	119,861	98,549
Total Expenses	2,271,465	2,201,788	119,861	98,549	2,391,326	2,300,337
CHANGE IN NET ASSETS	366,047	221,084	(27,594)	(9,881)	338,453	211,203
Net Assets - Beginning of Year	4,448,191	4,227,107	251,481	261,362	4,699,672	4,488,469
NET ASSETS - END OF YEAR	\$ 4,814,238	\$ 4,448,191	\$ 223,887	\$ 251,481	\$ 5,038,125	\$ 4,699,672

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Governmental Activities – Governmental activities increased the Town's net assets by \$366,047. Key factors contributing to the increase include capital expenditures exceeding current year depreciation expense. Expenses remained relatively stable.

Business-Type Activities – Business-type activities decreased the Town's net assets by \$27,594. This decrease was not significant.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund and Special Revenue Funds.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$2,726,526, an increase of \$330,655 in comparison with the prior year. Approximately 89% of this total amount, \$2,424,515, constitutes General Fund balance, which is available for contribution to the committed, assigned and unassigned fund balance. At fiscal year-end 2011-2012 fund balances were as follows:

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From FY 2010-11
General Fund	\$ 2,424,515	\$ 288,531
Highway Users Revenue Fund	275,636	40,919
Nonmajor Governmental Funds	26,375	1,205

The General Fund is the chief operating fund of the Town of Clifton, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$2,424,515, while total fund balance reached \$2,726,526. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 134% of total General Fund expenditures, while total fund balance represents 123% of that same amount. The fund balance of the General Fund increased due to a reduction in highway and street projects.

The fund balance of the Highway Users Revenue Fund increased by \$40,919 due to decreased road projects during the fiscal year.

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements and the increase in fund balance of \$1,205 was not significant.

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

BUDGETARY HIGHLIGHTS

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and the Highway Users Revenue Fund and are found on pages 40 - 42. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$1,909,574, on a budgetary basis, were greater than budgeted revenues of \$1,737,970 by \$171,604 while budgetary basis expenditures of \$1,677,824 were only 81% of budgeted expenditures (savings of \$400,690). The budget savings was primarily due to the Town cutting expenditures in all departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for its governmental and business-type activities as of June 30, 2012 amounted to \$2,837,969 (net of accumulated depreciation), a net increase of 0.59%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 3.A.3. in the Notes to Basic Financial Statements for further information regarding capital assets.

Capital assets include land, land improvements, buildings and improvements, infrastructure, sewer system, and furniture, equipment, and vehicles. During fiscal year 2012 the annual depreciation expense for governmental activities was \$163,805 and depreciation expense for business-type activities was \$24,386. Additions to governmental activities capital assets during the fiscal year totaled \$204,757. There were no additions to business-type activities capital assets during the fiscal year.

Major capital asset events during the current fiscal year included the following:

- ◆ Purchase of 8x40 storage container
- ◆ Purchase of various equipment items
- ◆ Contributed Utility Trucks and Road Grader

The following table provides a breakdown of the capital assets of the Town at June 30, 2012 and 2011.

**Table A-4
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 102,865	\$ 102,865	\$ -	\$ -	\$ 102,865	\$ 102,865
Construction in Progress	13,234	-	-	-	13,234	-
Land Improvements	54,710	62,374	-	-	54,710	62,374
Building and Improvements	743,584	712,154	-	-	743,584	712,154
Infrastructure	424,025	456,723	-	-	424,025	456,723
Sewer System	-	-	721,780	742,544	721,780	742,544
Furniture, Equipment, and Vehicles	764,213	727,563	13,558	17,180	777,771	744,743
Total Capital Assets	<u>\$ 2,102,631</u>	<u>\$ 2,061,679</u>	<u>\$ 735,338</u>	<u>\$ 759,724</u>	<u>\$ 2,837,969</u>	<u>\$ 2,821,403</u>

**TOWN OF CLIFTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Debt Administration

The Town did not have any long-term debt obligations outstanding at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- ◆ The Town has implemented changes to town services or fees which includes the elimination of garbage services by the Town. This service has been privatized. Also fee increases have been approved for RV Park space rentals and wastewater user charges.
- ◆ In the event of emergency expenditures or revenue shortfalls, unfilled positions will not be replaced immediately or will be replaced with part-time employees as a cost savings mechanism.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Clifton
Accounting Department
P.O. Box 1415
Clifton, Arizona 85533
(928) 865-4146

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BASIC FINANCIAL STATEMENTS

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 2,164,837	\$ -	\$ 2,164,837
Receivables, Net:			
Accounts Receivable	35,687	8,848	44,535
Property Taxes Receivable	8,741	-	8,741
Intergovernmental Receivable	168,297	-	168,297
Internal Balances	517,542	(517,542)	-
Capital Assets:			
Non-Depreciable	116,099	-	116,099
Depreciable	1,986,532	735,338	2,721,870
Total Assets	<u>4,997,735</u>	<u>226,644</u>	<u>5,224,379</u>
LIABILITIES			
Accounts Payable	43,034	354	43,388
Accrued Wages and Benefits	41,721	1,625	43,346
Customer Deposits Payable	641	36	677
Intergovernmental Payable	15,200	306	15,506
Unearned Revenue	62,133	-	62,133
Compensated Absences	20,768	436	21,204
Total Liabilities	<u>183,497</u>	<u>2,757</u>	<u>186,254</u>
NET ASSETS			
Invested in Capital Assets	2,102,631	735,338	2,837,969
Restricted for:			
Highways and Streets	280,014	-	280,014
Culture and Recreation	15,401	-	15,401
Public Safety	1,571	-	1,571
Other Purposes	5,025	-	5,025
Unrestricted	2,409,596	(511,451)	1,898,145
Total Net Assets	<u>\$ 4,814,238</u>	<u>\$ 223,887</u>	<u>\$ 5,038,125</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 662,545	\$ 313,919	\$ 204	\$ 22,600	\$ (325,822)		\$ (325,822)
Public Safety	886,662	3,430	27,014	59,963	(796,255)		(796,255)
Highways and Streets	578,595	-	252,876	76,368	(249,351)		(249,351)
Culture and Recreation	143,663	25,403	43,201	72,555	(2,504)		(2,504)
Total Governmental Activities	2,271,465	342,752	323,295	231,486	(1,373,932)		(1,373,932)
Business-Type Activities:							
Sewer	119,861	92,267	-	-		\$ (27,594)	(27,594)
Total Business-Type Activities	119,861	92,267	-	-		(27,594)	(27,594)
Total Primary Government	<u>\$ 2,391,326</u>	<u>\$ 435,019</u>	<u>\$ 323,295</u>	<u>\$ 231,486</u>	(1,373,932)	(27,594)	(1,401,526)
General Revenues:							
Taxes:							
Sales Taxes					585,759	-	585,759
Property Taxes					263,253	-	263,253
Franchise Taxes					68,278	-	68,278
State Revenue Sharing					279,451	-	279,451
State Sales Tax Revenue Sharing					258,722	-	258,722
Auto Lieu Tax Revenue Sharing					271,259	-	271,259
Investment Earnings					13,257	-	13,257
Total General Revenues					<u>1,739,979</u>	-	<u>1,739,979</u>
Change in Net Assets					366,047	(27,594)	338,453
Net Assets - Beginning of Year					4,448,191	251,481	4,699,672
Net Assets - End of Year					<u>\$ 4,814,238</u>	<u>\$ 223,887</u>	<u>\$ 5,038,125</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Highway Users Revenue Fund	Nonmajor Governmental Funds	Totals
Assets				
Cash	\$ 1,822,820	\$ 260,826	\$ 81,191	\$ 2,164,837
Receivables:				
Accounts Receivable, Net	35,687	-	-	35,687
Intergovernmental Receivable	132,306	25,622	10,369	168,297
Property Tax Receivable	8,741	-	-	8,741
Advance to Other Funds	517,542	-	-	517,542
Total Assets	\$ 2,517,096	\$ 286,448	\$ 91,560	\$ 2,895,104
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 34,395	\$ 7,375	\$ 1,264	\$ 43,034
Accrued Wages and Benefits	37,167	2,894	1,660	41,721
Intergovernmental Payable	14,529	543	128	15,200
Deferred Revenue	5,849	-	-	5,849
Unearned Revenue	-	-	62,133	62,133
Customer Deposits Payable	641	-	-	641
Total Liabilities	92,581	10,812	65,185	168,578
Fund Balances:				
Nonspendable	517,542	-	-	517,542
Restricted	-	275,636	26,375	302,011
Assigned	31,540	-	-	31,540
Unassigned	1,875,433	-	-	1,875,433
Total Fund Balances	2,424,515	275,636	26,375	2,726,526
Total Liabilities and Fund Balances	\$ 2,517,096	\$ 286,448	\$ 91,560	\$ 2,895,104

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances for Governmental Funds	\$ 2,726,526
Amounts reported for governmental activities in the statement of activities are different because:	
Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.	5,849
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental Capital Assets	3,249,256
Less Accumulated Depreciation	<u>(1,146,625)</u>
Capital Assets used in Governmental Activities	<u>2,102,631</u>
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Compensated Absences	(20,768)
Total Net Assets of Governmental Activities	<u>\$ 4,814,238</u>

See accompanying Notes to Basic Financial Statements.

TOWN OF CLIFTON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Highway Users Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Revenue:				
Taxes:				
Sales Taxes	\$ 585,759	\$ -	\$ -	\$ 585,759
Property Taxes	263,145	-	-	263,145
Franchise Taxes	68,278	-	-	68,278
Intergovernmental Revenue	828,432	245,594	201,248	1,275,274
Fines and Forfeitures	37,360	-	630	37,990
Licenses and Permits	11,840	-	-	11,840
Charges for Services	105,634	-	-	105,634
Rents and Royalties	180,416	-	-	180,416
Contributions and Donations	2,822	-	-	2,822
Investment Earnings	13,257	-	-	13,257
Other	6,772	-	-	6,772
Total Revenue	<u>2,103,715</u>	<u>245,594</u>	<u>201,878</u>	<u>2,551,187</u>
Expenditures:				
Current:				
General Government	660,795	-	22,600	683,395
Public Safety	817,411	-	34,426	851,837
Highways and Streets	276,885	204,675	30,104	511,664
Culture and Recreation	60,093	-	113,543	173,636
Total Expenditures	<u>1,815,184</u>	<u>204,675</u>	<u>200,673</u>	<u>2,220,532</u>
Net Change in Fund Balance	288,531	40,919	1,205	330,655
Fund Balance, Beginning of Year	<u>2,135,984</u>	<u>234,717</u>	<u>25,170</u>	<u>2,395,871</u>
Fund Balance, End of Year	<u>\$ 2,424,515</u>	<u>\$ 275,636</u>	<u>\$ 26,375</u>	<u>\$ 2,726,526</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances-Total Governmental Funds \$ 330,655

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

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

Expenditures for Capital Assets	204,757
Less Current Year Depreciation	<u>(163,805)</u>
Excess Capital Expenditures Over Depreciation	<u>40,952</u>

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Property Taxes	108
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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 the governmental funds.

Net Increase in Compensated Absences	<u>(5,668)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 366,047</u></u>
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**TOWN OF CLIFTON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	<u>Business-Type Activities Sewer Fund</u>
ASSETS	
Current Assets:	
Receivables, Net:	
Accounts Receivable	\$ 8,848
Total Current Assets	<u>8,848</u>
Noncurrent Assets:	
Capital Assets:	
Depreciable (net)	<u>735,338</u>
Total Noncurrent Assets	<u>735,338</u>
Total Assets	744,186
LIABILITIES	
Current Liabilities:	
Accounts Payable	354
Accrued Wages and Benefits	1,625
Intergovernmental Payable	306
Customer Deposits Payable	36
Advance from Other Funds	517,542
Compensated Absences	436
Total Liabilities	<u>520,299</u>
NET ASSETS	
Invested in Capital Assets	735,338
Unrestricted	<u>(511,451)</u>
Total Net Assets	<u><u>\$ 223,887</u></u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Sewer Fund
Operating Revenue:	
Charges for Services	\$ 92,267
Operating Expenses:	
Cost of Sales and Services	95,475
Depreciation	24,386
Total Operating Expenses	119,861
Change in Net Assets	(27,594)
Net Assets:	
Beginning of Year	251,481
End of Year	\$ 223,887

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 108,972
Payments to Suppliers	(50,639)
Payments to Employees	(47,229)
Net Cash Flows from Operating Activities	11,104
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Paid to Other Funds for Interfund Borrowing	(11,104)
Net Cash Flows from Noncapital Financing Activities	(11,104)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-
Cash and Cash Equivalents, Beginning of Year	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (27,594)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (used by) Operating Activities:	
Depreciation	24,386
Change in Assets/Liabilities:	
Receivables, Net	16,705
Accounts Payable	(1,782)
Accrued Wages and Benefits	524
Intergovernmental Payable	306
Compensated Absences	(1,441)
Net Cash from Operating Activities	\$ 11,104

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012**

	Pension Trust
ASSETS	
Current Assets:	
Cash	\$ 93,941
Total Current Assets	93,941
 Liabilities	
Current Liabilities:	
Due to Other Entities	3,696
Total Current Liabilities	3,696
 NET ASSETS	
Held In Trust	\$ 90,245

See accompanying Notes to Basic Financial Statements.

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2012**

	Pension Trust
Additions:	
Contributions:	
Employer	\$ 441
Employee	441
State	<u>1,752</u>
Total Contributions	2,634
Investment Earnings:	
Interest	<u>45</u>
Total Additions	2,679
Deductions:	
Benefits	<u>1,070</u>
Change in Net Assets	1,609
Net Assets, Beginning of Year	<u>88,636</u>
Net Assets, End of Year	<u><u>\$ 90,245</u></u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Clifton, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Financial Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. In evaluating how to define the Town, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in accounting principles generally accepted in the United States of America. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Town) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Town's reporting entity, none have been included.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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. However, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Town reports the following major governmental funds:

Major Governmental Funds

General Fund

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

Highway Users Revenue Fund (HURF)

The Highway Users Revenue Fund (HURF), a special revenue fund, accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

The Town reports the following major proprietary fund:

Sewer Fund

The Sewer Fund, a proprietary fund, accounts for the activity of the Town's sewer operations.

Additionally, the government reports the following fund type:

Pension Trust Fund

The Pension Trust Fund accounts for the activities of the Volunteer Firefighters' Relief and Pension Fund, which accumulates resources for pension benefit payments to qualified firemen.

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 the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges for services. Operating expenses for the sewer fund include the cost of sales and services and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, Towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All receivables are shown net of an allowance for uncollectibles of \$11,946 in the General Fund and \$24,521 in the Sewer Fund. The Town includes all accounts outstanding greater than ninety days in its allowance for uncollectibles.

3. Short-Term Interfund Receivables/Payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and Improvements	15-80 Years
Land Improvements	15-20 Years
Sewer System	50 Years
Furniture, Equipment and Vehicles	5-15 Years
Infrastructure	15 Years

The Town's policy is to prospectively report infrastructure acquired after adoption of GASB Statement No. 34.

5. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the Town reports all Town assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

7. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the Town's Council, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council has authorized the Town Manager to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the Town's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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 basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below 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.
5. 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 carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 8,518
Waste/Sanitation	3,993
Police	13,374

Cash was available to cover the overexpenditures listed above.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Cash

Cash at June 30, 2012 consists of the following:

Deposits:	
Cash in Bank	\$ 2,164,837
Certificates of Deposit	<u>93,941</u>
Total Deposits	<u>2,258,778</u>
Less: Fiduciary Funds	<u>(93,941)</u>
Total Cash	<u><u>\$ 2,164,837</u></u>

Custodial Credit Risk – This is the risk that, in the event of a failure by a counterparty, the Town will not be able to recover its deposits or collateralized securities that are in the possession of an outside party. The Town does not have a formal policy regarding custodial credit risk. However, the bank balance of deposits at June 30, 2012 was \$2,278,205 of which \$894,242 is covered by federal depository insurance through the Transaction Account Guarantee Program and \$1,383,963 is collateralized by collateral held by the Town’s custodial bank in the Town’s name.

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

The Greenlee County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies property taxes due to the Town in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund level financial statements. In the fund financial statements property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follow:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable		
General Fund	\$ 5,849	\$ -
Cash Payments not Meeting all Eligibility		
Requirements (Nonmajor Governmental Funds)	-	62,133
	\$ 5,849	\$ 62,133

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 102,865	\$ -	\$ -	\$ 102,865
Construction in Progress	-	13,234	-	13,234
Total Capital Assets, Not Being Depreciated	<u>102,865</u>	<u>13,234</u>	<u>-</u>	<u>116,099</u>
Capital Assets, Being Depreciated:				
Land Improvements	173,277	-	-	173,277
Building and Improvements	947,836	51,225	-	999,061
Infrastructure	588,371	-	-	588,371
Furniture, Equipment, and Vehicles	1,232,150	140,298	-	1,372,448
Total Capital Assets, Being Depreciated	<u>2,941,634</u>	<u>191,523</u>	<u>-</u>	<u>3,133,157</u>
Accumulated Depreciation for:				
Land Improvements	(110,903)	(7,664)	-	(118,567)
Building and Improvements	(235,682)	(19,795)	-	(255,477)
Infrastructure	(131,648)	(32,698)	-	(164,346)
Furniture, Equipment, and Vehicles	(504,587)	(103,648)	-	(608,235)
Total Accumulated Depreciation	<u>(982,820)</u>	<u>(163,805)</u>	<u>-</u>	<u>(1,146,625)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,958,814</u>	<u>27,718</u>	<u>-</u>	<u>1,986,532</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,061,679</u>	<u>\$ 40,952</u>	<u>\$ -</u>	<u>\$ 2,102,631</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Being Depreciated:				
Equipment	\$ 24,966	\$ -	\$ -	\$ 24,966
Sewer System	1,020,552	-	-	1,020,552
Total Capital Assets, Being Depreciated	<u>1,045,518</u>	<u>-</u>	<u>-</u>	<u>1,045,518</u>
Accumulated Depreciation for:				
Equipment	(7,786)	(3,622)	-	(11,408)
Sewer System	(278,008)	(20,764)	-	(298,772)
Total Accumulated Depreciation	<u>(285,794)</u>	<u>(24,386)</u>	<u>-</u>	<u>(310,180)</u>
Total Capital Assets, Being Depreciated, Net	<u>759,724</u>	<u>(24,386)</u>	<u>-</u>	<u>735,338</u>
Business-Type Activities Capital Assets, Net	<u>\$ 759,724</u>	<u>\$ (24,386)</u>	<u>\$ -</u>	<u>\$ 735,338</u>

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 18,600
Public Safety	58,819
Highways and Streets	65,396
Culture and Recreation	20,990
Total Depreciation Expense	<u>\$ 163,805</u>

Business-Type Activities:

Sewer	<u>\$ 24,386</u>
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B. Interfund Receivables and Payables and Transfers

As of June 30, 2012 interfund receivable and payables were as follows:

<u>Advance From</u>	<u>Advance To Sewer Fund</u>
General Fund	<u>\$ 517,542</u>

Interfund receivables and payables resulted from this fund having a negative cash balance at year-end that is not expected to be repaid within the next fiscal year.

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations

Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities					
Other Liabilities:					
Compensated Absences	\$ 15,100	\$ 34,276	\$ (28,608)	\$ 20,768	\$ 20,768
Governmental Activities Long-term Liabilities	<u>\$ 15,100</u>	<u>\$ 34,276</u>	<u>\$ (28,608)</u>	<u>\$ 20,768</u>	<u>\$ 20,768</u>
Business-Type Activities					
Compensated Absences	\$ 1,877	\$ 2,539	\$ (3,980)	\$ 436	\$ 436
Business-Type Activities Long-Term Liabilities	<u>\$ 1,877</u>	<u>\$ 2,539</u>	<u>\$ (3,980)</u>	<u>\$ 436</u>	<u>\$ 436</u>

D. Fund Balance Classification of Governmental Funds

The Town has classified its fund balances with the following hierarchy:

Nonspendable: The Town had an advance to other funds of \$517,542 in the General Fund that is classified as nonspendable funds as the advance is considered long-term in nature.

Spendable: The Town has classified the spendable fund balances as *Restricted*, *Assigned* and *Unassigned*. The Town currently has no funds classified as *Committed*.

Restricted for Transportation Purposes and Grants:

Arizona Revised Statutes title 28, chapter 18, article 2 dictates, state transportation revenues received by the Town be used solely for authorized transportation purposes. Other funds are restricted by the granting agency. The restricted fund balances totaled \$302,011, and represented \$275,636 for transportation and \$26,375 for grants.

Assigned:

At June 30, 2012, General Fund assigned fund balance totaled \$31,540. Town management assigned fund balance as follows:

**TOWN OF CLIFTON, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Fund Balance Classification of Governmental Funds (Continued)

Assignment	Balance
Abatement	\$ 13,391
Outreach	1,801
Festival of Lights	2,815
Fire Equipment	12,602
Magistrate	931

Unassigned:

The unassigned fund balance in the General Fund is \$1,875,433.

Minimum Fund Balance Policy:

It is the goal of the Town to achieve and maintain an unassigned fund balance in the General Fund equal to 3% of expenditures.

NOTE 4 OTHER INFORMATION

A. Risk Management

The Town of Clifton, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$3,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$3,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

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

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

B. Contingent Liabilities

Lawsuits – The Town is a defendant in a lawsuit. The suit is in its early stages and an estimate of the Town's potential liability is not available.

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Firefighters' Relief and Pension Fund

The Town of Clifton, Arizona's Volunteer Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the Town and a board of trustees for the Town's volunteer firefighters. There was no covered compensation for the year ended June 30, 2012.

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

Each volunteer must contribute 5.0% of covered compensation which is equally matched by the Town. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2012, the Town and firefighters were not required to make contributions; however, the Town contributed \$441 and the firefighters contributed \$441. The Town received \$1,752 from the State of Arizona.

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

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

Separate financial statements for the Firefighters' Relief and Pension Fund are not prepared.

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System

Plan Descriptions – The Town contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74% (9.87% for retirement, 0.63% for health insurance premium, and 0.24% for long-term disability) of the members' annual covered payroll. The town's contributions to the System for the years ended June 30, 2012 and prior two fiscal years are as follows:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2012	\$ 54,983	\$ 3,510	\$ 1,337
2011	44,475	2,912	1,234
2010	32,900	4,252	1,651

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description – The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200 Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy – Covered employees are required to contribute 8.00% of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 6.12% for police and 0.0% for fire, of annual covered payroll (in addition, the health insurance subsidy was determined to be 0.75% and 0.00%) for police and fire, respectively.

Annual Pension Cost and Other Post Employment Benefit (OPEB) Obligations – During the year ended June 30, 2011 (the date of the latest available information), the Town of Clifton, Arizona's annual pension cost of \$17,144 for police and \$-0- for fire was equal to the Town of Clifton, Arizona's required and actual contributions. OPEB costs (health insurance subsidy payments) were determined to be \$2,101 for police and \$-0- for fire and were equal to the Town of Clifton, Arizona's required and actual contributions.

**TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual pension and OPEB cost information for the 3 preceding years follows.

Three-Year Trend Information

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2009	\$ 11,966	100.0 %	\$ -
2010	11,223	100.0	-
2011	17,144	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ 2,109	100.0 %	\$ -
2010	1,463	100.0	-
2011	2,101	100.0	-

Fire

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2009	\$ 2,076	100.0 %	\$ -
2010	1,204	100.0	-
2011	-	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ -	- %	\$ -
2010	-	-	-
2011	-	-	-

TOWN OF CLIFTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The required contribution was determined as part of the June 30, 2011 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually, (b) projected salary increases ranging from 5.0- 8.0% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 3.0% to 5.0% per year attributable to seniority/merit.

Funding Status and Funding Progress – As of June 30, 2011, the plan was 145.3% funded for police and 88.4% funded for fire. For police, the actuarial accrued liability for benefits was \$372,984, and the actuarial value of assets was \$541,820, resulting in an overfunded actuarial accrued liability (UAAL) of \$168,836. For fire, the actuarial accrued liability for benefits was \$227,888, and the actuarial value of assets was \$201,491 resulting in an underfunded actuarial accrued liability (UAAL) of \$26,397. The covered payroll (annual payroll of active employees covered by the plan) was \$280,201 for police and \$0 for fire, and the ratio of the UAAL to the covered payroll was 87.0% for police and 0.00% for fire.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the Town of Clifton, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Clifton, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 25 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

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**TOWN OF CLIFTON, ARIZONA
CLIFTON POLICE AND FIRE
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2012**

Police - Retirement

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2009	\$ 554,917	\$ 343,687	161.5 %	\$ 211,230	\$ 242,872	87.0 %
2010	492,388	269,436	182.7	222,952	247,958	89.9
2011	541,820	372,984	145.3	168,836	280,201	60.3

Police - Other Postemployment Benefit (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2009	\$ -	\$ 6,726	- %	\$ (6,726)	\$ 242,872	(2.8)%
2010	-	2,224	-	(2,224)	247,958	(0.9)
2011	-	7,445	-	(7,445)	280,201	(2.7)

Fire - Retirement

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2009	\$ 310,593	\$ 303,879	102.2 %	\$ 6,714	\$ -	- %
2010	249,202	317,475	78.5	(68,273)	-	-
2011	201,491	227,888	88.4	(26,397)	-	-

Fire - Other Postemployment Benefit (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2009	\$ -	\$ 12,008	- %	\$ (12,008)	\$ -	- %
2010	-	11,277	-	(11,277)	-	-
2011	-	10,660	-	(10,660)	-	-

TOWN OF CLIFTON, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND – BUDGETARY BASIS
YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
Revenue:			
Taxes	\$ 827,062	\$ 917,182	\$ 90,120
Intergovernmental Revenue	791,753	828,432	36,679
Fines and Forfeitures	13,000	37,160	24,160
Licenses and Permits	5,500	11,840	6,340
Charges for Services	68,855	94,931	26,076
Rents and Royalties	3,600	-	(3,600)
Investment Earnings	15,700	13,257	(2,443)
Other	12,500	6,772	(5,728)
Total Revenue	<u>1,737,970</u>	<u>1,909,574</u>	<u>171,604</u>
Expenditures:			
Current:			
General Government:			
Administration	334,529	343,047	(8,518)
Mayor and Council	27,923	26,823	1,100
Waste/Sanitation	86,565	90,558	(3,993)
Magistrate	71,457	50,653	20,804
Chase Creek Building and Maintenance	32,803	1,306	31,497
Code Enforcement	39,111	22,153	16,958
Total General Government	<u>592,388</u>	<u>534,540</u>	<u>57,848</u>
Public Safety:			
Police	499,386	512,760	(13,374)
Dispatch/Communication	211,390	203,137	8,253
Animal Control	78,455	71,376	7,079
Fire Department	52,319	23,618	28,701
Total Public Safety	<u>841,550</u>	<u>810,891</u>	<u>30,659</u>
Highways and Streets:	580,267	276,885	303,382
Culture and Recreation:	64,309	55,508	8,801
Total Expenditures	<u>2,078,514</u>	<u>1,677,824</u>	<u>400,690</u>
Net Change in Fund Balance	(340,544)	231,750	572,294
Fund Balance, Beginning of Year	347,000	1,512,340	1,165,340
Fund Balance, End of Year	<u>\$ 6,456</u>	<u>\$ 1,744,090</u>	<u>\$ 1,737,634</u>

**TOWN OF CLIFTON, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USERS REVENUE FUND
YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue:			
Intergovernmental Revenue	\$ 245,750	\$ 245,594	\$ (156)
Expenditures:			
Current:			
Highways and Streets	457,725	204,675	253,050
Excess (Deficiency) of Revenue Over Expenditures	(211,975)	40,919	252,894
Fund Balance, Beginning of Year	211,975	234,717	22,742
Fund Balance, End of Year	\$ -	\$ 275,636	\$ 275,636

**TOWN OF CLIFTON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

NOTE 1 BASIS OF ACCOUNTING

The accompanying Schedules of Revenue, Expenditures and Change in Fund Balance Budget and Actual are prepared on a modified accrual basis of accounting. See Note 2A for the process of how the Town adopts its budget.

NOTE 2 BUDGETARY COMPARISON SCHEDULE RECONCILIATION

For external reporting purposes, the General Fund includes revenues, expenditures, and fund balances of other internally maintained funds. The General Fund, however, is budgeted based on the internally maintained General Fund. Therefore the following reconciliation is necessary to reconcile the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures and Changes in Fund Balance.

	General Fund				
	Total Revenue	Total Expenditures	Change in Fund Balance	Fund Balance Beginning of Year	Fund Balance End of Year
Statement of Revenue, Expenditures, and Changes in Fund Balance	\$ 2,103,715	\$ 1,815,184	\$ 288,531	\$ 2,135,984	\$ 2,424,515
Adjustments	(194,141)	(137,360)	(56,781)	(623,644)	(680,425)
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual	<u>\$ 1,909,574</u>	<u>\$ 1,677,824</u>	<u>\$ 231,750</u>	<u>\$ 1,512,340</u>	<u>\$ 1,744,090</u>