

**Management Discussion and Analysis
Town of Patagonia, AZ**

Describe the Basic Financial Statements

This discussion and analysis of the Town of Patagonia’s financial performance reviews the Town’s activities for the fiscal year ended June 30, 2014. The Town has two major parts to its financial statements. One part is the “government wide” statements combing all operations carried out by the town. The second part is the “fund accounting”, again in two parts. One is the “Governmental Fund” which represents the normal governmental activities of administration, public safety, etc. The second part is the Proprietary Fund representing the Town Water, Sewer and Garbage Utilities, a fund which operates on the utility revenues like a business.

Impacts, Fiscal Year 2013

- Governmental Revenues for the year continued to increase as the overall economy has improved..
- Proprietary Revenues increased over the two previous years but still fall below FY 2009
- Total revenues exceeded 2011 and 2010 but still did not reach the FY 2009 level, remaining well below totals from earlier years and below the levels needed to provide for needed maintenance and upgrade of major equipment and infrastructure.

CURRENT ASSETS AND LIABILITIES

Statement of Assets and Liabilities, all funds		
	Governmental Activities	Business-type Activities
Assets		
Cash & equivalents	\$934,659	\$377,984
other assets	\$ 68,795	\$121,263
capital assets net of depreciation	\$2,645,420	\$2,786,750
Liabilities		
current liabilities	\$56,052	\$74,989
long term liabilities (more than 1 year)		\$499,006
Net Assets		
investment in capital assets net of debt	\$2,645,420	\$2,435,966
Restricted (Highways, court, library)	\$48,753	
unrestricted assets	898,649	280,291
Total Net Assets	\$3,592, 822	\$2,716,257

Long term liabilities will increase by \$481,000 next year as a result of the debt incurred for the water system improvements. Capital assets will increase by approximately \$1,000,000 as a result of the water project and the grants which funded the majority of its cost.

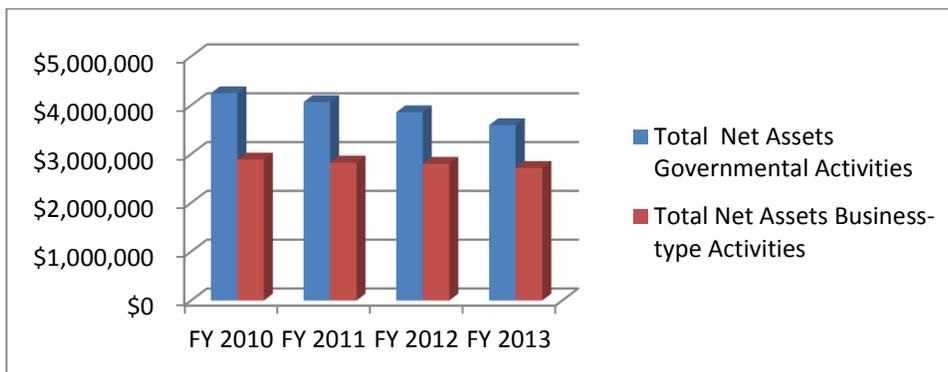
Condensed Government-wide Financial Information Comparing Current Year with Prior Years:

Changes in Total Net Assets FY 2010 to FY 2014- all funds

	Total Net Assets	Total Net Assets
	Governmental Activities	Business-type Activities
FY 2010	\$4,247,159	\$2,886,575
FY 2011	\$4,066,251	\$2,825,865
FY 2012	\$3,857,857	\$2,801,031
FY 2013	\$3,592,822	\$2,716,257
FY 2014	\$3,321,239	\$2,856,386

Net Assets continued to decrease as reserves were used to maintain essential services and offset the loss of funds diverted by the state.

Changes in Total Net Assets FY 2010 to FY 2013- all funds

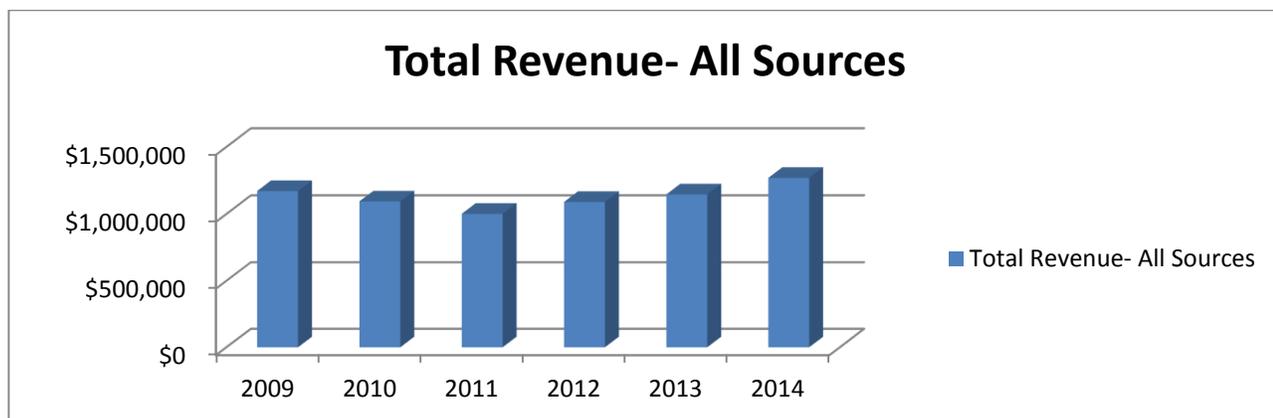


Comparison of Revenues by Year

	2009	2010	2011	2012	2013	2014
Governmental Revenues						
Local Sales Taxes	\$190,942	\$163,863	\$158,776	\$173,666	197,540	\$209,503
Intergovernmental (State) net of grants	\$444,157	\$443,521	\$378,962	\$276,659	\$308,875	\$333,507
Charges for Services	\$27,883	\$28,499	\$28,645	\$54,780	27,669	\$27,720
Franchise Fees	\$28,155	\$28,067	\$23,569	\$19,337	\$14,310	\$16,475
Other revenue	\$7,325	\$9,859	\$17,871	16,565	\$7,245	\$15,968
Fines and forfeitures	\$52,177	\$28,482	\$14,059	\$54,780	\$83,394	117,658
Licenses and Permits	\$16,189	\$10,179	\$13,867	\$20,225	\$32,174	\$19,795
Grants & Contributions						\$36,256
Total	\$767,012	\$725,894	\$638,401	\$700,515	\$747,731	823,852

Governmental Income						
	2009	2010	2011	2012	2013	2014
Proprietary Funds Revenue						
Water	\$116,077	\$93,519	\$93,952	\$94,601	\$110,090	\$120,058
Sewer	\$161,379	\$152,686	\$147,873	\$163,984	\$154,699	\$156,547
Solid Waste	\$128,743	\$121,518	\$121,220	\$130,386	\$133,629	\$171,525
Total Proprietary Funds	\$404,199	\$367,723	\$363,045	\$388,971	\$398,418	448,130
Total Revenue- All Sources	\$1,171,211	\$1,093,617	\$1,001,446	\$1,089,486	1,146,149	1,269,409

The revenue picture is varied looking at the comparisons shown above. State revenues showed a modest increase, but are still far short of previous levels as the state continued to divert funds to balance their own budget. Sales taxes continued their increase and fines and forfeitures were at a higher level as traffic enforcement activities continued at a high level. Permit income was down as new construction continued its state-wide lag. A rate increase for garbage fees returned that proprietary fund to a positive level



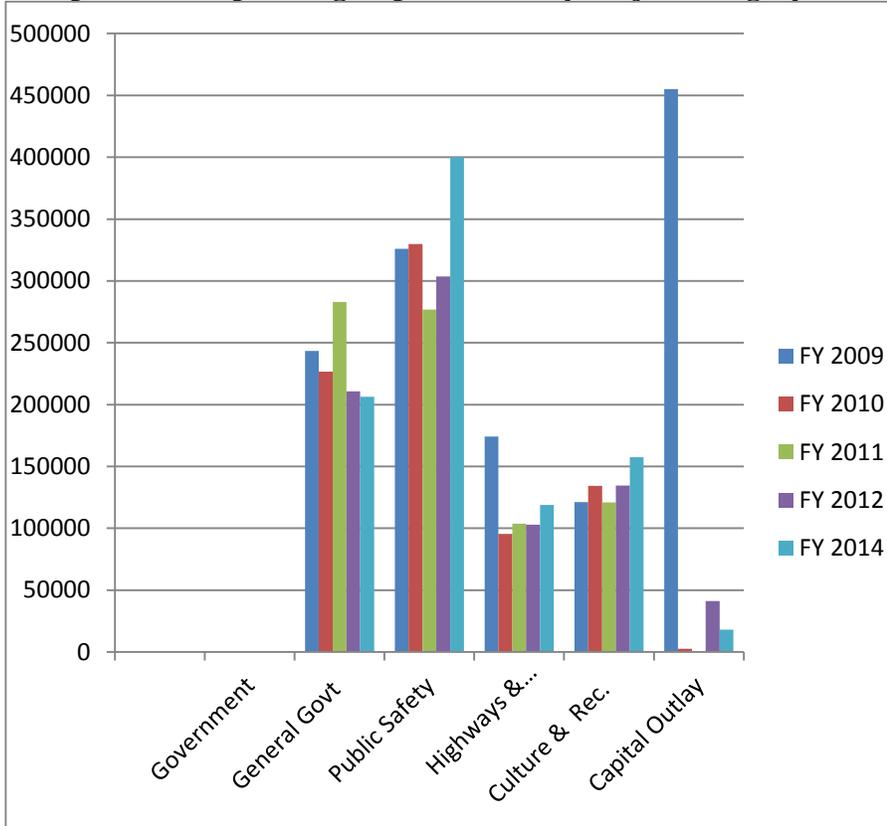
Annual Expenditures by Major Account

Annual expenditures have varied by account, with general government slightly down while public safety is up, culture and recreation is up reflecting some grants received for work in the park by the tree and park committee and the proprietary funds are up reflecting major charges to the water fund for emergency repairs.

Annual expenditures	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Government						
General Govt	\$243,422	\$226,560	\$283,055	\$210,604	\$207,793	\$206,433
Public Safety	\$325,983	\$329,710	\$276,892	\$303,576	\$340,288	\$399,923
Highways & Street	\$174,169	\$95,467	\$103,645	\$102,967	\$113,713	\$118,941
Culture & Rec.	\$121,214	\$134,308	\$120,892	\$134,653	\$133,730	\$157,588
Capital Outlay	\$455,142	\$2,704	0	\$41,304	0	\$18,065

Proprietary (Utility)						
Water, Sewer, Solid Waste	\$387,013	\$390,385	\$414,079	\$416,814	\$387,145	466,473

Comparative Operating Expenditures by Major Category



Analysis of Overall Financial Position and Results of Operations

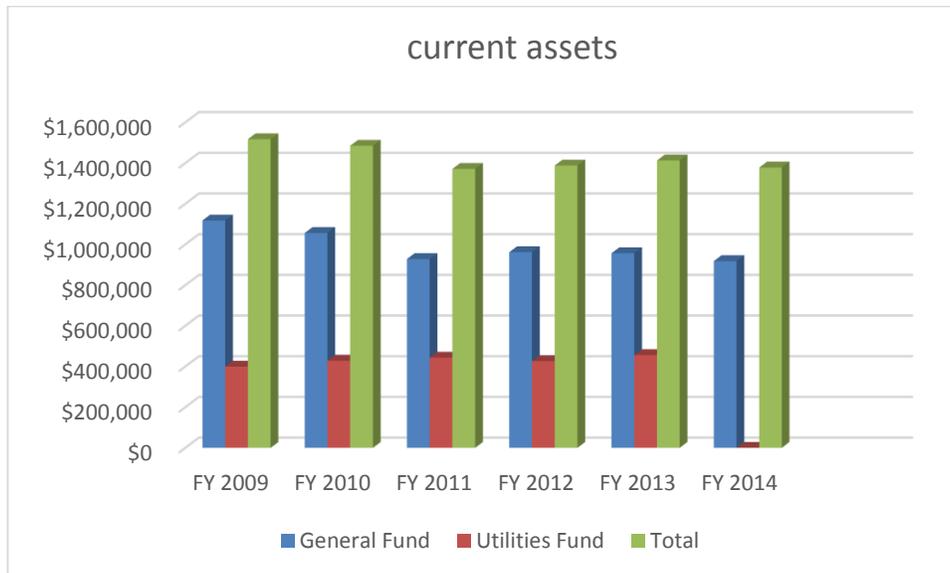
Discussion of Significant Transactions and Changes in Funds

- After a downward trend stretching back to 2007 the town’s overall position continued upwards. It reflects increases in sales tax revenue and was also helped by vigorous enforcement of some tax and revenue collection efforts.
- Aging equipment and infrastructure continued to cause significant charges in the maintenance category as items that should have been replaced were patched together again and again.
- Vigorous traffic enforcement resulted in continued improvement in fine and forfeiture revenue..

Cash (current assets) Position- All Funds

	General Fund	Utilities Fund	Total
FY 2009	\$1,117,547	\$399,461	\$1,517,008
FY 2010	\$1,056,360	\$428,369	1,484,729
FY 2011	\$928,012	\$443,046	1,371,058
FY 2012	\$961,765	\$425,980	1,387,745
FY 2013	\$956,786	\$455,991	\$1,412,777
FY 2014	\$917,704	\$460, 239	\$1,377,943

Cash (current assets) Position- All Funds



Patagonia continues to enjoy a healthy financial position with reserves in both the General Fund and the Utility Fund at a level adequate to offset short term revenue variations such as those caused by the continuing global financial crisis, however expenditures for the highway system resulted in a slight reduction in the overall cash position .

Discussion of What Happened with the General Fund Budget this Year .

- Tax revenues climbed slightly. Fines and forfeitures showed an increase. Budgeted grants for law enforcement were not received, however major grant have now been approved for FY 2015.
- Staffing levels were reduced by one full time employee.

General fund Revenues- Budget vs. Actual and Variation

REVENUES- Budget vs. Actual	Budget*	Actual	Variation
Taxes & franchise fees	\$220,000	\$233,765	\$13,765
Fines and forfeitures	\$106,970	\$120,271	\$13,301
Licenses and Permits	\$112,086	\$81,330	(\$30,755)
Intergovernmental Revenues	\$288,038	\$272,160	(15,878)
Interest	3,000	\$4,295	\$1,295
Other (charges, grants, etc.)	\$78,230	\$44,243	(33,987)

Several grants that had been applied for were not received..

General Fund Expenditures- Budget vs. Actual and Variation

Expenditures	Budget	Actual	Variation
General Government	\$254,977	\$258,140	(\$3,163)
Public Safety	\$401,717	\$357,648	44,069
Culture and Recreation	\$140,447	\$160,655	(20,208)
Highways	\$142,498	\$116,694	25,804

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Description of Capital Asset and Long-term Debt Activity during FY 2014

- Completion of the water project required the issuance of \$481,000 in USDA long term bonds and the use of approximately \$200,000 from water and sewer fund reserves.

Description of Currently Known Facts, Decisions and Conditions Expected to have a Significant Effect on next year and beyond.

Potential adoption of legislation proposed by the Governor in his current budget proposal would reduce the town income from the Transaction privilege tax by nearly 10% creating a real problem in maintaining the current level of town services.

Contacting the Town of Patagonia's Financial Management:

This report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Town Offices at 310 McKeown Ave, by mail at PO Box 767, Patagonia, AZ 85624 or by phone at 520 394 2229.