

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 793,562	\$ 294,467	\$ 1,088,029
Accounts receivable	-	42,706	42,706
Due from other governments	33,174	104,133	137,307
Prepaid expenses	37,866	18,933	56,799
Deposits	-	26,857	26,857
Cash, restricted	-	18,393	18,393
Interactivity balances	81,921	(81,921)	-
Capital assets, not being depreciated	355,867	555,440	911,307
Capital assets, being depreciated, net	<u>2,081,025</u>	<u>2,702,368</u>	<u>4,783,393</u>
<b>Total assets</b>	<u>3,383,415</u>	<u>3,681,376</u>	<u>7,064,791</u>
<b>LIABILITIES</b>			
Accounts payable	24,380	228,462	252,842
Accrued expenses	4,439	-	4,439
Refundable deposits	-	18,393	18,393
Compensated absences			
Due within 1 year	33,357	8,705	42,062
Noncurrent liabilities			
Due within 1 year	-	27,360	27,360
Due in more than 1 year	<u>-</u>	<u>542,070</u>	<u>542,070</u>
<b>Total liabilities</b>	<u>62,176</u>	<u>824,990</u>	<u>887,166</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,436,892	2,933,353	5,370,245
Restricted for:			
Highways and streets	3,726	-	3,726
Court enhancement	24,831	-	24,831
Library	3,194	-	3,194
Debt service	-	26,857	26,857
Unrestricted (deficit)	<u>852,596</u>	<u>(103,824)</u>	<u>748,772</u>
<b>Total net position</b>	<u>\$ 3,321,239</u>	<u>\$ 2,856,386</u>	<u>\$ 6,177,625</u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2014**

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 252,258	\$ 45,142	\$ 11,635	\$ -	\$ (195,481)	\$ -	\$ (195,481)
Public safety	422,492	117,658	-	-	(304,834)	-	(304,834)
Highways and streets	233,396	-	80,073	-	(153,323)	-	(153,323)
Culture and recreation	187,289	2,373	27,556	-	(157,360)	-	(157,360)
<b>Total governmental activities</b>	<b>1,095,435</b>	<b>165,173</b>	<b>119,264</b>	<b>-</b>	<b>(810,998)</b>	<b>-</b>	<b>(810,998)</b>
Business-type activities							
Water/wastewater	423,238	276,605	-	316,974	-	170,341	170,341
Solid waste	170,905	171,525	-	-	-	620	620
<b>Total business-type activities</b>	<b>594,143</b>	<b>448,130</b>	<b>-</b>	<b>316,974</b>	<b>-</b>	<b>170,961</b>	<b>170,961</b>
<b>Total primary government</b>	<b>\$ 1,689,578</b>	<b>\$ 613,303</b>	<b>\$ 119,264</b>	<b>\$ 316,974</b>	<b>(810,998)</b>	<b>170,961</b>	<b>(640,037)</b>
<b>General revenue:</b>							
Taxes:							
Town sales tax					209,503	-	209,503
Franchise fees					16,475	-	16,475
State sales tax					79,470	-	79,470
Auto lieu tax					61,554	-	61,554
State revenue sharing					167,194	-	167,194
Investment income					3,153	588	3,741
Miscellaneous					2,066	-	2,066
Total general revenue					539,415	588	540,003
Change in net position					(271,583)	171,549	(100,034)
Net position, beginning of year					3,592,822	2,684,837	6,277,659
Net position, end of year					\$ 3,321,239	\$ 2,856,386	\$ 6,177,625

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 790,368	\$ -	\$ 3,194	\$ 793,562
Due from other governments	25,694	7,480	-	33,174
Prepaid expenses	18,933	18,933	-	37,866
Due from other funds	102,862	-	-	102,862
<b>Total assets</b>	<b>\$ 937,857</b>	<b>\$ 26,413</b>	<b>\$ 3,194</b>	<b>\$ 967,464</b>
<b>Liabilities</b>				
Accounts payable	\$ 24,380	\$ -	\$ -	\$ 24,380
Accrued expenses	2,693	1,746	-	4,439
Due to other funds	-	20,941	-	20,941
<b>Total liabilities</b>	<b>27,073</b>	<b>22,687</b>	<b>-</b>	<b>49,760</b>
<b>Fund balances</b>				
Nonspendable	25,694	3,726	-	29,420
Restricted for:				
Court enhancement	24,831	-	-	24,831
Library	-	-	3,194	3,194
Unassigned	860,259	-	-	860,259
<b>Total fund balance</b>	<b>910,784</b>	<b>3,726</b>	<b>3,194</b>	<b>917,704</b>
<b>Total liabilities and fund balance</b>	<b>\$ 937,857</b>	<b>\$ 26,413</b>	<b>\$ 3,194</b>	<b>\$ 967,464</b>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**June 30, 2014**

Fund balances--total governmental funds	\$ 917,704
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.	2,436,892
Some liabilities, are not due and payable in the current period and therefore, are not reported in the funds	<u>(33,357)</u>
Net position of governmental activities	<u><u>\$ 3,321,239</u></u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2014**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$ 333,507	\$ 80,073	\$ -	\$ 413,580
Taxes	209,503	-	-	209,503
Fines and forfeitures	117,658	-	-	117,658
Charges for services	27,720	-	-	27,720
Licenses and permits	19,795	-	-	19,795
Franchise fees	16,475	-	-	16,475
Other revenue	15,968	-	-	15,968
Investment income	2,909	244	-	3,153
<b>Total revenues</b>	<b>743,535</b>	<b>80,317</b>	<b>-</b>	<b>823,852</b>
<b>Expenditures</b>				
Current				
General government	206,433	-	-	206,433
Public safety	399,943	-	-	399,943
Highways and streets	-	118,941	-	118,941
Culture and recreation	157,588	-	-	157,588
<b>Total expenditures</b>	<b>763,964</b>	<b>118,941</b>	<b>-</b>	<b>882,905</b>
Net change in fund balances	(20,429)	(38,624)	-	(59,053)
Fund balance, beginning of year	931,213	42,350	3,194	976,757
Fund balance, end of year	<u>\$ 910,784</u>	<u>\$ 3,726</u>	<u>\$ 3,194</u>	<u>\$ 917,704</u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Reconciliation of the Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**Year Ended June 30, 2014**

Net change in fund balances—total governmental funds	\$ (59,053)
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. Depreciation expense	(208,528)
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.	<u>(4,002)</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ (271,583)</u></u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 294,467	\$ -	\$ 294,467
Accounts receivable-net	26,691	16,015	42,706
Due from other governments	104,133	-	104,133
Prepaid expenses	18,933	-	18,933
Total current assets	<u>444,224</u>	<u>16,015</u>	<u>460,239</u>
Noncurrent assets			
Deposit	26,857	-	26,857
Cash, restricted	11,371	7,022	18,393
Capital assets, net of accumulated depreciation, where applicable:			
Land	30,540	120,000	150,540
Utilities systems	2,306,088	569,980	2,876,068
Equipment	66,383	164,817	231,200
Capital assets, net	<u>2,403,011</u>	<u>854,797</u>	<u>3,257,808</u>
Total noncurrent assets	<u>2,441,239</u>	<u>861,819</u>	<u>3,303,058</u>
Total assets	<u>2,885,463</u>	<u>877,834</u>	<u>3,763,297</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	226,044	2,418	228,462
Refundable deposits	11,371	7,022	18,393
Compensated absences	5,689	3,016	8,705
Due to other funds	-	81,921	81,921
Notes payable, current	10,530	16,830	27,360
Total current liabilities	<u>253,634</u>	<u>111,207</u>	<u>364,841</u>
Noncurrent liabilities			
Estimated liability for landfill closure	-	252,324	252,324
Note payable	91,613	205,482	297,095
Total noncurrent liabilities	<u>91,613</u>	<u>457,806</u>	<u>549,419</u>
Total liabilities	<u>345,247</u>	<u>569,013</u>	<u>914,260</u>
<b>Net position</b>			
Net investment in capital assets	2,300,868	632,485	2,933,353
Restricted for debt service	26,857	-	26,857
Unrestricted (deficit)	212,491	(323,664)	(111,173)
Total net position	<u>\$ 2,540,216</u>	<u>\$ 308,821</u>	<u>\$ 2,849,037</u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Revenue, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Operating revenue</b>			
Water (net of bad debts of \$40)	\$ 120,058	\$ -	\$ 120,058
Sewer (net of bad debts of \$67)	156,547	-	156,547
Sanitation (net of bad debts of \$50)	-	171,525	171,525
Total operating revenue	<u>276,605</u>	<u>171,525</u>	<u>448,130</u>
<b>Operating expenses</b>			
Personnel	118,529	64,579	183,108
Depreciation	89,993	31,921	121,914
Supplies	63,722	18,169	81,891
Contract services	68,617	3,349	71,966
Utilities	37,811	1,121	38,932
Repairs and maintenance	17,270	12,578	29,848
Insurance	11,541	3,572	15,113
Other	11,636	-	11,636
Travel and training	443	-	443
Landfill closure expense	-	33,436	33,436
Total operating expenses	<u>419,562</u>	<u>168,725</u>	<u>588,287</u>
Operating income (loss)	<u>(142,957)</u>	<u>2,800</u>	<u>(140,157)</u>
<b>Nonoperating revenue (expenses)</b>			
Investment income	557	31	588
Interest expense	(3,676)	(9,529)	(13,205)
Total nonoperating revenue (expenses)	<u>(3,119)</u>	<u>(9,498)</u>	<u>(12,617)</u>
Income (loss) before capital grant contribution	(146,076)	(6,698)	(152,774)
Capital grant contribution	<u>316,974</u>	<u>-</u>	<u>316,974</u>
Increase (decrease) in net position	170,898	(6,698)	164,200
Total net position, beginning of year	<u>2,369,318</u>	<u>315,519</u>	<u>2,684,837</u>
Total net position, end of year	<u>\$ 2,540,216</u>	<u>\$ 308,821</u>	<u>\$ 2,849,037</u>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 275,879	\$ 167,642	\$ 443,521
Payments to suppliers	(216,589)	(54,188)	(270,777)
Payments to employees	(86,332)	(47,046)	(133,378)
<b>Net cash provided (used) by operating activities</b>	<u>(27,042)</u>	<u>66,408</u>	<u>39,366</u>
<b>Cash Flows from Non-capital Financing Activities</b>			
Received from other funds	-	81,921	81,921
<b>Net cash provided (used) by non-capital financing activities</b>	<u>-</u>	<u>81,921</u>	<u>81,921</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(238,959)	(161,024)	(399,983)
Contributions from capital grants	236,119	-	236,119
Interest payments on note payable	(3,676)	(9,529)	(13,205)
Principal payments on note payable	(10,178)	(16,151)	(26,329)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(16,694)</u>	<u>(186,704)</u>	<u>(203,398)</u>
<b>Cash Flows from Investing Activities</b>			
Interest received	557	31	588
<b>Net cash provided (used) by investing activities</b>	<u>557</u>	<u>31</u>	<u>588</u>
Net increase (decrease) in cash and cash equivalents	(43,179)	(38,344)	(81,523)
Cash and cash equivalents, beginning of year	<u>349,017</u>	<u>45,366</u>	<u>394,383</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 305,838</u>	<u>\$ 7,022</u>	<u>\$ 312,860</u>
Cash and cash equivalents	\$ 294,467	\$ -	\$ 294,467
Cash, restricted	11,371	7,022	18,393
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 305,838</u>	<u>\$ 7,022</u>	<u>\$ 312,860</u>

**NON-CASH INVESTING AND FINANCING ACTIVITIES** - The Town had purchased \$192,989 of capital assets on account in the Water/Wastewater Fund.

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**  
*(Continued)*

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Operating income (loss)	\$ (142,957)	\$ 2,800	\$ (140,157)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	89,993	31,921	121,914
Bad debt	107	50	157
(Increase) decrease in:			
Accounts receivable	(1,565)	(5,195)	(6,760)
Prepaid expenses	(307)	-	(307)
Increase (decrease) in:			
Accounts payable	25,490	1,795	27,285
Refundable deposits	732	1,262	1,994
Compensated absences	1,465	639	2,104
Estimated liability for landfill closure	-	33,136	33,136
<b>Total adjustments</b>	<b>115,915</b>	<b>63,608</b>	<b>179,523</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (27,042)</b>	<b>\$ 66,408</b>	<b>\$ 39,366</b>

*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

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

**A. Reporting Entity**

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government) and its component units.

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town. The blended component unit discussed below has a June 30 year-end. The Town has no discretely presented component units.

**The Town of Patagonia Municipal Property Corporation** is a nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the Town of Patagonia, Arizona, in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all Town of Patagonia, Arizona, residents. The Corporation's board of directors consists of three members appointed by the Patagonia Town Council.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

**B. Basis of Presentation**

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Town as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the Town's funds. Separate statements are presented for governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

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

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and Arizona Lottery proceeds, which is legally restricted to expenditures for authorized transportation purposes.

The ***Grants Fund*** accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor. The Town's grants include various public safety grants, library grants, and general improvement grants.

The Town reports the following major enterprise funds:

The ***Water/Wastewater*** and ***Solid Waste Funds*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**C. Basis of Accounting**

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

**D. Cash and Investments**

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**E. Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts receivable in the Liquid Waste Fund and the Solid Waste Fund are estimated by the Town. The amounts recorded as uncollectible in the Water/Wastewater and Solid Waste Funds at June 30, 2014 totaled \$13,000 and \$6,700, respectively.

**F. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

**G. Compensated Absences**

Compensated absences consist of vacation leave earned by employees based on services already rendered.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Employees may accumulate up to 240 hours of vacation hours depending on their years of service. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 360 hours of sick leave hours but any sick hours in excess of the maximum amount that are unused at year-end are forfeited. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

**H. Capital Assets**

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life (years)</u>
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-line	40
Parks	5,000	Straight-line	40
Streets	5,000	Straight-line	20-30
Sewer collection system	5,000	Straight-line	10-40
Furniture and fixtures	5,000	Straight-line	5-10
Equipment	5,000	Straight-line	5-10

**I. Fund Balance Reporting**

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process.

The Town's policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

**J. Impact of Recently Issued Accounting Principles**

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town’s allowable deposits or investments and which address the specific types of risk to which the Town is exposed such as interest rate risk, credit risk, and custodial credit risk.

*Deposits* – At June 30, 2014, the carrying amount of the Town’s total cash in bank was \$163,519 and the bank balance was \$216,393. The entire bank balance was fully insured by the Federal Deposit Insurance Corporation (FDIC).

Restricted cash in the proprietary fund financial statements and the business-type activities in the government-wide financial statements of \$18,393 consists of cash restricted for customer utility deposits.

*Investments* – At June 30, 2014, the investments consisted of the following:

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 815,299	\$ 815,299
Arizona LGIP Pool 7	N/A	Unrated	90,598	90,598
Arizona LGIP Pool 500	N/A	Unrated	34,791	34,791
			<u>\$ 940,688</u>	<u>\$ 940,688</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the Town’s name, or were held by the Town or its agent in the Town’s name.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments in the governmental funds at June 30, 2014 included \$7,645 in state-shared revenue from sales taxes, \$10,196 in town sales taxes collected by the State of Arizona, \$2,528 in county-shared revenue from auto lieu taxes, \$5,325 in county library grants, and \$7,480 in state-shared revenue from highway user revenue fund (HURF) taxes.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
<b>Total capital assets not being depreciated</b>	<b>355,867</b>	<b>-</b>	<b>-</b>	<b>355,867</b>
Capital assets being depreciated:				
Equipment	433,529	-	-	433,529
Buildings	1,824,136	-	-	1,824,136
Parks	239,409	-	-	239,409
Streets	3,475,263	-	-	3,475,263
<b>Total</b>	<b>5,972,337</b>	<b>-</b>	<b>-</b>	<b>5,972,337</b>
Less accumulated depreciation for:				
Equipment	(365,677)	(23,013)	-	(388,690)
Buildings	(766,836)	(62,689)	-	(829,525)
Parks	(195,880)	(8,733)	-	(204,613)
Streets	(2,354,391)	(114,093)	-	(2,468,484)
<b>Total</b>	<b>\$ (3,682,784)</b>	<b>\$ (208,528)</b>	<b>\$ -</b>	<b>(3,891,312)</b>
<b>Total capital assets being depreciated, net</b>	<b>2,289,553</b>	<b>(208,528)</b>	<b>-</b>	<b>2,081,025</b>
Governmental activities capital assets, net	<b>\$ 2,645,420</b>	<b>\$ (208,528)</b>	<b>\$ -</b>	<b>\$ 2,436,892</b>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2014</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 150,540	\$ -	\$ -	\$ 150,540
Construction in progress	12,303	392,597	-	404,900
<b>Total capital assets not       being depreciated</b>	<u>162,843</u>	<u>392,597</u>	<u>-</u>	<u>555,440</u>
Capital assets being depreciated:				
Land improvements	738,732	-	-	738,732
Buildings	1,737,224	-	-	1,737,224
Sewer collection system	1,094,387	-	-	1,094,387
Machinery and equipment	441,518	200,375	-	641,893
<b>Total</b>	<u>4,011,861</u>	<u>200,375</u>	<u>-</u>	<u>4,212,236</u>
Less accumulated depreciation for:				
Land improvements	(144,127)	(24,625)	-	(168,752)
Buildings	(408,792)	(43,431)	-	(452,223)
Sewer collection system	(439,867)	(38,333)	-	(478,200)
Machinery and equipment	(395,168)	(15,525)	-	(410,693)
<b>Total</b>	<u>\$ (1,387,954)</u>	<u>\$ (121,914)</u>	<u>\$ -</u>	<u>(1,509,868)</u>
<b>Total capital assets       being depreciated, net</b>	<u>2,623,907</u>	<u>78,461</u>	<u>-</u>	<u>2,702,368</u>
Business-type activities capital assets, net	<u>\$ 2,786,750</u>	<u>\$ 471,058</u>	<u>\$ -</u>	<u>\$ 3,257,808</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 43,742
Public safety	21,830
Highways and streets	114,093
Culture and recreation	28,863
Total governmental activities depreciation expense	<u>\$ 208,528</u>
Business-type activities:	
Water/Wastewater	\$ 89,993
Solid Waste	31,921
Total business-type activities depreciation expense	<u>\$ 121,914</u>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 29,355	\$ 4,002	\$ -	\$ 33,357	\$ 33,357
Governmental activities long-term liabilities	<u>\$ 29,355</u>	<u>\$ 4,002</u>	<u>\$ -</u>	<u>\$ 33,357</u>	<u>\$ 33,357</u>
Business-type activities:					
Compensated absences payable	\$ 6,601	\$ 2,104	\$ -	\$ 8,705	\$ 8,705
Landfill closure costs	219,188	33,436	-	252,624	-
Notes payable	350,784	-	26,329	324,455	27,360
Business-type activities long-term liabilities	<u>\$ 576,573</u>	<u>\$ 35,540</u>	<u>\$ 26,329</u>	<u>\$ 585,784</u>	<u>\$ 36,065</u>

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2014.

Year Ending June 30	Business Activities	
	Notes Payable	
	Principal	Interest
2015	\$ 27,360	\$ 12,173
2016	28,434	11,100
2017	29,549	9,984
2018	30,708	8,825
2019	31,914	7,620
2020-2024	158,166	18,791
2025-2029	18,324	181
Total	<u>\$ 324,455</u>	<u>\$ 68,674</u>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 5 – LONG-TERM LIABILITIES – Continued**

Notes payable consisted of the following:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<u>Business-type Activities</u>				
Note payable - Water Infrastructure Finance Authority of Arizona	\$ 375,000	2002-2021	3.420%	\$ 102,143
Note payable - United States Department of Agriculture	<u>400,000</u>	2009-2025	4.125%	<u>222,312</u>
	<u>\$ 775,000</u>			<u>\$ 324,455</u>

**NOTE 6 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 7 – RETIREMENT PLANS**

Plan Descriptions – The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents

The *Arizona State Retirement System* (ASRS) administers cost-sharing multiple-employer defined benefit pension, health insurance premium, and long-term disability plans that cover employees of the State of Arizona and participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 7 – RETIREMENT PLANS – Continued***

provisions of A.R.S. Title 38, Chapter 5, Article 2. The system issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling (602) 240-2000 or 1 (800) 621-3778.

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multiple-employer defined benefit pension and health insurance premium plans that cover public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

**Funding Policy** – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates for both ASRS and PSPRS.

**Cost-sharing plans** – For the year ended June 30, 2014, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2014, 2013, and 2012, were \$32,393, \$29,837, and \$26,930, respectively, which were equal to the required contributions for the year.

**Agent plans** – For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 23.37 percent, of which 0.85 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below provides multiyear trend information that shows whether the actuarial

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 7 – RETIREMENT PLANS – Continued**

value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the Town of Patagonia, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Payroll growth	5.00%

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension	2014	\$ 22,169	100 %	\$ -
	2013	22,480	100	-
	2012	2,920	100	-
Health Insurance	2014	\$ 1,072	100 %	\$ -
	2013	947	100	-
	2012	500	100	-

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2014, and the previous two fiscal years. The fiscal year 2014 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2013 actuarial methods and assumptions.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 7 – RETIREMENT PLANS – Continued**

**Pension**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 575,219	\$ 1,162,051	\$ (586,832)	49.5 %	\$ 101,139	580.2 %
6/30/2013	622,692	863,857	(241,165)	72.1	51,965	464.1
6/30/2012	652,781	855,287	(202,506)	76.3	114,419	177.0

**Health Insurance**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 27,427	\$ 2,113	\$ 25,314	1298.0 %	\$ 101,139	0.0 %
6/30/2013	-	1,338	(1,338)	0.0	51,965	2.6
6/30/2012	-	1,381	(1,381)	0.0	114,419	1.2

**NOTE 8 – CLOSURE AND POSTCLOSURE COSTS**

State and federal laws and regulations require the Town to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the Town 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 \$252,324 reported as landfill closure and post closure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 38 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$644,671 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2013-2014. The Town expects to close the landfill in the year 2050, and the actual cost may be higher due to inflation, changes in technology, and changes in regulations.

The Town of Patagonia, Arizona is required to file certain information relating to the landfill closure, postclosure, and monitoring with the State of Arizona Department of Environmental Quality (ADEQ). The required information was filed with the State subsequent to June 30, 2014.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 9 – CONTINGENT LIABILITIES***

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

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**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 327,124	\$ 327,124	\$ 333,507	\$ 6,383
Taxes	205,000	205,000	209,503	4,503
Fines and forfeitures	93,400	93,400	117,658	24,258
Charges for services	28,980	28,980	27,720	(1,260)
Licenses and permits	32,500	32,500	19,795	(12,705)
Franchise fees	20,000	20,000	16,475	(3,525)
Other revenue	71,750	71,750	15,968	(55,782)
Investment income	3,000	3,000	2,909	(91)
<b>Total revenues</b>	<u>781,754</u>	<u>781,754</u>	<u>743,535</u>	<u>(38,219)</u>
<b>Expenditures</b>				
Current				
General government	240,810	240,810	206,433	34,377
Public safety	455,415	455,415	399,943	55,472
Culture and recreation	136,799	136,799	157,588	(20,789)
<b>Total expenditures</b>	<u>833,024</u>	<u>833,024</u>	<u>763,964</u>	<u>69,060</u>
Net change in fund balances	(51,270)	(51,270)	(20,429)	30,841
Fund balance, beginning of year	<u>931,213</u>	<u>931,213</u>	<u>931,213</u>	<u>-</u>
Fund balance, end of year	<u>\$ 879,943</u>	<u>\$ 879,943</u>	<u>\$ 910,784</u>	<u>\$ 30,841</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF/LTAF Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 81,530	\$ 81,530	\$ 80,073	\$ (1,457)
Investment income	-	-	244	244
<b>Total revenues</b>	<u>81,530</u>	<u>81,530</u>	<u>80,317</u>	<u>(1,213)</u>
<b>Expenditures</b>				
Current				
Highways and streets	142,498	142,498	118,941	23,557
Net change in fund balances	(60,968)	(60,968)	(38,624)	22,344
Fund balance, beginning of year	42,350	42,350	42,350	-
Fund balance, end of year	<u>\$ (18,618)</u>	<u>\$ (18,618)</u>	<u>\$ 3,726</u>	<u>\$ 22,344</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
<b>Expenditures</b>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Culture and recreation	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>3,194</u>	<u>3,194</u>	<u>3,194</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 3,194</u></u>	<u><u>\$ 3,194</u></u>	<u><u>\$ 3,194</u></u>	<u><u>\$ -</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2014**

***NOTE 1 – BUDGETING AND BUDGETARY CONTROL***

Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Councils' approval.