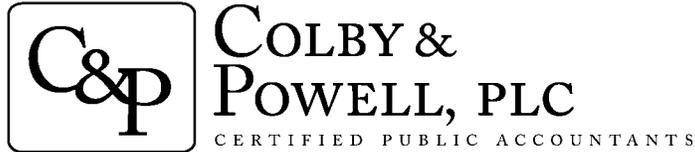


TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Patagonia, 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 Patagonia, Arizona, as of and for the year ended June 30, 2011, 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 of Patagonia, Arizona's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

We were unable to assure ourselves of the valuation of the estimated liability for landfill closure in the Solid Waste Fund and the business-type activities in the amount of \$108,150.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the estimated liability for landfill closure in the Solid Waste Fund and the business-type activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Solid Waste Fund and the business-type activities of the Town of Patagonia, Arizona as of June 30, 2011, 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.

In addition, in our opinion the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the General

Fund, the HURF/LTAF Fund, the Grants Fund, and the Water/Wastewater Fund of the Town of Patagonia, Arizona, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, on our consideration of the Town of Patagonia, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of agent retirement plan funding progress on pages 3 through 8, pages 33 through 36, and on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

March 30, 2012

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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, 2011. The Town has two major parts to its financial statements. One part is the "government wide" statements combining all operations carried out by the town. The second part is the "fund accounting", again in two parts. One part is the "Governmental Activities" which represents the normal governmental activities of administration, public safety, etc. and actually consists of three funds, the General Fund, the HURF/LTAF fund representing highway user and lottery revenues and a Grants Fund representing intergovernmental grants from other agencies and entities. The other "Business-type Activities" is the Proprietary Fund representing the Town Water, Sewer and Solid Waste Utility, a fund which operates on the utility revenues like a business.

Highlights, Fiscal Year 2011

- It would be entirely accurate to state that there were no highlights for Fiscal Year 2011 as the severe economic times continued and Patagonia's reliance on sales taxes and shared revenues combined to continue and even increase the problems of the previous 3 years.
- Total expenses for both Governmental and Proprietary activities were up about \$48,889 with the increases split evenly between "Governmental" where it was driven by a major increase in legal fees, and "Proprietary", where it reflected increased costs for laboratory testing, State governmental fees and chemical and fuel supplies.

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Condensed Government-wide financial information and Condensed Financial Information comparing current year with prior years:

| Statement of Assets and Liabilities, all funds | Governmental Activities | Utility (Business-type) Activities |
|--|-------------------------|------------------------------------|
| Assets | | |
| cash | \$999,035 | \$429,541 |
| other assets | 69,650 | 95,784 |
| capital assets Net | 3,037,904 | 2,861,983 |
| Total Assets | 4,106,589 | 3,387,308 |
| | | |
| Liabilities | 40,338 | 561,443 |
| current liabilities (1 yr) | 40,338 | 64,519 |
| long term liabilities | - | 496,924 |
| | | |
| Net Assets | | |
| investment in capital | 3,037,904 | 2,436,490 |
| restricted net assets | 126,687 | - |
| unrestricted net assets | 901,660 | 389,375 |
| Total Net Assets | \$4,066,251 | \$2,825,865 |

Changes in Net Assets FY 2008 to FY 2011

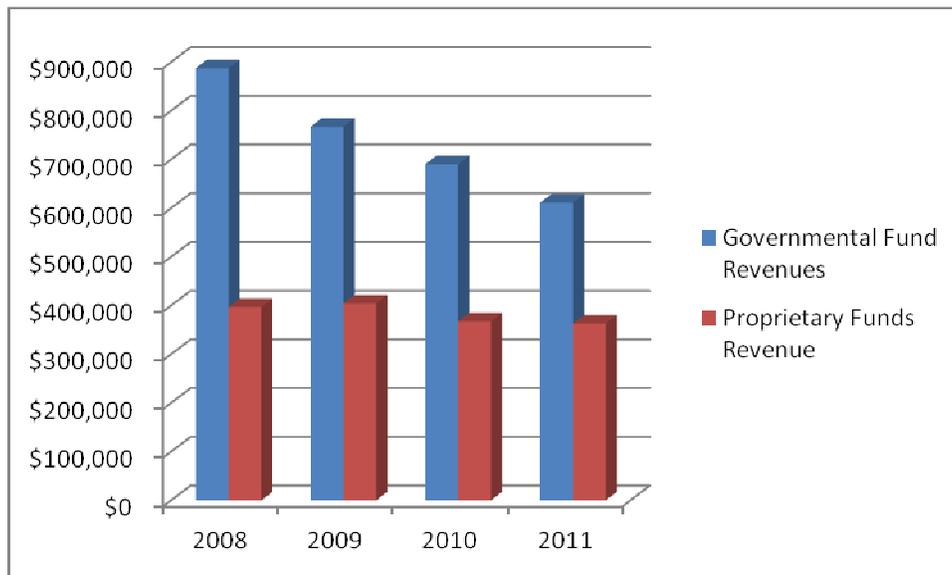
| | Govt. Act. Net Assets | Bus-type Net Assets | Total Net Assets |
|------|-----------------------|---------------------|------------------|
| 2008 | \$ 4,285,198 | \$ 2,690,899 | \$ 6,976,097 |
| 2009 | 4,500,990 | 2,922,314 | 7,423,304 |
| 2010 | 4,247,159 | 2,886,575 | 7,133,734 |
| 2011 | \$ 4,066,251 | \$ 2,825,865 | \$ 6,892,116 |

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

4 Year Comparison of Revenues by Major Source

| | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Governmental Fund Revenues | | | | |
| Local Sales Taxes | \$ 242,218 | \$ 190,942 | \$ 163,963 | \$ 158,776 |
| Intergovernmental net of grants | 505,523 | 444,157 | 408,035 | 351,807 |
| Charges for Services | 27,464 | 27,883 | 28,499 | 28,645 |
| Franchise Fees | 24,972 | 28,155 | 28,067 | 23,569 |
| Other revenue | 16,457 | 7,325 | 9,859 | 17,871 |
| Fines and forfeitures | 21,727 | 52,177 | 28,482 | 14,059 |
| Licenses and Permits | 12,405 | 16,189 | 10,179 | 13,867 |
| Investment Income | 36,693 | 334 | 13,324 | 2,652 |
| Total | \$ 887,459 | \$ 767,162 | \$ 690,408 | \$ 611,246 |
| | | | | |
| Proprietary Funds Revenue | | | | |
| Water | \$ 113,019 | \$ 116,077 | \$ 93,519 | \$ 93,952 |
| Sewer | 163,497 | 161,379 | 152,686 | 147,873 |
| SolidWaste | 120,246 | 128,743 | 121,518 | 121,220 |
| Total | \$ 396,762 | \$ 406,199 | \$ 367,723 | \$ 363,045 |

Comparison of Revenues by Source



TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Annual Expenditures by Major Account

The following chart shows a comparison of annual expenditures or expenses by major account. The loss of much of the revenue that has traditionally been available for highway purposes is particularly evident.

| | 2009 | 2010 | 2011 |
|-------------------------------------|------------|------------|------------|
| Government Fund Expenditures | | | |
| General Government | \$ 243,422 | \$ 226,560 | \$ 283,055 |
| Public Safety | 325,983 | 329,710 | 276,892 |
| Highways and Street | 174,169 | 95,467 | 103,645 |
| Culture and Recreation | 121,214 | 134,308 | 120,892 |
| Capital Outlay | 455,142 | 2,704 | - |
| Proprietary Fund Expenses | | | |
| Water, Sewer, Solid Waste | \$ 399,530 | \$ 408,820 | \$ 437,675 |

Analysis of Overall Financial Position and Results of Operations

The following chart shows how the Town's cash reserves have been reduced as cash reserves have been used to balance the budget over the past years as the flow of State shared revenues has been diverted. The Town was fortunate to have healthy reserves heading into the economic downturn or it would have been necessary to drastically reduce services. As it is, there has been no money for street resurfacing. Some modest increases in utility revenues have helped offset increases in costs of energy and chemicals.

Cash and Equivalents - All Funds

| | Gov Act | Bus-type Act | Total |
|------|--------------|--------------|--------------|
| 2009 | \$ 1,131,042 | \$ 399,461 | \$ 1,530,503 |
| 2010 | 1,163,126 | 428,369 | 1,591,495 |
| 2011 | \$ 999,035 | \$ 443,046 | \$ 1,442,081 |

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

Governmental and Utility revenues were all at or below the budgeted amounts; the one with the most variation was local sales taxes which are, of course, entirely dependent on how many people come to town and shop.

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Revenues - Budget vs. Actual

| Governmental Funds Revenues | Budget | Actual |
|-----------------------------|------------|------------|
| Local Sales Taxes | \$ 170,596 | \$ 158,776 |
| Intergovernmental | 273,638 | 272,665 |
| Charges for Services | 29,000 | 28,645 |
| Franchise Fees | 24,994 | 23,569 |
| Other revenue | 305,000 | 13,476 |
| Fines and forfeitures | 27,000 | 14,059 |
| Licenses and Permits | 11,398 | 13,867 |
| Investment Income | 6,000 | 2,462 |
| Total | \$ 847,626 | \$ 527,519 |
| | | |
| Proprietary Funds Revenue | | |
| Water | \$ 103,192 | \$ 93,952 |
| Sewer | 155,824 | 147,873 |
| Solid Waste | 125,390 | 121,220 |
| Total | \$ 384,406 | \$ 363,045 |

Expenditures or expenses - Budget vs. Actual

| | 2011 Budget | 2011 Actual |
|---------------------------------|-------------|-------------|
| Government Funds (expenditures) | | |
| General Government | \$ 285,469 | \$ 283,055 |
| Public Safety | 314,333 | 276,892 |
| Highways and Street | 194,861 | 103,645 |
| Culture and Recreation | 126,986 | 120,892 |
| Capital Outlay | 350,000 | - |
| Proprietary Funds (expenses) | | |
| Water, Sewer, Solid Waste | \$ 559,840 | \$ 437,675 |

Principal budget variations were caused by charges for legal fees resulting from the Town's termination of several employees and from lawsuits concerning the actions of those employees.

Description of Capital Asset and Long-term Debt Activity during FY 2011

Patagonia had no capital asset or long term debt activity during FY 2011 except the continued payment on the two utility debt bond issues. Funding is now in place for the Town to undertake major capital improvements during the next two years.

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Description of Currently Known Facts, Decisions and Conditions Expected to have a Significant Effect on next year and beyond. The most significant fact expected to have an effect on Patagonia's finances is the continuation of the "economic distress" which is keeping sales tax revenues lower than in previous years.

Also of major significance for the Town over the next couple of years is the use of grants and loans totaling about \$1 million which will be used for major upgrades to Patagonia's water system including providing a backup connection to the reservoirs and flood protection for the existing wells.

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 Avenue, Patagonia, AZ 85624 or by calling 520 394 2229. Budget information is also available at the town website www.townofpatagonia.com.

TOWN OF PATAGONIA, ARIZONA
Statement of Net Assets
June 30, 2011

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 999,035 | \$ 429,541 | \$ 1,428,576 |
| Accounts receivable | - | 36,385 | 36,385 |
| Taxes receivable | 2,790 | - | 2,790 |
| Due from other governments | 31,760 | 1,487 | 33,247 |
| Prepaid expenses | 35,100 | 17,550 | 52,650 |
| Deposits | - | 26,857 | 26,857 |
| Cash, restricted | - | 13,505 | 13,505 |
| Capital assets, not being depreciated | 355,867 | 150,540 | 506,407 |
| Capital assets, being depreciated, net | <u>2,682,037</u> | <u>2,711,443</u> | <u>5,393,480</u> |
| Total assets | <u>4,106,589</u> | <u>3,387,308</u> | <u>7,493,897</u> |
| LIABILITIES | | | |
| Accounts payable | 14,781 | 8,285 | 23,066 |
| Accrued expenses | 2,058 | - | 2,058 |
| Refundable deposits | - | 13,505 | 13,505 |
| Compensated absences | | | |
| Due within 1 year | 23,499 | 6,010 | 29,509 |
| Noncurrent liabilities | | | |
| Due within 1 year | - | 36,719 | 36,719 |
| Due in more than 1 year | <u>-</u> | <u>496,924</u> | <u>496,924</u> |
| Total liabilities | <u>40,338</u> | <u>561,443</u> | <u>601,781</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 3,037,904 | 2,436,490 | 5,474,394 |
| Restricted for: | | | |
| Highways and streets | 105,222 | - | 105,222 |
| Court enhancement | 11,437 | - | 11,437 |
| Library | 10,028 | - | 10,028 |
| Unrestricted (deficit) | <u>901,660</u> | <u>389,375</u> | <u>1,291,035</u> |
| Total net assets | <u>\$ 4,066,251</u> | <u>\$ 2,825,865</u> | <u>\$ 6,892,116</u> |

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2011

| Functions / Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 329,103 | \$ 38,192 | \$ 200 | \$ - | \$ (290,711) | \$ - | \$ (290,711) |
| Public safety | 294,587 | 14,059 | - | 5,460 | (275,068) | - | (275,068) |
| Highways and streets | 227,009 | - | 79,142 | - | (147,867) | - | (147,867) |
| Culture and recreation | 154,382 | 4,320 | 32,123 | 185,637 | 67,698 | - | 67,698 |
| Total governmental activities | <u>1,005,081</u> | <u>56,571</u> | <u>111,465</u> | <u>191,097</u> | <u>(645,948)</u> | <u>-</u> | <u>(645,948)</u> |
| Business-type activities | | | | | | | |
| Water/wastewater | 302,314 | 241,825 | 13,422 | - | - | (47,067) | (47,067) |
| Solid waste | 135,361 | 121,220 | - | - | - | (14,141) | (14,141) |
| Total business-type activities | <u>437,675</u> | <u>363,045</u> | <u>13,422</u> | <u>-</u> | <u>-</u> | <u>(61,208)</u> | <u>(61,208)</u> |
| Total primary government | <u>\$ 1,442,756</u> | <u>\$ 419,616</u> | <u>\$ 124,887</u> | <u>\$ 191,097</u> | <u>(645,948)</u> | <u>(61,208)</u> | <u>(707,156)</u> |
| General revenue: | | | | | | | |
| Taxes: | | | | | | | |
| Town sales tax | | | | | 158,776 | - | 158,776 |
| Franchise fees | | | | | 23,569 | - | 23,569 |
| State sales tax | | | | | 70,336 | - | 70,336 |
| Auto lieu tax | | | | | 56,330 | - | 56,330 |
| State revenue sharing | | | | | 145,999 | - | 145,999 |
| Investment income | | | | | 2,652 | 498 | 3,150 |
| Miscellaneous | | | | | 7,378 | - | 7,378 |
| Total general revenue | | | | | <u>465,040</u> | <u>498</u> | <u>465,538</u> |
| Change in net assets | | | | | (180,908) | (60,710) | (241,618) |
| Net assets, July 1, 2010 | | | | | <u>4,247,159</u> | <u>2,886,575</u> | <u>7,133,734</u> |
| Net assets, June 30, 2011 | | | | | <u>\$ 4,066,251</u> | <u>\$ 2,825,865</u> | <u>\$ 6,892,116</u> |

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

| | General Fund | HURF/LTAF Fund | Grants Fund | Total Governmental Funds |
|---|-------------------|-------------------|------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 887,865 | \$ 100,687 | \$ 10,483 | \$ 999,035 |
| Taxes receivable | 2,790 | - | - | 2,790 |
| Due from other governments | 19,807 | 6,628 | 5,325 | 31,760 |
| Prepaid expenses | 17,550 | 17,550 | - | 35,100 |
| Total assets | <u>928,012</u> | <u>124,865</u> | <u>15,808</u> | <u>1,068,685</u> |
| Liabilities | | | | |
| Accounts payable | 12,522 | 2,093 | 166 | 14,781 |
| Accrued expenses | 2,058 | - | - | 2,058 |
| Total liabilities | <u>14,580</u> | <u>2,093</u> | <u>166</u> | <u>16,839</u> |
| Fund balances | | | | |
| Restricted for: | | | | |
| Highways and streets | - | 105,222 | - | 105,222 |
| Court enhancement | 11,437 | - | - | 11,437 |
| Library | - | - | 10,028 | 10,028 |
| Nonspendable | 17,550 | 17,550 | - | 35,100 |
| Unassigned | 884,445 | - | 5,614 | 890,059 |
| Total fund balance | <u>913,432</u> | <u>122,772</u> | <u>15,642</u> | <u>1,051,846</u> |
| Total liabilities and fund balance | <u>\$ 928,012</u> | <u>\$ 124,865</u> | <u>\$ 15,808</u> | <u>\$ 1,068,685</u> |

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 Assets
Governmental Funds
June 30, 2011

Fund balances--total governmental funds \$ 1,051,846

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore, are
not reported in the funds. 3,037,904

Some liabilities, are not due and payable in the current period
and therefore, are not reported in the funds (23,499)

Net assets of governmental activities \$ 4,066,251

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, 2011

| | General Fund | HURF/LTAF Fund | Grants Fund | Total Governmental Funds |
|-----------------------------|-------------------|-------------------|------------------|--------------------------------|
| Revenues | | | | |
| Intergovernmental | \$ 272,665 | \$ 79,142 | \$ 27,155 | \$ 378,962 |
| Taxes | 158,776 | - | - | 158,776 |
| Charges for services | 28,645 | - | - | 28,645 |
| Franchise fees | 23,569 | - | - | 23,569 |
| Other revenue | 13,746 | 2,625 | 1,500 | 17,871 |
| Fines and forfeitures | 14,059 | - | - | 14,059 |
| Licenses and permits | 13,867 | - | - | 13,867 |
| Investment income | 2,462 | 190 | - | 2,652 |
| Total revenues | <u>527,789</u> | <u>81,957</u> | <u>28,655</u> | <u>638,401</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 283,055 | - | - | 283,055 |
| Public safety | 276,892 | - | - | 276,892 |
| Highways and streets | - | 103,645 | - | 103,645 |
| Culture and recreation | 96,621 | - | 24,271 | 120,892 |
| Total expenditures | <u>656,568</u> | <u>103,645</u> | <u>24,271</u> | <u>784,484</u> |
| Net change in fund balances | (128,779) | (21,688) | 4,384 | (146,083) |
| Fund balance, July 1, 2010 | <u>1,042,211</u> | <u>144,460</u> | <u>11,258</u> | <u>1,197,929</u> |
| Fund balance, June 30, 2011 | <u>\$ 913,432</u> | <u>\$ 122,772</u> | <u>\$ 15,642</u> | <u>\$ 1,051,846</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, 2011

| | |
|---|----------------------------|
| Net change in fund balances--total governmental funds | \$ (146,083) |
| 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 | (212,676) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | |
| | 185,772 |
| 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>(7,921)</u> |
| Change in net assets of governmental activities | <u><u>\$ (180,908)</u></u> |

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

TOWN OF PATAGONIA, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011

| | Business-type Activities--Enterprise Funds | | |
|--|--|------------------------|---------------------|
| | Water/ Wastewater Fund | Solid Waste Fund | Total |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 389,862 | \$ 39,679 | \$ 429,541 |
| Accounts receivable-net | 24,207 | 12,178 | 36,385 |
| Due from other governments | 1,487 | - | 1,487 |
| Prepaid expenses | 17,550 | - | 17,550 |
| Total current assets | <u>433,106</u> | <u>51,857</u> | <u>484,963</u> |
| Noncurrent assets | | | |
| Deposit | 26,857 | - | 26,857 |
| Cash, restricted | 9,235 | 4,270 | 13,505 |
| Capital assets, net of accumulated depreciation, where applicable: | | | |
| Land | 30,540 | 120,000 | 150,540 |
| Utilities systems | 2,022,029 | 643,855 | 2,665,884 |
| Equipment | 45,223 | 336 | 45,559 |
| Capital assets, net | <u>2,097,792</u> | <u>764,191</u> | <u>2,861,983</u> |
| Total noncurrent assets | <u>2,133,884</u> | <u>768,461</u> | <u>2,902,345</u> |
| Total assets | <u>2,566,990</u> | <u>820,318</u> | <u>3,387,308</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | 7,511 | 774 | 8,285 |
| Refundable deposits | 9,235 | 4,270 | 13,505 |
| Compensated absences | 4,319 | 1,691 | 6,010 |
| Notes payable, current | 21,845 | 14,874 | 36,719 |
| Total current liabilities | <u>42,910</u> | <u>21,609</u> | <u>64,519</u> |
| Noncurrent liabilities | | | |
| Estimated liability for landfill closure | - | 108,150 | 108,150 |
| Note payable | 134,928 | 253,846 | 388,774 |
| Total noncurrent liabilities | <u>134,928</u> | <u>361,996</u> | <u>496,924</u> |
| Total liabilities | <u>177,838</u> | <u>383,605</u> | <u>561,443</u> |
| Net assets | | | |
| Investment in capital assets, net of related debt | 1,941,019 | 495,471 | 2,436,490 |
| Unrestricted (deficit) | 448,133 | (58,758) | 389,375 |
| Total net assets | <u>\$ 2,389,152</u> | <u>\$ 436,713</u> | <u>\$ 2,825,865</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 Assets
Proprietary Funds
Year Ended June 30, 2011

| | Business-type Activities--Enterprise Funds | | |
|--|--|------------------------|---------------------|
| | Water/ Wastewater Fund | Solid Waste Fund | Total |
| Operating revenue | | | |
| Water (net of bad debts of \$3,150) | \$ 93,952 | \$ - | \$ 93,952 |
| Sewer (net of bad debts of \$3,150) | 147,873 | - | 147,873 |
| Refuse (net of bad debts of \$3,400) | - | 121,220 | 121,220 |
| Total operating revenue | <u>241,825</u> | <u>121,220</u> | <u>363,045</u> |
| Operating expenses | | | |
| Contract services | 22,453 | - | 22,453 |
| Depreciation | 77,494 | 25,196 | 102,690 |
| Insurance | 10,320 | 3,194 | 13,514 |
| Personnel | 73,774 | 61,272 | 135,046 |
| Repairs and maintenance | 6,159 | 13,422 | 19,581 |
| Landfill closure expense | - | 6,445 | 6,445 |
| Supplies | 59,961 | 9,207 | 69,168 |
| Travel and training | 7,389 | 4,798 | 12,187 |
| Utilities | 39,019 | 421 | 39,440 |
| Total operating expenses | <u>296,569</u> | <u>123,955</u> | <u>420,524</u> |
| Operating income (loss) | <u>(54,744)</u> | <u>(2,735)</u> | <u>(57,479)</u> |
| Nonoperating revenue (expenses) | | | |
| Operating grant | 13,422 | - | 13,422 |
| Investment income | 475 | 23 | 498 |
| Interest expense | (5,745) | (11,406) | (17,151) |
| Total nonoperating revenue (expenses) | <u>8,152</u> | <u>(11,383)</u> | <u>(3,231)</u> |
| Increase (decrease) in net assets | <u>(46,592)</u> | <u>(14,118)</u> | <u>(60,710)</u> |
| Total net assets, July 1, 2010 | <u>2,435,744</u> | <u>450,831</u> | <u>2,886,575</u> |
| Total net assets, June 30, 2011 | <u>\$ 2,389,152</u> | <u>\$ 436,713</u> | <u>\$ 2,825,865</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, 2011

| | Business-type Activities--Enterprise Funds | | |
|---|--|------------------------|-------------------|
| | Water/ Wastewater Fund | Solid Waste Fund | Total |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 245,671 | \$ 123,778 | \$ 369,449 |
| Payments to suppliers | (169,856) | (49,082) | (218,938) |
| Payments to employees | (51,823) | (43,908) | (95,731) |
| Net cash provided (used) by operating activities | <u>23,992</u> | <u>30,788</u> | <u>54,780</u> |
| Cash Flows from Non-capital Financing Activities | | | |
| Contributions from operating grants | <u>11,935</u> | <u>-</u> | <u>11,935</u> |
| Net cash provided (used) by non-capital financing activities | <u>11,935</u> | <u>-</u> | <u>11,935</u> |
| Cash Flows from Capital and Related Financing Activities | | | |
| Interest payments on note payable | (5,745) | (11,406) | (17,151) |
| Principal payments on note payable | (21,111) | (14,274) | (35,385) |
| Net cash provided (used) by capital and related financing activities | <u>(26,856)</u> | <u>(25,680)</u> | <u>(52,536)</u> |
| Cash Flows from Investing Activities | | | |
| Interest received | <u>475</u> | <u>23</u> | <u>498</u> |
| Net cash provided (used) by investing activities | <u>475</u> | <u>23</u> | <u>498</u> |
| Net increase (decrease) in cash and cash equivalents | 9,546 | 5,131 | 14,677 |
| Cash and cash equivalents, beginning of year | <u>389,551</u> | <u>38,818</u> | <u>428,369</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 399,097</u> | <u>\$ 43,949</u> | <u>\$ 443,046</u> |
| Cash and cash equivalents | \$ 389,862 | \$ 39,679 | \$ 429,541 |
| Cash, restricted | <u>9,235</u> | <u>4,270</u> | <u>13,505</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 399,097</u> | <u>\$ 43,949</u> | <u>\$ 443,046</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, 2011
(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) | \$ (54,744) | \$ (2,735) | \$ (57,479) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 77,494 | 25,196 | 102,690 |
| Bad debt | 6,300 | 3,400 | 9,700 |
| (Increase) decrease in: | | | |
| Accounts receivable | (386) | (636) | (1,022) |
| Prepaid expenses | (2,625) | - | (2,625) |
| Increase (decrease) in: | | | |
| Accounts payable | (1,434) | 274 | (1,160) |
| Refundable deposits | (2,068) | (206) | (2,274) |
| Compensated absences | 1,455 | (950) | 505 |
| Estimated liability for landfill closure | - | 6,445 | 6,445 |
| Total adjustments | 78,736 | 33,523 | 112,259 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 23,992 | \$ 30,788 | \$ 54,780 |

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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011

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 assets 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, 2011

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, 2011

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.

The Town's business-type activities and enterprise funds follow FASB Statements and Interpretations issued after November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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, 2011 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, 2011

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 (year)</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, 2011

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.

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, 2011, the carrying amount of the Town's total cash in bank was \$51,500 and the bank balance was \$56,245. 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 \$13,505 consists of cash restricted for customer utility deposits.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENT S – Continued

Investments – At June 30, 2011, the investments consisted of the following:

| <u>Investment</u> | <u>Rating Organization</u> | <u>Credit Rating</u> | <u>Reported Amount</u> | <u>Fair Value</u> |
|-----------------------|--------------------------------|--------------------------|----------------------------|-----------------------|
| Arizona LGIP Pool 5 | S&P | AAAf/S1 | \$ 1,263,304 | \$ 1,263,304 |
| Arizona LGIP Pool 7 | N/A | Unrated | 90,390 | 90,390 |
| Arizona LGIP Pool 500 | N/A | Unrated | 33,343 | 33,343 |
| | | | <u>\$ 1,387,037</u> | <u>\$ 1,387,037</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.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2011 included \$6,049 in state-shared revenue from sales taxes, \$8,785 in town sales taxes collected by the State of Arizona, \$4,973 in county-shared revenue from auto lieu taxes, \$6,628 in state-shared revenue from highway user revenue fund (HURF) taxes, and \$5,325 in county library grants.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

| | Balance <u>July 1, 2010</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>June 30, 2011</u> |
|--|--------------------------------|---------------------|------------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 355,867 | \$ - | \$ - | \$ 355,867 |
| Total capital assets not being depreciated | <u>355,867</u> | <u>-</u> | <u>-</u> | <u>355,867</u> |
| Capital assets being depreciated: | | | | |
| Equipment | 386,765 | 5,460 | - | 392,225 |
| Buildings | 1,638,499 | 185,637 | - | 1,824,136 |
| Parks | 239,409 | - | - | 239,409 |
| Streets | 3,475,263 | - | - | 3,475,263 |
| Total | <u>5,739,936</u> | <u>191,097</u> | <u>-</u> | <u>5,931,033</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | (301,972) | (18,593) | - | (320,565) |
| Buildings | (576,273) | (63,351) | - | (639,624) |
| Parks | (165,265) | (10,205) | - | (175,470) |
| Streets | (1,992,810) | (120,527) | - | (2,113,337) |
| Total | <u>\$ (3,036,320)</u> | <u>\$ (212,676)</u> | <u>\$ -</u> | <u>(3,248,996)</u> |
| Total capital assets being depreciated, net | <u>2,703,616</u> | <u>(21,579)</u> | <u>-</u> | <u>2,682,037</u> |
| Governmental activities capital assets, net | <u>\$ 3,059,483</u> | <u>\$ (21,579)</u> | <u>\$ -</u> | <u>\$ 3,037,904</u> |

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 4 – CAPITAL ASSETS – Continued

| | Balance <u>July 1, 2010</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>June 30, 2011</u> |
|--|--------------------------------|---------------------|------------------|---------------------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 150,540 | \$ - | \$ - | \$ 150,540 |
| Total capital assets not being depreciated | <u>150,540</u> | <u>-</u> | <u>-</u> | <u>150,540</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 738,732 | - | - | 738,732 |
| Buildings | 1,737,224 | - | - | 1,737,224 |
| Sewer collection system | 980,094 | - | - | 980,094 |
| Machinery and equipment | 422,679 | - | - | 422,679 |
| Total | <u>3,878,729</u> | <u>-</u> | <u>-</u> | <u>3,878,729</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (70,252) | (24,625) | - | (94,877) |
| Buildings | (278,499) | (43,430) | - | (321,929) |
| Sewer collection system | (346,457) | (26,903) | - | (373,360) |
| Machinery and equipment | (369,388) | (7,732) | - | (377,120) |
| Total | <u>\$ (1,064,596)</u> | <u>\$ (102,690)</u> | <u>\$ -</u> | <u>(1,167,286)</u> |
| Total capital assets being depreciated, net | <u>2,814,133</u> | <u>(102,690)</u> | <u>-</u> | <u>2,711,443</u> |
| Business-type activities capital assets, net | <u>\$ 2,964,673</u> | <u>\$ (102,690)</u> | <u>\$ -</u> | <u>\$ 2,861,983</u> |

Depreciation expense was charged to functions as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 44,068 |
| Public safety | 15,715 |
| Highways and streets | 121,384 |
| Culture and recreation | 31,509 |
| Total governmental activities depreciation expense | <u>\$ 212,676</u> |
| Business-type activities: | |
| Water/Wastewater | \$ 77,494 |
| Solid Waste | 25,196 |
| Total business-type activities depreciation expense | <u>\$ 102,690</u> |

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2011.

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 | Due within 1 year |
|---|-------------------------|------------------|------------------|--------------------------|----------------------|
| Governmental activities: | | | | | |
| Compensated absences payable | \$ 15,578 | \$ 23,865 | \$ 15,944 | \$ 23,499 | \$ 23,499 |
| Governmental activities long-term liabilities | <u>\$ 15,578</u> | <u>\$ 23,865</u> | <u>\$ 15,944</u> | <u>\$ 23,499</u> | <u>\$ 23,499</u> |
| Business-type activities | | | | | |
| Compensated absences payable | \$ 5,505 | \$ 4,030 | \$ 3,525 | \$ 6,010 | \$ 6,010 |
| Landfill closure costs | 101,705 | 6,445 | - | 108,150 | - |
| Notes payable | 460,878 | - | 35,385 | 425,493 | 36,719 |
| Business-type activities long-term liabilities | <u>\$ 568,088</u> | <u>\$ 10,475</u> | <u>\$ 38,910</u> | <u>\$ 539,653</u> | <u>\$ 42,729</u> |

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2011.

| Year Ending June 30 | Business Activities | |
|---------------------------|---------------------|-------------------|
| | Notes Payable | |
| | Principal | Interest |
| 2012 | 36,719 | 15,818 |
| 2013 | 38,104 | 14,433 |
| 2014 | 39,540 | 12,996 |
| 2015 | 41,032 | 11,505 |
| 2016 | 42,580 | 9,957 |
| 2017-2021 | 138,808 | 30,086 |
| 2022-2026 | 88,710 | 7,108 |
| Total | <u>\$ 425,493</u> | <u>\$ 101,903</u> |

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES – Continued

Notes payable consisted of the following:

| <u>Description</u> | <u>Original Amount</u> | <u>Maturity Ranges</u> | <u>Interest Rates</u> | <u>Outstanding Principal</u> |
|---|----------------------------|----------------------------|---------------------------|----------------------------------|
| <u>Business-type Activities</u> | | | | |
| Note payable - Water Infrastructure Finance Authority of Arizona | \$ 375,000 | 2002-2021 | 3.420% | \$ 156,773 |
| Note payable - United States Department of Agriculture | <u>302,235</u> | 2009-2025 | 4.125% | <u>268,720</u> |
| | <u>\$ 677,235</u> | | | <u>\$ 425,493</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 *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 7 – RETIREMENT PLANS – Continued

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers 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.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
3300 N. Central Ave.
Phoenix, AZ 85012-0250
(602) 240-2000

PSPRS
3010 E. Camelback Rd., Ste. 200
Phoenix, AZ 85016
(602) 255-5575

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

Cost-sharing plans – For the year ended June 30, 2011, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2011, 2010, and 2009, were \$26,134, \$24,450, and \$25,964, respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 6.38 percent.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 7 – RETIREMENT PLANS – Continued

Annual Pension Cost – The Town’s pension cost for the agent plan for the year ended June 30, 2011, and related information follows:

| | PSPRS |
|-------------------------------|--|
| Contribution rates: | |
| Town | 6.38% |
| Plan members | 7.65% |
| Annual pension cost | \$1,536 |
| Contributions made | \$1,536 |
| Actuarial valuation date | 06/30/11 |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions: | |
| Investment rate of return | 8.25% |
| Projected salary increases | 5.00% - 8.00% |
| Includes inflation at | 5.00% |
| Cost-of-living adjustments | None |
| Amortization method | Level percent-of-pay closed |
| Remaining amortization period | 25 years for under funded actuarial accrued liability, 20 years for overfunded |
| Asset valuation method | 7-year smoothed market |

Trend Information – Annual pension cost information for the current and 2 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 |
|-------|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| PSPRS | 2011 | \$ 1,536 | 100 % | \$ - |
| | 2010 | 1,448 | 100 | - |
| | 2009 | 1,088 | 100 | - |

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2011

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 \$108,150 reported as landfill closure and post closure care liability at June 30, 2011, represents the cumulative amount reported to date based on the use of 25 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$429,693 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 2010-2011. 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 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, 2011.

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.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 273,638 | \$ 273,638 | \$ 272,665 | \$ (973) |
| Taxes | 170,596 | 170,596 | 158,776 | (11,820) |
| Charges for services | 29,000 | 29,000 | 28,645 | (355) |
| Franchise fees | 24,994 | 24,994 | 23,569 | (1,425) |
| Other revenue | 305,000 | 305,000 | 13,746 | (291,254) |
| Fines and forfeitures | 27,000 | 27,000 | 14,059 | (12,941) |
| Licenses and permits | 11,398 | 11,398 | 13,867 | 2,469 |
| Investment income | 6,000 | 6,000 | 2,462 | (3,538) |
| Total revenues | <u>847,626</u> | <u>847,626</u> | <u>527,789</u> | <u>(319,837)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 232,469 | 232,469 | 283,055 | (50,586) |
| Public safety | 314,333 | 314,333 | 276,892 | 37,441 |
| Culture and recreation | 105,686 | 105,686 | 96,621 | 9,065 |
| Capital outlay | 350,000 | 350,000 | - | 350,000 |
| Total expenditures | <u>1,002,488</u> | <u>1,002,488</u> | <u>656,568</u> | <u>345,920</u> |
| Net change in fund balances | (154,862) | (154,862) | (128,779) | 26,083 |
| Fund balance, July 1, 2010 | <u>1,042,211</u> | <u>1,042,211</u> | <u>1,042,211</u> | <u>-</u> |
| Fund balance, June 30, 2011 | <u>\$ 887,349</u> | <u>\$ 887,349</u> | <u>\$ 913,432</u> | <u>\$ 26,083</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, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 83,674 | \$ 83,674 | \$ 79,142 | \$ (4,532) |
| Other revenue | - | - | 2,625 | 2,625 |
| Investment income | 500 | 500 | 190 | (310) |
| Total revenues | <u>84,174</u> | <u>84,174</u> | <u>81,957</u> | <u>(2,217)</u> |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | 194,861 | 194,861 | 103,645 | 91,216 |
| Total expenditures | <u>194,861</u> | <u>194,861</u> | <u>103,645</u> | <u>91,216</u> |
| Net change in fund balances | (110,687) | (110,687) | (21,688) | 88,999 |
| Fund balance, July 1, 2010 | <u>144,460</u> | <u>144,460</u> | <u>144,460</u> | <u>-</u> |
| Fund balance, June 30, 2011 | <u>\$ 33,773</u> | <u>\$ 33,773</u> | <u>\$ 122,772</u> | <u>\$ 88,999</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 74,300 | \$ 74,300 | \$ 27,155 | \$ (47,145) |
| Other revenue | - | - | 1,500 | 1,500 |
| Total revenues | <u>74,300</u> | <u>74,300</u> | <u>28,655</u> | <u>(45,645)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 53,000 | 53,000 | - | 53,000 |
| Culture and recreation | 21,300 | 21,300 | 24,271 | (2,971) |
| Total expenditures | <u>74,300</u> | <u>74,300</u> | <u>24,271</u> | <u>50,029</u> |
| Net change in fund balances | - | - | 4,384 | 4,384 |
| Fund balance, July 1, 2010 | <u>11,258</u> | <u>11,258</u> | <u>11,258</u> | <u>-</u> |
| Fund balance, June 30, 2011 | <u>\$ 11,258</u> | <u>\$ 11,258</u> | <u>\$ 15,642</u> | <u>\$ 4,384</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

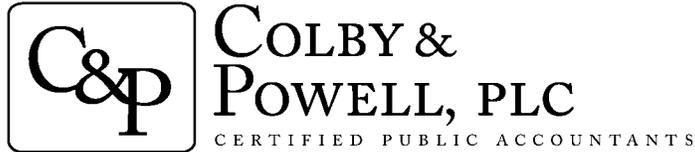
Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the 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.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Agent Retirement Plan Funding Progress
June 30, 2011

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 2011 | \$ 689,571 | \$ 823,449 | \$ (133,878) | 83.7 % | \$ 88,576 | 151.1 % |
| 2010 | 462,390 | 393,387 | 69,003 | 117.5 | 28,084 | - |
| 2009 | 475,299 | 402,387 | 72,912 | 118.1 | 34,849 | - |



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Town Council
Town of Patagonia, Arizona

We have audited the financial statements of the Town of Patagonia, Arizona, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with finding numbers **07-02**, **07-03**, **10-02**, and **10-03** described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies with finding numbers **07-04** and **10-01** described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

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

The Town of Patagonia, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Town of Patagonia, Arizona's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

March 30, 2012

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Financial Statement Findings

Audit findings and responses are as follows:

Item: 07-02

Subject: Internal controls over utility accounting.

Criteria/Specific Requirements: The billing adjustment function should be segregated from the cash receipting function. If it cannot be segregated, someone who does not receive cash should review billing adjustments on a regular basis.

Condition: Billing and payment adjustments are done by the same employee who collects cash for utility services.

Effect: A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Recommendation: Management should designate a responsible person to review utility billing adjustments on a monthly basis.

Response: Management agrees with this finding and will assign a separate employee apart from the cash receipting function and the billing function to review billing adjustments.

Item: 07-03

Subject: Computer access controls.

Criteria/Specific Requirements: Management should limit the access that employees have to the accounting software to only those areas that they are to required access for their respective positions.

Condition: Currently, every employee who uses Caselle can access every module of the software.

Effect: A misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Recommendation: Management should limit the access that employees have to the accounting software to only those areas that they are required to access for their respective positions by implemented Caselle's access controls.

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Response: Because the respective employee positions are not limited to any one section of software and because there are only five computers accessing the software it would be detrimental to efficiency and productivity to build restraints into the software and hardware applications not to mention the additional costs involved.

Item: 07-04

Subject: Employee time punch cards.

Criteria/Specific Requirements: Those in management who oversee and approve timecards should be able to verify the amount of time showing on the timecards as time worked.

Condition: Currently, there is no consistent method in place to appropriately approve the amount of time that employees record on their timesheets.

Effect: A misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Recommendation: The Town should implement a system for management to be able to review and appropriately approve time recorded on employee timesheets. Such a system could include the use of a time punch and timecards.

Response: The Town will implement a system for management to be able to review and appropriately approve time recorded on employee time sheets. This system will include the use of time punch and time cards. This system will be implemented initially in the Marshall's office prior to the next audit and in other offices of the Town at a later date.

Item: 10-01

Subject: Review of bank reconciliations.

Criteria/Specific Requirements: Monthly bank reconciliations should be reviewed regularly to ensure the correctness of the reconciliation report.

Condition: Currently, there is no review being performed of the bank reconciliation.

Effect: A misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Recommendation: The bank reconciliation should be reviewed monthly by someone who is independent of the bank reconciliation function. That person should initial and date the reconciliation reviewed to show evidence of the review.

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Response: The Town will implement procedures for someone who is independent of the bank reconciliation function to review the monthly bank reconciliation reports.

Item: 10-02

Subject: Review policies and procedures for oversight of financial statement presentation and disclosure.

Criteria/Specific Requirements: Management must review, approve, and accept responsibility for its financial statements accompanying the audit.

Condition: Not unlike other governments of similar size and structure, the Town's absence of internal control over financial statement presentation does not provide procedures for the prevention or detection of possible material misstatement of the financial statements.

Effect: A material misstatement could occur and be undiscovered by management.

Recommendation: Management should reconcile general ledger amounts to draft financial statements, review all supporting documentation for audit adjusting journal entries, and review the adequacy of financial statement disclosures by utilizing, at a minimum, a disclosure checklist. If management is unable to do this, management could contract this portion to a responsible qualified individual.

Response: Management agrees with this finding and will implement procedures to properly accept responsibility for financial statements.

Item: 10-03

Subject: Landfill closure and post-closure costs.

Criteria/Specific Requirements: Management must estimate closure and post-closure costs of the landfill and recognize those costs as the landfill is filled.

Condition: The Town has had significant improvements made to the existing landfill and has not had an engineering study done to determine the changes to the capacity of the landfill and the changes to estimated closure and post-closure costs.

Effect: A material misstatement could occur and be undiscovered by management.

Recommendation: The Town should have a qualified professional determine the landfill's new capacity, the amount used to date, and estimate closure and post-closure costs.

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Response: Management agrees with this finding and will look into getting a study done in the near future.



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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE USES OF HIGHWAY USER
REVENUE FUND MONIES IN ACCORDANCE
WITH ARS TITLE 28, CHAPTER 18, ARTICLE 2**

To the Town Council
Town of Patagonia, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Patagonia as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 30, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads 'Colby & Powell'.

March 30, 2012