

TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2012

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1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Patagonia, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Patagonia, Arizona as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Patagonia, Arizona's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for 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 plans' funding progress on pages 3 through 9, 34 through 37, and 38 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.

Colby + Powell

March 6, 2013

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

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, 2012. 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 statements, again in two parts. One part is the governmental funds, 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 part consists of the proprietary funds representing the Town's water, sewer and solid waste utilities. These funds operate and are accounted for much like a business.

Impacts, Fiscal Year 2012

- Governmental Revenues for the year increased very slightly over their level for FY 2011 but are still below the level of years prior to that.
- Proprietary fund revenues increased over the two previous years but still fall below FY 2009
- Total revenues exceeded FY 2011 and 2010 but still did not reach the FY 2009 level, remaining well below totals from earlier years and levels needed to provide for needed maintenance and upgrade of major equipment and infrastructure.

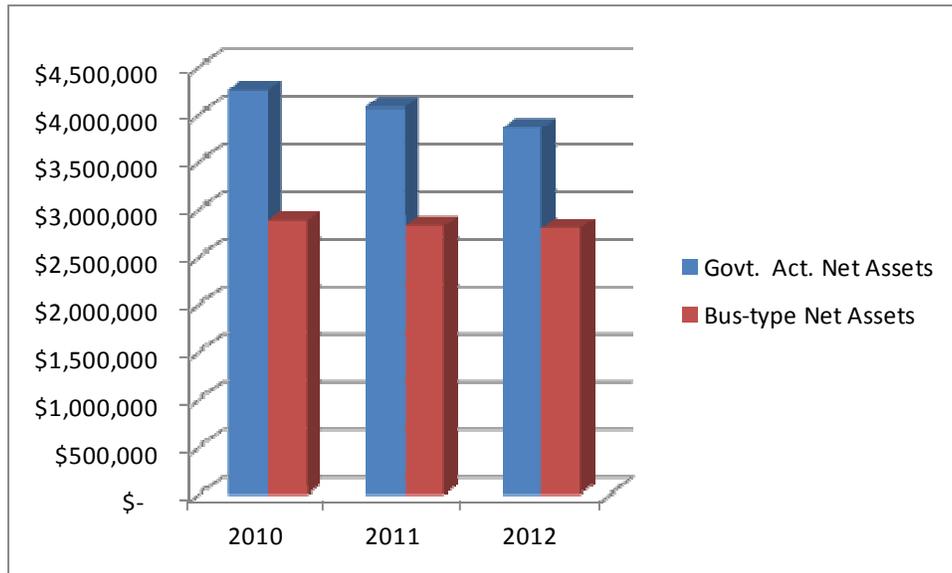
Condensed Statement of Net Assets		
	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 987,611	\$ 425,980
Other assets	63,535	102,912
Capital assets, net of depreciation	2,862,771	2,885,566
Total Assets	3,913,917	3,414,458
Liabilities		
Current liabilities	56,060	74,989
Long-term liabilities, net of current portion	-	538,438
Total Liabilities	56,060	613,427
Net Assets		
Invested in capital assets, net of related debt	2,862,771	2,496,792
Restricted	103,705	-
Unrestricted	891,381	304,239
Total Net Assets	\$ 3,857,857	\$ 2,801,031

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

Net Assets FY 2010 to FY 2012

	Govt. Act. Net Assets	Bus-type Net Assets	Total Net Assets
2010	\$ 4,247,159	\$ 2,886,575	\$ 7,133,734
2011	4,066,251	2,825,865	6,892,116
2012	3,857,857	2,801,031	6,658,888

Net Assets continued to decrease as reserves were used to maintain essential services even as revenues traditionally received from the state were diverted to other purposes. Local sales tax revenues have only partially recovered, reflecting overall economic conditions, even though the cost of goods and services has continued to rise.

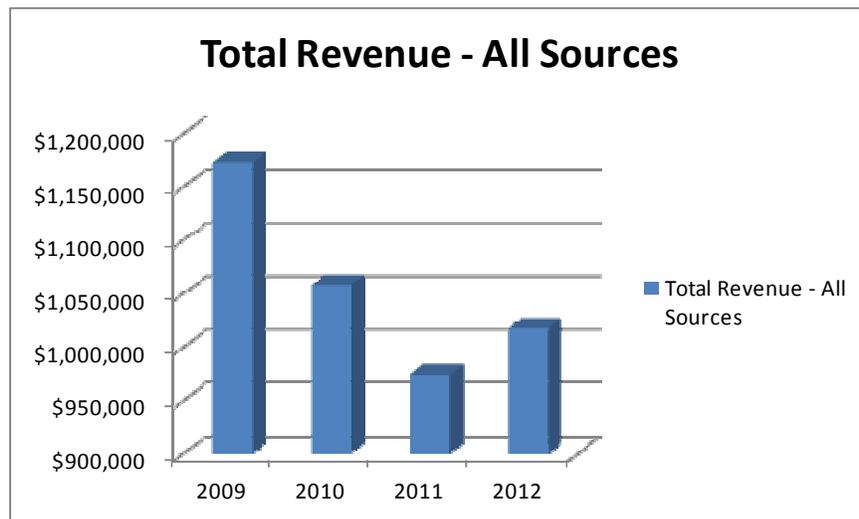


TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

Comparison of Revenues by Year

	2009	2010	2011	2012
Governmental Fund Revenues				
Local sales taxes	\$ 190,942	\$ 163,963	\$ 158,776	\$ 173,666
Intergovernmental net of grants	444,157	408,035	351,807	318,779
Charges for services	27,883	28,499	28,645	25,347
Franchise fees	28,155	28,067	23,569	19,337
Other revenue	7,325	9,859	17,871	13,255
Fines and forfeitures	52,177	28,482	14,059	54,780
Licenses and permits	16,189	10,179	13,867	20,225
Investment income	334	13,324	2,652	3,447
Total	\$ 767,162	\$ 690,408	\$ 611,246	\$ 628,836
Proprietary Fund Revenues				
Water	\$ 116,077	\$ 93,519	\$ 93,952	\$ 94,601
Sewer	161,379	152,686	147,873	163,984
Solid waste	128,743	121,518	121,220	130,386
Total	\$ 406,199	\$ 367,723	\$ 363,045	\$ 388,971

The revenue picture is varied looking at the four years comparison shown above. State revenues continued to fall as the Arizona Legislature continued to divert funds to balance their own budget, while sales tax started to creep back up and fines and forfeitures returned to earlier levels, reflecting the vigorous efforts of the Marshal's Office. Permit income was up for the year also, reflecting a mini-building boom as several new homes were started in town.



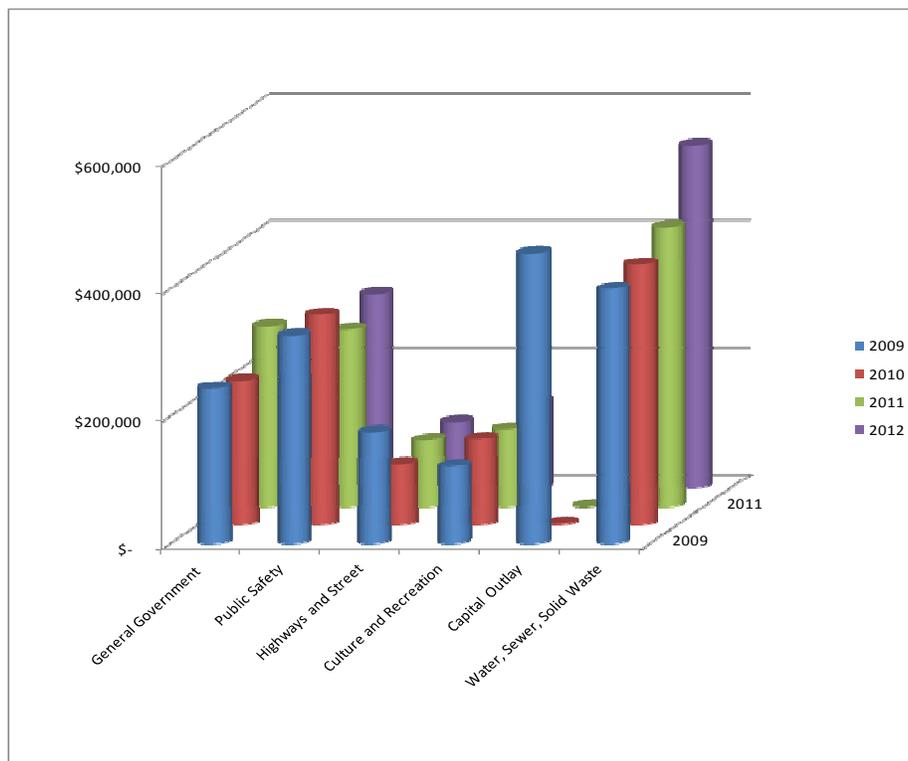
TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

Annual Expenditures by Major Account

Annual expenditures varied somewhat from account to account. In the Water/Wastewater Fund, for example, there has been a steady increase reflecting the costs of chemicals and lab services. For general government, the fluctuations largely reflected variations in legal costs as the Town went through a number of issues involving the requirement for extensive legal research and representation. For highways and streets, the diversion of state highway revenues has forced a major reduction in highway maintenance expenditures.

The following chart and graph shows a comparison of annual expenditures by major account.

	2009	2010	2011	2012
Government Fund Expenditures				
General Government	\$ 243,422	\$ 226,560	\$ 283,055	\$ 210,604
Public Safety	325,983	329,710	276,892	303,576
Highways and Street	174,169	95,467	103,645	102,967
Culture and Recreation	121,214	134,308	120,892	134,653
Capital Outlay	455,142	2,704	-	41,304
Proprietary Fund Expenses				
Water, Sewer, Solid Waste	\$ 399,530	\$ 408,820	\$ 437,675	\$ 536,842



TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

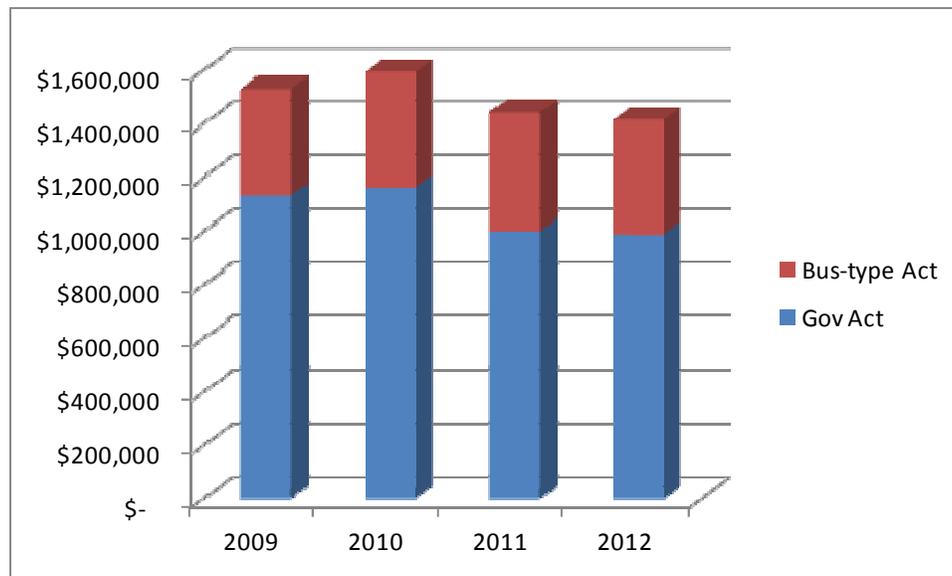
Analysis of Overall Financial Position and Results of Operations

Discussion of Significant Transactions and Changes in Funds

- After a downward trend stretching back to 2007 the town's overall position inched upwards for the first time, driven primarily by the uptick in sales tax revenue and helped by vigorous enforcement of some tax and revenue collection efforts.
- Aging equipment and infrastructure caused significant charges in the maintenance category as items that should have been replaced were patched together again and again.
- Restoration of a healthy Marshal's office, engaged in vigorous traffic enforcement, brought fine and forfeiture revenues back to previous levels.

Cash and Equivalents

	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
2012	987,611	425,980	1,413,591



Patagonia continues to enjoy a healthy financial position with reserves in both the Governmental Activities and the Business-type Activities at a level adequate to offset short-term revenue variations such as those caused by the continuing global financial crisis.

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

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

- Tax revenues continued to disappoint, but climbed slightly. Overall revenues were close to projections.
- Staffing and general expenditure levels remained constant.

Revenues - Budget vs. Actual

General Fund Revenues	Budget	Actual
Local sales taxes	\$ 185,000	\$ 173,666
Intergovernmental	393,128	390,719
Charges for services	28,280	25,347
Franchise fees	24,000	19,337
Other revenue	16,025	13,255
Fines and forfeitures	55,000	54,780
Licenses and permits	10,500	20,225
Investment income	3,000	3,186
Total	714,933	700,515

Expenditures - Budget vs. Actual

	Budget	Actual
General Fund Expenditures		
General government	\$ 207,088	\$ 207,854
Public safety	333,479	303,576
Highways and streets	-	-
Culture and recreation	133,329	134,653
Capital outlay	41,037	41,304
Total	714,933	687,387

The delay in capital outlay expenditures was the result of state requirements for dealing with a potential historic artifact site in the proposed right of way for the new water main.

TOWN OF PATAGONIA, ARIZONA
Management's Discussion and Analysis
June 30, 2012

Description of Capital Asset and Long-term Debt Activity during FY 2012

- The Town received approval for a Community Development Block Grant during FY 2012 and substantially completed the engineering for a major upgrade to the Patagonia Water system using those funds and a USDA Rural Development Grant. The actual construction is anticipated to be carried out during FY 2013
- No new debt was incurred by either the General Fund or the proprietary funds and payments have continued on the two current and outstanding bond issues.

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 next year and beyond is the continuing slow recovery of the economy which has prevented both local sales tax revenues and state-shared revenues from returning to pre-2007 levels.

Problems triggered by the continuing failure of the U.S. Congress to address the impending sequestration and also their continuing failure to provide long-term funding for transportation and other infrastructure grants also has potential negative impacts on Patagonia.

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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 987,611	\$ 413,098	\$ 1,400,709
Accounts receivable	-	33,629	33,629
Taxes receivable	2,924	-	2,924
Due from other governments	25,511	24,876	50,387
Prepaid expenses	35,100	17,550	52,650
Deposits	-	26,857	26,857
Cash, restricted	-	12,882	12,882
Capital assets, not being depreciated	355,867	150,540	506,407
Capital assets, being depreciated, net	2,506,904	2,735,026	5,241,930
	<u>3,913,917</u>	<u>3,414,458</u>	<u>7,328,375</u>
Total assets			
LIABILITIES			
Accounts payable	26,695	17,605	44,300
Accrued expenses	1,513	-	1,513
Refundable deposits	-	12,882	12,882
Compensated absences			
Due within 1 year	27,852	6,398	34,250
Noncurrent liabilities			
Due within 1 year	-	38,104	38,104
Due in more than 1 year	-	538,438	538,438
	<u>56,060</u>	<u>613,427</u>	<u>669,487</u>
Total liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	2,862,771	2,496,792	5,359,563
Restricted for:			
Highways and streets	83,486	-	83,486
Court enhancement	19,889	-	19,889
Library	330	-	330
Unrestricted (deficit)	891,381	304,239	1,195,620
	<u>891,381</u>	<u>304,239</u>	<u>1,195,620</u>
Total net assets	<u>\$ 3,857,857</u>	<u>\$ 2,801,031</u>	<u>\$ 6,658,888</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2012

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	\$ 256,028	\$ 42,375	\$ 1,225	\$ -	\$ (212,428)	\$ -	\$ (212,428)
Public safety	327,263	54,780	60,000	54,060	(158,423)	-	(158,423)
Highways and streets	223,861	-	63,420	-	(160,441)	-	(160,441)
Culture and recreation	165,438	3,197	22,823	-	(139,418)	-	(139,418)
Total governmental activities	972,590	100,352	147,468	54,060	(670,710)	-	(670,710)
Business-type activities							
Water/wastewater	325,682	258,585	-	122,464	-	55,367	55,367
Solid waste	211,160	130,386	-	-	-	(80,774)	(80,774)
Total business-type activities	536,842	388,971	-	122,464	-	(25,407)	(25,407)
Total primary government	\$ 1,509,432	\$ 489,323	\$ 147,468	\$ 176,524	(670,710)	(25,407)	(696,117)
General revenue:							
Taxes:							
Town sales tax					173,666	-	173,666
Franchise fees					19,337	-	19,337
State sales tax					71,342	-	71,342
Auto lieu tax					57,416	-	57,416
State revenue sharing					126,601	-	126,601
Investment income					3,447	573	4,020
Miscellaneous					10,507	-	10,507
Total general revenue					462,316	573	462,889
Change in net assets					(208,394)	(24,834)	(233,228)
Net assets, July 1, 2011					4,066,251	2,825,865	6,892,116
Net assets, June 30, 2012					\$ 3,857,857	\$ 2,801,031	\$ 6,658,888

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 922,050	\$ 62,367	\$ 3,194	\$ 987,611
Taxes receivable	2,924	-	-	2,924
Due from other governments	19,241	6,270	-	25,511
Prepaid expenses	17,550	17,550	-	35,100
Total assets	<u>961,765</u>	<u>86,187</u>	<u>3,194</u>	<u>1,051,146</u>
Liabilities				
Accounts payable	23,994	2,701	-	26,695
Accrued expenses	1,513	-	-	1,513
Total liabilities	<u>25,507</u>	<u>2,701</u>	<u>-</u>	<u>28,208</u>
Fund balances				
Restricted for:				
Highways and streets	-	65,936	-	65,936
Court enhancement	19,889	-	-	19,889
Library	-	-	330	330
Nonspendable	17,550	17,550	-	35,100
Unassigned	898,819	-	2,864	901,683
Total fund balance	<u>936,258</u>	<u>83,486</u>	<u>3,194</u>	<u>1,022,938</u>
Total liabilities and fund balance	<u>\$ 961,765</u>	<u>\$ 86,187</u>	<u>\$ 3,194</u>	<u>\$ 1,051,146</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, 2012

Fund balances--total governmental funds \$ 1,022,938

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. 2,862,771

Some liabilities, are not due and payable in the current period
and therefore, are not reported in the funds (27,852)

Net assets of governmental activities \$ 3,857,857

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, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenues				
Intergovernmental	\$ 390,719	\$ 63,420	\$ -	\$ 454,139
Taxes	173,666	-	-	173,666
Fines and forfeitures	54,780	-	-	54,780
Charges for services	25,347	-	-	25,347
Licenses and permits	20,225	-	-	20,225
Franchise fees	19,337	-	-	19,337
Other revenue	13,255	-	-	13,255
Investment income	3,186	261	-	3,447
Total revenues	700,515	63,681	-	764,196
Expenditures				
Current				
General government	207,854	-	2,750	210,604
Public safety	303,576	-	-	303,576
Highways and streets	-	102,967	-	102,967
Culture and recreation	134,653	-	-	134,653
Capital outlay	41,304	-	-	41,304
Total expenditures	687,387	102,967	2,750	793,104
Excess (deficiency) of revenue over (under) expenditures	13,128	(39,286)	(2,750)	(28,908)
Other financing sources (uses)				
Transfers in	9,698	-	-	9,698
Transfers out	-	-	(9,698)	(9,698)
Total other financing sources (uses)	9,698	-	(9,698)	-
Net change in fund balances	22,826	(39,286)	(12,448)	(28,908)
Fund balance, July 1, 2011	913,432	122,772	15,642	1,051,846
Fund balance, June 30, 2012	<u>\$ 936,258</u>	<u>\$ 83,486</u>	<u>\$ 3,194</u>	<u>\$ 1,022,938</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, 2012

Net change in fund balances--total governmental funds		\$ (28,908)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlay	41,304	
Depreciation expense	<u>(216,437)</u>	
		(175,133)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
		<u>(4,353)</u>
Change in net assets of governmental activities		<u><u>\$ (208,394)</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, 2012

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 376,672	\$ 36,426	\$ 413,098
Accounts receivable-net	22,151	11,478	33,629
Due from other governments	24,876	-	24,876
Prepaid expenses	17,550	-	17,550
Total current assets	<u>441,249</u>	<u>47,904</u>	<u>489,153</u>
Noncurrent assets			
Deposit	26,857	-	26,857
Cash, restricted	8,564	4,318	12,882
Capital assets, net of accumulated depreciation, where applicable:			
Land	30,540	120,000	150,540
Utilities systems	2,064,716	619,230	2,683,946
Equipment	38,062	13,018	51,080
Capital assets, net	<u>2,133,318</u>	<u>752,248</u>	<u>2,885,566</u>
Total noncurrent assets	<u>2,168,739</u>	<u>756,566</u>	<u>2,925,305</u>
Total assets	<u>2,609,988</u>	<u>804,470</u>	<u>3,414,458</u>
Liabilities			
Current liabilities			
Accounts payable	17,267	338	17,605
Refundable deposits	8,564	4,318	12,882
Compensated absences	4,186	2,212	6,398
Notes payable, current	22,604	15,500	38,104
Total current liabilities	<u>52,621</u>	<u>22,368</u>	<u>74,989</u>
Noncurrent liabilities			
Estimated liability for landfill closure	-	187,768	187,768
Note payable	112,324	238,346	350,670
Total noncurrent liabilities	<u>112,324</u>	<u>426,114</u>	<u>538,438</u>
Total liabilities	<u>164,945</u>	<u>448,482</u>	<u>613,427</u>
Net assets			
Investment in capital assets, net of related debt	1,998,390	498,402	2,496,792
Unrestricted (deficit)	446,653	(142,414)	304,239
Total net assets	<u>\$ 2,445,043</u>	<u>\$ 355,988</u>	<u>\$ 2,801,031</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, 2012

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Operating revenue			
Water (net of bad debts of \$11)	\$ 94,601	\$ -	\$ 94,601
Sewer (net of bad debts of \$70)	163,984	-	163,984
Refuse (net of bad debts of \$112)	-	130,386	130,386
Total operating revenue	<u>258,585</u>	<u>130,386</u>	<u>388,971</u>
Operating expenses			
Contract services	21,913	1,500	23,413
Depreciation	78,766	25,443	104,209
Insurance	8,805	2,725	11,530
Personnel	82,482	69,438	151,920
Repairs and maintenance	19,361	5,390	24,751
Landfill closure expense	-	79,618	79,618
Supplies	56,736	9,002	65,738
Travel and training	8,995	6,501	15,496
Utilities	43,611	737	44,348
Total operating expenses	<u>320,669</u>	<u>200,354</u>	<u>521,023</u>
Operating income (loss)	<u>(62,084)</u>	<u>(69,968)</u>	<u>(132,052)</u>
Nonoperating revenue (expenses)			
Investment income	524	49	573
Interest expense	(5,013)	(10,806)	(15,819)
Total nonoperating revenue (expenses)	<u>(4,489)</u>	<u>(10,757)</u>	<u>(15,246)</u>
Income (loss) before capital grant contribution	(66,573)	(80,725)	(147,298)
Capital grant contribution	<u>122,464</u>	<u>-</u>	<u>122,464</u>
Increase (decrease) in net assets	55,891	(80,725)	(24,834)
Total net assets, July 1, 2011	<u>2,389,152</u>	<u>436,713</u>	<u>2,825,865</u>
Total net assets, June 30, 2012	<u>\$ 2,445,043</u>	<u>\$ 355,988</u>	<u>\$ 2,801,031</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, 2012

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 259,970	\$ 131,134	\$ 391,104
Payments to suppliers	(172,353)	(45,900)	(218,253)
Payments to employees	(59,927)	(49,308)	(109,235)
Net cash provided (used) by operating activities	<u>27,690</u>	<u>35,926</u>	<u>63,616</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(114,292)	(13,500)	(127,792)
Contributions from capital grants	99,075	-	99,075
Interest payments on note payable	(5,013)	(10,806)	(15,819)
Principal payments on note payable	(21,845)	(14,874)	(36,719)
Net cash provided (used) by capital and related financing activities	<u>(42,075)</u>	<u>(39,180)</u>	<u>(81,255)</u>
Cash Flows from Investing Activities			
Interest received	524	49	573
Net cash provided (used) by investing activities	<u>524</u>	<u>49</u>	<u>573</u>
Net increase (decrease) in cash and cash equivalents	(13,861)	(3,205)	(17,066)
Cash and cash equivalents, beginning of year	399,097	43,949	443,046
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 385,236</u>	<u>\$ 40,744</u>	<u>\$ 425,980</u>
Cash and cash equivalents	\$ 376,672	\$ 36,426	\$ 413,098
Cash, restricted	8,564	4,318	12,882
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 385,236</u>	<u>\$ 40,744</u>	<u>\$ 425,980</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, 2012
(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)	\$ (62,084)	\$ (69,968)	\$ (132,052)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	78,766	25,443	104,209
Bad debt	81	112	193
(Increase) decrease in:			
Accounts receivable	1,975	588	2,563
Increase (decrease) in:			
Accounts payable	9,756	(736)	9,020
Refundable deposits	(671)	48	(623)
Compensated absences	(133)	521	388
Estimated liability for landfill closure	-	79,618	79,618
Total adjustments	89,774	105,594	195,368
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 27,690	\$ 35,626	\$ 63,316

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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012

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, 2012

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, 2012

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 before 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, 2012 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, 2012

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, 2012

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, 2012, the carrying amount of the Town's total cash in bank was \$77,760 and the bank balance was \$108,942. 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 \$12,882 consists of cash restricted for customer utility deposits.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENT S – Continued

Investments – At June 30, 2012, 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	\$ 1,210,580	\$ 1,210,580
Arizona LGIP Pool 7	N/A	Unrated	90,456	90,456
Arizona LGIP Pool 500	N/A	Unrated	34,219	34,219
			<u>\$ 1,335,255</u>	<u>\$ 1,335,255</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 in the governmental funds at June 30, 2012 included \$6,059 in state-shared revenue from sales taxes, \$5,881 in town sales taxes collected by the State of Arizona, \$1,976 in county-shared revenue from auto lieu taxes, \$5,325 in county library grants, and \$6,270 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS

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

	Balance <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2012</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	392,225	41,304	-	433,529
Buildings	1,824,136	-	-	1,824,136
Parks	239,409	-	-	239,409
Streets	3,475,263	-	-	3,475,263
Total	<u>5,931,033</u>	<u>41,304</u>	<u>-</u>	<u>5,972,337</u>
Less accumulated depreciation for:				
Equipment	(320,565)	(22,099)	-	(342,664)
Buildings	(639,624)	(63,606)	-	(703,230)
Parks	(175,470)	(10,205)	-	(185,675)
Streets	(2,113,337)	(120,527)	-	(2,233,864)
Total	<u>\$ (3,248,996)</u>	<u>\$ (216,437)</u>	<u>\$ -</u>	<u>(3,465,433)</u>
Total capital assets being depreciated, net	<u>2,682,037</u>	<u>(175,133)</u>	<u>-</u>	<u>2,506,904</u>
Governmental activities capital assets, net	<u><u>\$ 3,037,904</u></u>	<u><u>\$ (175,133)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,862,771</u></u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS – Continued

	Balance <u>July 1, 2011</u>	Increases	Decreases	Balance <u>June 30, 2012</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	114,293	-	1,094,387
Machinery and equipment	422,679	13,500	-	436,179
Total	<u>3,878,729</u>	<u>127,793</u>	<u>-</u>	<u>4,006,522</u>
Less accumulated depreciation for:				
Land improvements	(94,877)	(24,625)	-	(119,502)
Buildings	(321,930)	(43,431)	-	(365,361)
Sewer collection system	(373,360)	(28,174)	-	(401,534)
Machinery and equipment	(377,120)	(7,979)	-	(385,099)
Total	<u>\$ (1,167,287)</u>	<u>\$ (104,209)</u>	<u>\$ -</u>	<u>(1,271,496)</u>
Total capital assets being depreciated, net	<u>2,711,442</u>	<u>23,584</u>	<u>-</u>	<u>2,735,026</u>
Business-type activities capital assets, net	<u>\$ 2,861,982</u>	<u>\$ 23,584</u>	<u>\$ -</u>	<u>\$ 2,885,566</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 44,068
Public safety	20,415
Highways and streets	121,028
Culture and recreation	<u>30,926</u>
Total governmental activities depreciation expense	<u>\$ 216,437</u>
Business-type activities:	
Water/Wastewater	\$ 78,766
Solid Waste	<u>25,443</u>
Total business-type activities depreciation expense	<u>\$ 104,209</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 23,499	\$ 19,761	\$ 15,408	\$ 27,852	\$ 27,852
Governmental activities long-term liabilities	<u>\$ 23,499</u>	<u>\$ 19,761</u>	<u>\$ 15,408</u>	<u>\$ 27,852</u>	<u>\$ 27,852</u>
Business-type activities					
Compensated absences payable	\$ 6,010	\$ 4,241	\$ 3,853	\$ 6,398	\$ 6,398
Landfill closure costs	108,150	79,618	-	187,768	-
Notes payable	<u>425,493</u>	<u>-</u>	<u>36,719</u>	<u>388,774</u>	<u>38,104</u>
Business-type activities long-term liabilities	<u>\$ 539,653</u>	<u>\$ 83,859</u>	<u>\$ 40,572</u>	<u>\$ 582,940</u>	<u>\$ 44,502</u>

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2012.

Year Ending June 30	Business Activities	
	Notes Payable	
	Principal	Interest
2013	38,104	14,433
2014	39,540	12,997
2015	41,032	11,505
2016	42,580	9,957
2017	44,188	8,349
2018-2022	117,074	24,963
2023-2027	<u>66,256</u>	<u>3,881</u>
Total	<u>\$ 388,774</u>	<u>\$ 86,085</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

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%	\$ 134,928
Note payable - United States Department of Agriculture	<u>302,235</u>	2009-2025	4.125%	<u>253,846</u>
	<u>\$ 677,235</u>			<u>\$ 388,774</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, 2012

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, 2012, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2012, 2011, and 2010, were \$26,930, \$26,134, and \$24,450, respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 10.94 percent.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

Annual Pension Cost – The Town’s pension cost for the agent plan for the year ended June 30, 2012, and related information follows:

	PSPRS
Contribution rates:	
Town	10.94%
Plan members	8.65%
Annual pension cost	\$9,308
Contributions made	\$9,308
Actuarial valuation date	06/30/12
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Includes inflation at	5.00%
Cost-of-living adjustments	None
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 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	2012	\$ 9,308	100 %	\$ -
	2011	1,536	100	-
	2010	1,448	100	-

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2012

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 \$187,768 reported as landfill closure and post closure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 30 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$625,894 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 2011-2012. 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, 2012.

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 278,528	\$ 393,128	\$ 390,719	\$ (2,409)
Taxes	185,000	185,000	173,666	(11,334)
Fines and forfeitures	55,000	55,000	54,780	(220)
Charges for services	28,280	28,280	25,347	(2,933)
Licenses and permits	10,500	10,500	20,225	9,725
Franchise fees	24,000	24,000	19,337	(4,663)
Other revenue	130,625	16,025	13,255	(2,770)
Investment income	3,000	3,000	3,186	186
Total revenues	<u>714,933</u>	<u>714,933</u>	<u>700,515</u>	<u>(14,418)</u>
Expenditures				
Current				
General government	187,378	207,088	207,854	(766)
Public safety	327,479	333,479	303,576	29,903
Culture and recreation	127,329	133,329	134,653	(1,324)
Capital outlay	72,747	41,037	41,304	(267)
Total expenditures	<u>714,933</u>	<u>714,933</u>	<u>687,387</u>	<u>27,546</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>13,128</u>	<u>13,128</u>
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>9,698</u>	<u>9,698</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>9,698</u>	<u>9,698</u>
Net change in fund balances	-	-	22,826	22,826
Fund balance, July 1, 2011	<u>913,432</u>	<u>913,432</u>	<u>913,432</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 913,432</u>	<u>\$ 913,432</u>	<u>\$ 936,258</u>	<u>\$ 22,826</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 133,431	\$ 133,431	\$ 63,420	\$ (70,011)
Investment income	-	-	261	261
Total revenues	<u>133,431</u>	<u>133,431</u>	<u>63,681</u>	<u>(69,750)</u>
Expenditures				
Current				
Highways and streets	133,431	133,431	102,967	30,464
Total expenditures	<u>133,431</u>	<u>133,431</u>	<u>102,967</u>	<u>30,464</u>
Net change in fund balances	-	-	(39,286)	(39,286)
Fund balance, July 1, 2011	<u>122,772</u>	<u>122,772</u>	<u>122,772</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 122,772</u>	<u>\$ 122,772</u>	<u>\$ 83,486</u>	<u>\$ (39,286)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current				
General government	-	-	2,750	(2,750)
Total expenditures	<u>-</u>	<u>-</u>	<u>2,750</u>	<u>(2,750)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(2,750)</u>	<u>(2,750)</u>
Other financing sources (uses)				
Transfers out	-	-	(9,698)	(9,698)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(9,698)</u>	<u>(9,698)</u>
Net change in fund balances	-	-	(12,448)	(12,448)
Fund balance, July 1, 2011	<u>15,642</u>	<u>15,642</u>	<u>15,642</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 15,642</u>	<u>\$ 15,642</u>	<u>\$ 3,194</u>	<u>\$ (12,448)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

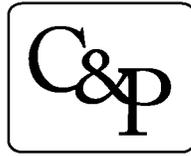
Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the 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, 2012

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)
2012	\$ 652,781	\$ 855,287	\$ (202,506)	76.3 %	\$ 114,419	177.0 %
2011	689,571	823,449	(133,878)	83.7	88,576	151.1
2010	462,390	393,387	69,003	117.5	28,084	-



**COLBY &
POWELL, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**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 accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Patagonia, Arizona as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements of the Town of Patagonia, Arizona, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town 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.

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**, and **10-03** described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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".

March 6, 2013

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2012

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 posted in the accounting software on a regular basis.

Condition: Billing and payment adjustments are done by the same employee who collects cash for utility services. Adjustments are taken to the Town Manager for approval; however, he does not check the account software to see if he has approved all posted adjustments.

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

Recommendation: The Town Manager should review all adjustments posted in the accounting software on a regular basis.

Response: Management agrees with this finding and will begin to review all adjustments posted in the accounting software on a regular basis.

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, 2012

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: 10-03

Subject: Landfill closure and post-closure costs.

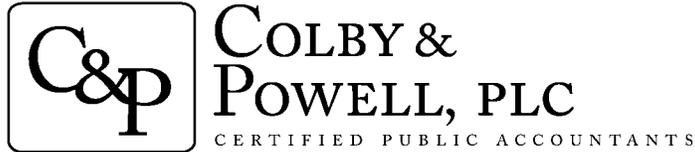
Criteria/Specific Requirements: Management must estimate closure and post-closure costs of the landfill and recognize those costs as the landfill is filled.

Condition: The Town has no formal procedures to determine the filled capacity of the landfill nor are there procedures to measure the amount used during any period of time. The filled capacity is necessary in order to recognize the appropriate amount of closure costs in accordance with generally accepted accounting principles.

Effect: Without reliable data to estimate the current year's expenses and the related liability, a material misstatement could occur.

Recommendation: The Town should implement formal procedures to determine the filled capacity of the landfill. In addition, procedures should be implemented to measure how much of the landfill has been used during any period of time.

Response: Management agrees with this finding and will implement procedures to determine the filled capacity of the landfill. In addition, procedures will be implemented to measure how much of the landfill has been used during any period of time.



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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, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 6, 2013.

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.

Colby + Powell

March 6, 2013