

**TOWN OF PATAGONIA, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Reports  
June 30, 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Town Council  
Town of Patagonia, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Patagonia, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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, and each major fund of the Town of Patagonia, Arizona, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 4 to 11, 37 to 40, and 41, respectively, 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, 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* in considering the Town of Patagonia, Arizona's internal control over financial reporting and compliance.

### **Other Reporting Required by Arizona Revised Statutes**

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.

*Colby + Powell*

February 24, 2015

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Describe the Basic Financial Statements**

This discussion and analysis of the Town of Patagonia's financial performance reviews the Town's activities for the fiscal year ended June 30, 2014. The Town has two major parts to its financial statements. One part is the government-wide statements 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. 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 2014**

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

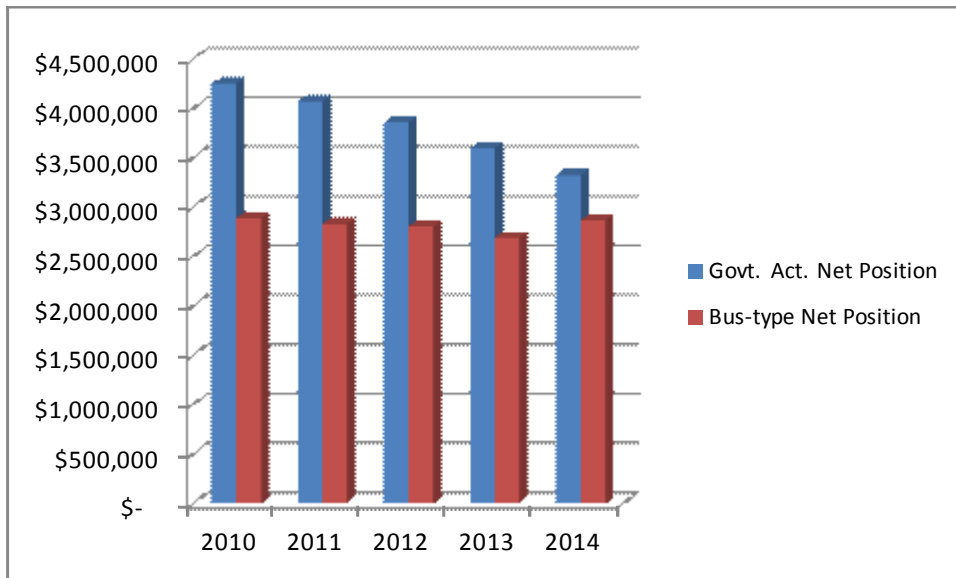
Condensed Statement of Net Position		
	Governmental Activities	Business-type Activities
<b>Assets</b>		
Cash and cash equivalents	\$ 793,562	\$ 312,860
Other assets	152,961	110,708
Capital assets, net of depreciation	2,436,892	3,257,808
<b>Total Assets</b>	<b>3,383,415</b>	<b>3,681,376</b>
<b>Liabilities</b>		
Current liabilities	62,176	282,920
Long-term liabilities, net of current portion	-	536,139
<b>Total Liabilities</b>	<b>62,176</b>	<b>819,059</b>
<b>Net Position</b>		
Net investment in capital assets	2,436,892	2,933,353
Restricted	31,751	26,857
Unrestricted	852,596	(97,893)
<b>Total Net Position</b>	<b>\$ 3,321,239</b>	<b>\$ 2,862,317</b>

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Net Position FY 2010 to FY 2014**

	Govt. Act. Net Position	Bus-type Net Position	Total Net Position
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
2013	3,592,822	2,684,837	6,277,659
2014	3,321,239	2,862,317	6,183,556

Net Position continued to decrease as reserves were used to maintain essential services even as revenues traditionally received from the state were diverted to other purposes.

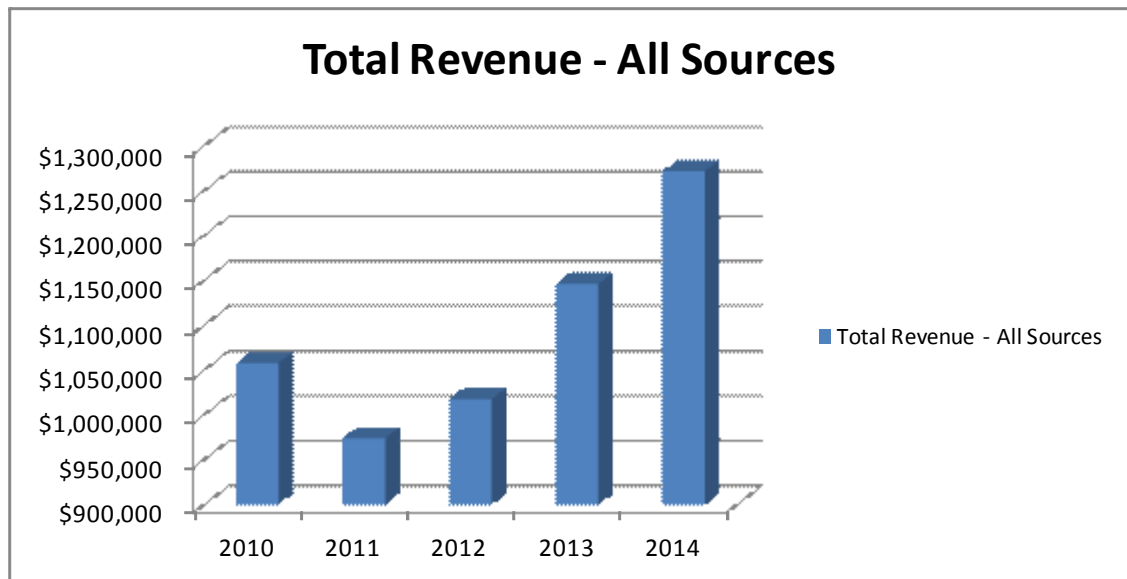


**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Comparison of Revenues by Year**

	2010	2011	2012	2013	2014
<b>Governmental Fund Revenues</b>					
Local sales taxes	\$ 163,963	\$ 158,776	\$ 173,666	\$ 197,540	\$ 209,503
Intergovernmental net of grants	408,035	351,807	318,779	379,302	413,580
Charges for services	28,499	28,645	25,347	27,669	27,720
Franchise fees	28,067	23,569	19,337	14,310	16,475
Other revenue	9,859	17,871	13,255	7,245	15,968
Fines and forfeitures	28,482	14,059	54,780	83,394	117,658
Licenses and permits	10,179	13,867	20,225	32,174	19,795
Investment income	13,324	2,652	3,447	6,097	3,153
<b>Total</b>	<b>\$ 690,408</b>	<b>\$ 611,246</b>	<b>\$ 628,836</b>	<b>\$ 747,731</b>	<b>\$ 823,852</b>
<b>Proprietary Fund Revenues</b>					
Water	\$ 93,519	\$ 93,952	\$ 94,601	\$ 110,090	\$ 120,058
Sewer	152,686	147,873	163,984	154,699	156,547
Solid waste	121,518	121,220	130,386	133,629	171,525
<b>Total</b>	<b>\$ 367,723</b>	<b>\$ 363,045</b>	<b>\$ 388,971</b>	<b>\$ 398,418</b>	<b>\$ 448,130</b>

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





**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Annual Expenditures by Function**

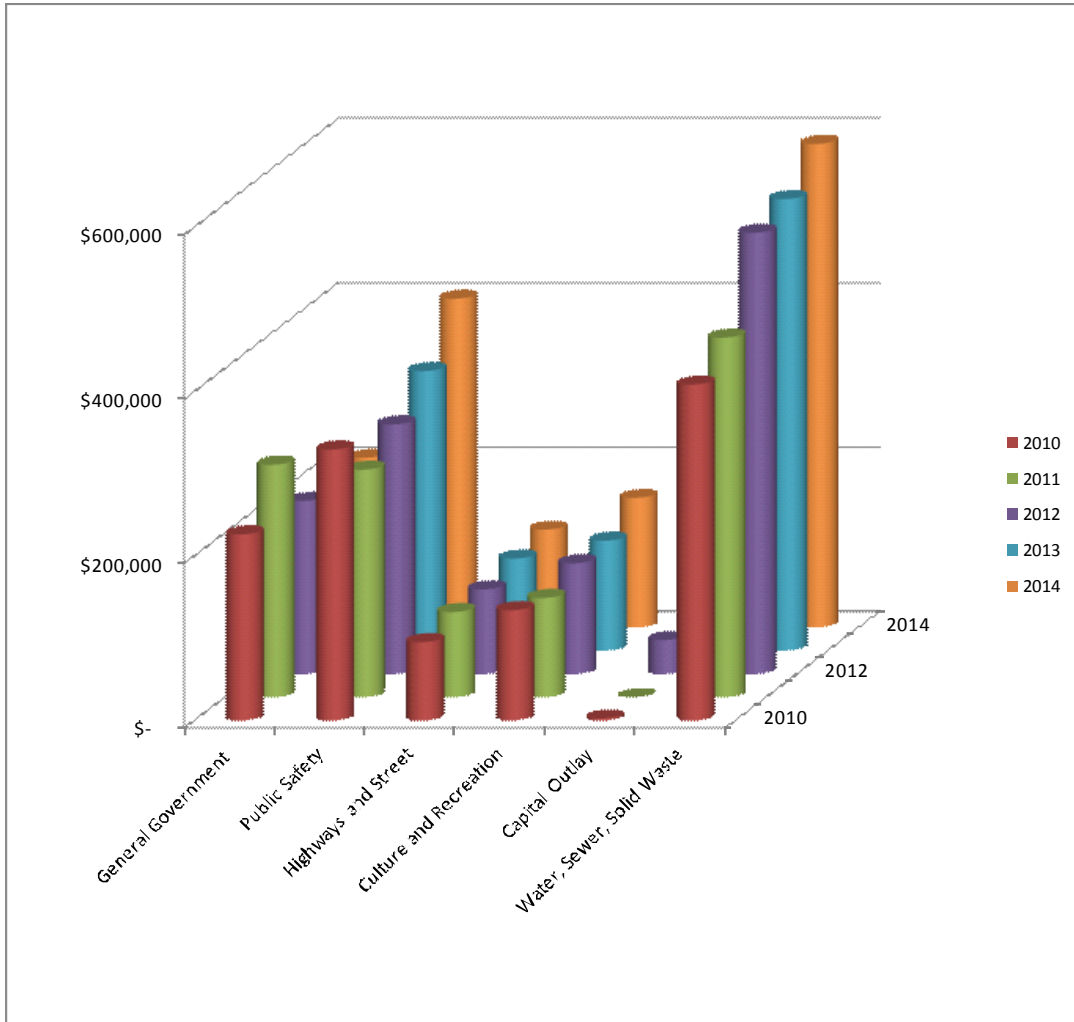
Annual expenditures have varied by function, with general government slightly down while public safety is up, culture and recreation is up reflecting some grants received for work in the park by the tree and park committee and the proprietary funds are up reflecting major charges to the Water Fund for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

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

	2010	2011	2012	2013	2014
Government Fund Expenditures					
General Government	\$ 226,560	\$ 283,055	\$ 210,604	\$ 207,793	\$ 206,433
Public Safety	329,710	276,892	303,576	340,288	399,943
Highways and Street	95,467	103,645	102,967	112,101	118,941
Culture and Recreation	134,308	120,892	134,653	133,730	157,588
Capital Outlay	2,704	-	41,304	-	-
Proprietary Fund Expenses					
Water, Sewer, Solid Waste	\$ 408,820	\$ 437,675	\$ 536,842	\$ 549,571	\$ 588,212

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Comparative Expenditures by Function**



**Analysis of Overall Financial Position and Results of Operations**

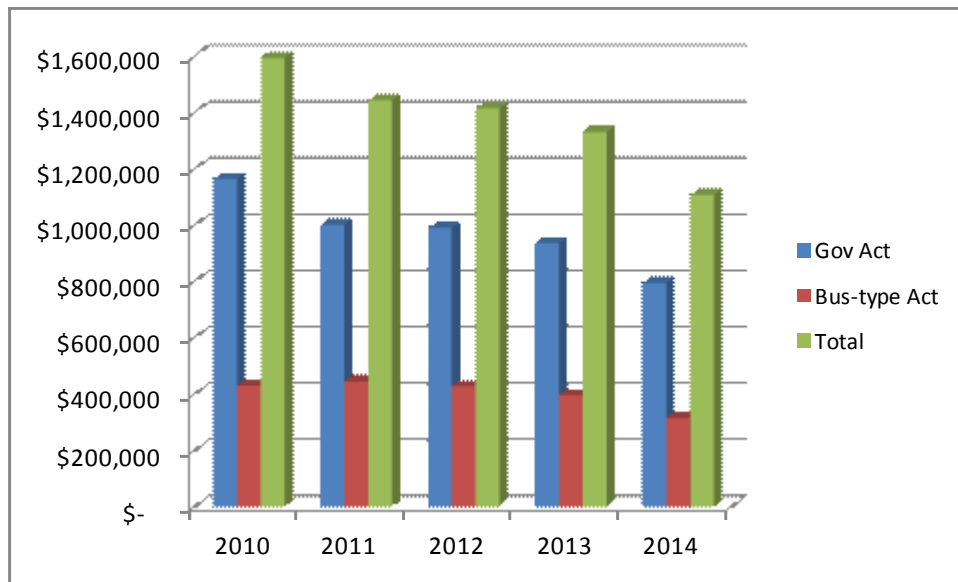
**Discussion of Significant Transactions and Changes in Funds**

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

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**Cash and Equivalents**

	Gov Act	Bus-type Act	Total
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
2013	934,659	394,383	1,329,042
2014	793,562	312,860	1,106,422



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, however, expenditures for the highway system resulted in a slight reduction in the overall cash position.

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

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

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

**Revenues - Budget vs. Actual**

General Fund Revenues	Budget	Actual
Local sales taxes	\$ 205,000	\$ 209,503
Intergovernmental	327,124	333,507
Charges for services	28,980	27,720
Franchise fees	20,000	16,475
Other revenue	71,750	15,968
Fines and forfeitures	93,400	117,658
Licenses and permits	32,500	19,795
Investment income	3,000	2,909
<b>Total</b>	<b>781,754</b>	<b>743,535</b>

The variations in intergovernmental and other income were a result of the Town not receiving some grants that had been hoped for and a contingency that was also not realized.

**Expenditures - Budget vs. Actual**

	Budget	Actual
General Fund Expenditures		
General government	\$ 240,810	\$ 206,433
Public safety	455,415	399,943
Highways and streets	-	-
Culture and recreation	136,799	157,588
Capital outlay	-	-
<b>Total</b>	<b>833,024</b>	<b>763,964</b>

**TOWN OF PATAGONIA, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2014**

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

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

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

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

**Contacting the Town of Patagonia's Financial Management:**

This report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Town offices at 310 McKeown Avenue, Patagonia, AZ 85624, or by calling 520-394-2229. Budget information is also available at the Town website [www.townofpatagonia.com](http://www.townofpatagonia.com).

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 793,562	\$ 294,467	\$ 1,088,029
Accounts receivable	-	42,706	42,706
Due from other governments	33,174	104,133	137,307
Prepaid expenses	37,866	18,933	56,799
Deposits	-	26,857	26,857
Cash, restricted	-	18,393	18,393
Interactivity balances	81,921	(81,921)	-
Capital assets, not being depreciated	355,867	555,440	911,307
Capital assets, being depreciated, net	2,081,025	2,702,368	4,783,393
<b>Total assets</b>	<b>3,383,415</b>	<b>3,681,376</b>	<b>7,064,791</b>
<b>LIABILITIES</b>			
Accounts payable	24,380	228,462	252,842
Accrued expenses	4,439	-	4,439
Refundable deposits	-	18,393	18,393
Compensated absences			
Due within 1 year	33,357	8,705	42,062
Noncurrent liabilities			
Due within 1 year	-	27,360	27,360
Due in more than 1 year	-	536,139	536,139
<b>Total liabilities</b>	<b>62,176</b>	<b>819,059</b>	<b>881,235</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,436,892	2,933,353	5,370,245
Restricted for:			
Highways and streets	3,726	-	3,726
Court enhancement	24,831	-	24,831
Library	3,194	-	3,194
Debt service	-	26,857	26,857
Unrestricted (deficit)	852,596	(97,893)	754,703
<b>Total net position</b>	<b>\$ 3,321,239</b>	<b>\$ 2,862,317</b>	<b>\$ 6,183,556</b>

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

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

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 252,258	\$ 45,142	\$ 11,635	\$ -	\$ (195,481)	\$ -	\$ (195,481)
Public safety	422,492	117,658	-	-	(304,834)	-	(304,834)
Highways and streets	233,396	-	80,073	-	(153,323)	-	(153,323)
Culture and recreation	187,289	2,373	27,556	-	(157,360)	-	(157,360)
<b>Total governmental activities</b>	<b>1,095,435</b>	<b>165,173</b>	<b>119,264</b>	<b>-</b>	<b>(810,998)</b>	<b>-</b>	<b>(810,998)</b>
Business-type activities							
Water/wastewater	423,238	276,605	-	316,974	-	170,341	170,341
Solid waste	164,974	171,525	-	-	-	6,551	6,551
<b>Total business-type activities</b>	<b>588,212</b>	<b>448,130</b>	<b>-</b>	<b>316,974</b>	<b>-</b>	<b>176,892</b>	<b>176,892</b>
<b>Total primary government</b>	<b>\$ 1,683,647</b>	<b>\$ 613,303</b>	<b>\$ 119,264</b>	<b>\$ 316,974</b>	<b>(810,998)</b>	<b>176,892</b>	<b>(634,106)</b>
<b>General revenue:</b>							
Taxes:							
Town sales tax					209,503	-	209,503
Franchise fees					16,475	-	16,475
State sales tax					79,470	-	79,470
Auto lieu tax					61,554	-	61,554
State revenue sharing					167,194	-	167,194
Investment income					3,153	588	3,741
Miscellaneous					2,066	-	2,066
Total general revenue					539,415	588	540,003
Change in net position					(271,583)	177,480	(94,103)
Net position, beginning of year					3,592,822	2,684,837	6,277,659
Net position, end of year					\$ 3,321,239	\$ 2,862,317	\$ 6,183,556

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

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

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 790,368	\$ -	\$ 3,194	\$ 793,562
Due from other governments	25,694	7,480	-	33,174
Prepaid expenses	18,933	18,933	-	37,866
Due from other funds	102,862	-	-	102,862
<b>Total assets</b>	<b>\$ 937,857</b>	<b>\$ 26,413</b>	<b>\$ 3,194</b>	<b>\$ 967,464</b>
<b>Liabilities</b>				
Accounts payable	\$ 24,380	\$ -	\$ -	\$ 24,380
Accrued expenses	2,693	1,746	-	4,439
Due to other funds	-	20,941	-	20,941
<b>Total liabilities</b>	<b>27,073</b>	<b>22,687</b>	<b>-</b>	<b>49,760</b>
<b>Fund balances</b>				
Nonspendable	18,933	3,726	-	22,659
Restricted for:				
Court enhancement	24,831	-	-	24,831
Library	-	-	3,194	3,194
Unassigned	867,020	-	-	867,020
<b>Total fund balance</b>	<b>910,784</b>	<b>3,726</b>	<b>3,194</b>	<b>917,704</b>
<b>Total liabilities and fund balance</b>	<b>\$ 937,857</b>	<b>\$ 26,413</b>	<b>\$ 3,194</b>	<b>\$ 967,464</b>

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



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

Fund balances--total governmental funds	\$ 917,704
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	2,436,892
Some liabilities, are not due and payable in the current period and therefore, are not reported in the funds	<u>(33,357)</u>
Net position of governmental activities	<u><u>\$ 3,321,239</u></u>

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

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

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

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

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

Net change in fund balances--total governmental funds	\$ (59,053)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(208,528)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	<u>(4,002)</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ (271,583)</u></u>

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

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

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 294,467	\$ -	\$ 294,467
Accounts receivable-net	26,691	16,015	42,706
Due from other governments	104,133	-	104,133
Prepaid expenses	18,933	-	18,933
Total current assets	<u>444,224</u>	<u>16,015</u>	<u>460,239</u>
Noncurrent assets			
Deposit	26,857	-	26,857
Cash, restricted	11,371	7,022	18,393
Capital assets, net of accumulated depreciation, where applicable:			
Land	30,540	120,000	150,540
Utilities systems	2,306,088	569,980	2,876,068
Equipment	66,383	164,817	231,200
Capital assets, net	<u>2,403,011</u>	<u>854,797</u>	<u>3,257,808</u>
Total noncurrent assets	<u>2,441,239</u>	<u>861,819</u>	<u>3,303,058</u>
Total assets	<u>2,885,463</u>	<u>877,834</u>	<u>3,763,297</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	226,044	2,418	228,462
Refundable deposits	11,371	7,022	18,393
Compensated absences	5,689	3,016	8,705
Due to other funds	-	81,921	81,921
Notes payable, current	10,530	16,830	27,360
Total current liabilities	<u>253,634</u>	<u>111,207</u>	<u>364,841</u>
Noncurrent liabilities			
Estimated liability for landfill closure	-	239,044	239,044
Note payable	91,613	205,482	297,095
Total noncurrent liabilities	<u>91,613</u>	<u>444,526</u>	<u>536,139</u>
Total liabilities	<u>345,247</u>	<u>555,733</u>	<u>900,980</u>
<b>Net position</b>			
Net investment in capital assets	2,300,868	632,485	2,933,353
Restricted for debt service	26,857	-	26,857
Unrestricted (deficit)	212,491	(310,384)	(97,893)
Total net position	<u>\$ 2,540,216</u>	<u>\$ 322,101</u>	<u>\$ 2,862,317</u>

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

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

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Operating revenue</b>			
Water (net of bad debts of \$40)	\$ 120,058	\$ -	\$ 120,058
Sewer (net of bad debts of \$67)	156,547	-	156,547
Sanitation (net of bad debts of \$50)	-	171,525	171,525
Total operating revenue	<u>276,605</u>	<u>171,525</u>	<u>448,130</u>
<b>Operating expenses</b>			
Personnel	118,529	64,579	183,108
Depreciation	89,993	31,921	121,914
Supplies	63,722	18,169	81,891
Contract services	68,617	3,349	71,966
Utilities	37,811	1,121	38,932
Repairs and maintenance	17,270	12,578	29,848
Insurance	11,541	3,572	15,113
Other	11,636	-	11,636
Travel and training	443	-	443
Landfill closure expense	-	20,156	20,156
Total operating expenses	<u>419,562</u>	<u>155,445</u>	<u>575,007</u>
Operating income (loss)	<u>(142,957)</u>	<u>16,080</u>	<u>(126,877)</u>
<b>Nonoperating revenue (expenses)</b>			
Investment income	557	31	588
Interest expense	(3,676)	(9,529)	(13,205)
Total nonoperating revenue (expenses)	<u>(3,119)</u>	<u>(9,498)</u>	<u>(12,617)</u>
Income (loss) before capital grant contribution	(146,076)	6,582	(139,494)
Capital grant contribution	<u>316,974</u>	<u>-</u>	<u>316,974</u>
Increase (decrease) in net position	170,898	6,582	177,480
Total net position, beginning of year	<u>2,369,318</u>	<u>315,519</u>	<u>2,684,837</u>
Total net position, end of year	<u>\$ 2,540,216</u>	<u>\$ 322,101</u>	<u>\$ 2,862,317</u>

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

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

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

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

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

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

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

	Business-type Activities-- Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Operating income (loss)	\$ (142,957)	\$ 16,080	\$ (126,877)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	89,993	31,921	121,914
Bad debt	107	50	157
(Increase) decrease in:			
Accounts receivable	(1,565)	(5,195)	(6,760)
Prepaid expenses	(307)	-	(307)
Increase (decrease) in:			
Accounts payable	25,490	1,795	27,285
Refundable deposits	732	1,262	1,994
Compensated absences	1,465	639	2,104
Estimated liability for landfill closure	-	19,856	19,856
<b>Total adjustments</b>	<b>115,915</b>	<b>50,328</b>	<b>166,243</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (27,042)</b>	<b>\$ 66,408</b>	<b>\$ 39,366</b>

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

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

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

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

**A. Reporting Entity**

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

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

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



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

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

**B. Basis of Presentation**

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

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

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

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

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

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

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

The Town reports the following major enterprise funds:

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

**C. Basis of Accounting**

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

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

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

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

**D. Cash and Investments**

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

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

**E. Allowance for Uncollectible Accounts**

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

**F. Investment Income**

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

**G. Compensated Absences**

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

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

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

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

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

**H. Capital Assets**

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

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

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

**I. Fund Balance Reporting**

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

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

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

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

**NOTE 4 – CAPITAL ASSETS**

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

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

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

**NOTE 4 – CAPITAL ASSETS – Continued**

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

Depreciation expense was charged to functions as follows:

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



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

**NOTE 5 – LONG-TERM LIABILITIES**

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 29,355	\$ 4,002	\$ -	\$ 33,357	\$ 33,357
Governmental activities long-term liabilities	<u>\$ 29,355</u>	<u>\$ 4,002</u>	<u>\$ -</u>	<u>\$ 33,357</u>	<u>\$ 33,357</u>
Business-type activities:					
Compensated absences payable	\$ 6,601	\$ 2,104	\$ -	\$ 8,705	\$ 8,705
Landfill closure costs	219,188	20,156	-	239,344	-
Notes payable	<u>350,784</u>	<u>-</u>	<u>26,329</u>	<u>324,455</u>	<u>27,360</u>
Business-type activities long-term liabilities	<u>\$ 576,573</u>	<u>\$ 22,260</u>	<u>\$ 26,329</u>	<u>\$ 572,504</u>	<u>\$ 36,065</u>

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

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

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

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

Notes payable consisted of the following:

<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%	\$ 102,143
Note payable - United States Department of Agriculture	<u>400,000</u>	2009-2025	4.125%	<u>222,312</u>
	<u>\$ 775,000</u>			<u>\$ 324,455</u>

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 – RETIREMENT PLANS**

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 7 – RETIREMENT PLANS – Continued**

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

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

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

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

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

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

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

**NOTE 7 – RETIREMENT PLANS – Continued**

**Pension**

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

**Health Insurance**

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

**NOTE 8 – CLOSURE AND POSTCLOSURE COSTS**

State and federal laws and regulations require the Town to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$239,344 reported as landfill closure and post closure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 36 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$424,967 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2013-2014. The Town expects to close the landfill in the year 2050, and the actual cost may be higher due to inflation, changes in technology, and changes in regulations.

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

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

***NOTE 9 – CONTINGENT LIABILITIES***

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

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

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

*See accompanying notes to budgetary comparison schedule.*

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

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

*See accompanying notes to budgetary comparison schedule.*



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

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

*See accompanying notes to budgetary comparison schedule.*

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

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

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

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

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**June 30, 2014**

**Pension**

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

**Health Insurance**

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



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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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Patagonia, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Patagonia, Arizona's basic financial statements and have issued our report thereon dated February 24, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Patagonia, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Patagonia, Arizona's internal control.

*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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we

consider to be material weaknesses. We consider the all of the deficiencies described in the accompanying schedule of findings and responses 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 from 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 is required to be reported under *Government Auditing Standards*.

### **Town of Patagonia, Arizona's Response to Findings**

The Town of Patagonia, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Patagonia, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 24, 2015

**TOWN OF PATAGONIA, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2014**

**Financial Statement Findings**

Audit findings and responses are as follows:

***Item: 07-03***

*Subject:* Computer access controls.

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

We recommend that management 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.

*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.

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

We recommend that the Town 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.

**TOWN OF PATAGONIA, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2014**

***Item: 13-01***

*Subject:* Payroll liabilities.

During our audit we discovered that various liability accounts related to payroll accounts were not posting correctly to appropriate departments. Management did not reconcile these accounts on a timely basis.

We recommended that management contact Caselle to correct the allocations of payroll liabilities for each department. Management should reconcile these accounts monthly to verify that there are no errors or misallocations.

*Response:* Management agrees with this finding and will implement the procedures recommended by the auditors.

***Item: 13-02***

*Subject:* Capital assets.

During our audit we discovered that capital assets are being expensed in the proprietary funds. Generally accepted accounting principles require that capital assets be recorded as an asset and depreciated over their estimated useful lives.

We recommended that management implement procedures to ensure that capital assets are recorded as assets in the proprietary funds.

*Response:* Management agrees with this finding and will implement the procedures recommended by the auditors.