

TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2016

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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, each major fund, and the aggregate remaining fund information of the Town of Patagonia, Arizona, as of and for the year ended June 30, 2016, 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, each major fund, and the aggregate remaining fund information of the Town of Patagonia, Arizona, as of June 30, 2016, 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

The Town of Patagonia, Arizona has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing 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.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 43 through 46, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 47, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 48, Schedule of Town Pension Contributions on page 49, and Schedule of Agent OPEB Plans' Funding Progress on page 51, 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 16, 2017, 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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

Colby + Powell

February 16, 2017

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 712,204	\$ -	\$ 712,204
Accounts receivable	-	44,663	44,663
Due from other governments	36,131	-	36,131
Prepaid expenses	38,278	19,139	57,417
Deposits	-	26,857	26,857
Cash, restricted	-	49,120	49,120
Interactivity balances	2,018	(2,018)	-
Capital assets, not being depreciated	355,867	150,540	506,407
Capital assets, being depreciated, net	1,927,205	3,672,674	5,599,879
Total assets	<u>3,071,703</u>	<u>3,960,975</u>	<u>7,032,678</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	208,719	19,906	228,625
LIABILITIES			
Accounts payable	16,405	32,552	48,957
Accrued expenses	20,387	-	20,387
Refundable deposits	-	22,263	22,263
Compensated absences			
Due within 1 year	34,357	11,658	46,015
Noncurrent liabilities			
Due within 1 year	-	36,062	36,062
Due in more than 1 year	980,506	1,153,033	2,133,539
Total liabilities	<u>1,051,655</u>	<u>1,255,568</u>	<u>2,307,223</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	66,941	29,589	96,530
NET POSITION			
Net investment in capital assets	2,283,072	3,080,563	5,363,635
Restricted for:			
Court enhancement	82,876	-	82,876
Library	3,194	-	3,194
Debt service	-	26,857	26,857
Repairs and replacements	-	26,857	26,857
Unrestricted (deficit)	(207,316)	(438,553)	(645,869)
Total net position	<u>\$ 2,161,826</u>	<u>\$ 2,695,724</u>	<u>\$ 4,857,550</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 250,544	\$ 40,991	\$ 15,502	\$ -	\$ (194,051)	\$ -	\$ (194,051)
Public safety	626,412	145,902	-	5,686	(474,824)	-	(474,824)
Highways and streets	196,762	-	96,698	-	(100,064)	-	(100,064)
Culture and recreation	196,720	2,335	36,534	-	(157,851)	-	(157,851)
Total governmental activities	1,270,438	189,228	148,734	5,686	(926,790)	-	(926,790)
Business-type activities							
Water/wastewater	437,846	293,872	8,811	-	-	(135,163)	(135,163)
Solid waste	188,245	173,712	-	-	-	(14,533)	(14,533)
Total business-type activities	626,091	467,584	8,811	-	-	(149,696)	(149,696)
Total primary government	\$ 1,896,529	\$ 656,812	\$ 157,545	\$ 5,686	(926,790)	(149,696)	(1,076,486)
General revenue:							
Taxes:							
Town sales tax					232,412	-	232,412
Franchise fees					13,195	-	13,195
State revenue sharing					180,600	-	180,600
State sales tax					85,933	-	85,933
Auto lieu tax					69,260	-	69,260
Investment income					2,011	827	2,838
Total general revenue					583,411	827	584,238
Change in net position					(343,379)	(148,869)	(492,248)
Net position, beginning of year					2,505,205	2,844,593	5,349,798
Net position, end of year					<u>\$ 2,161,826</u>	<u>\$ 2,695,724</u>	<u>\$ 4,857,550</u>

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 709,010	\$ -	\$ 3,194	\$ 712,204
Due from other governments	27,330	8,801	-	36,131
Prepaid expenses	19,139	19,139	-	38,278
Due from other funds	56,654	-	-	56,654
Total assets	\$ 812,133	\$ 27,940	\$ 3,194	\$ 843,267
Liabilities				
Accounts payable	\$ 16,405	\$ -	\$ -	\$ 16,405
Accrued expenses	18,029	2,358	-	20,387
Due to other funds	-	54,636	-	54,636
Total liabilities	34,434	56,994	-	91,428
Fund balances				
Nonspendable	73,775	19,139	-	92,914
Restricted for:				
Court enhancement	82,876	-	-	82,876
Library	-	-	3,194	3,194
Unassigned	621,048	(48,193)	-	572,855
Total fund balance	777,699	(29,054)	3,194	751,839
Total liabilities, deferred inflows of resources, and fund balance	\$ 812,133	\$ 27,940	\$ 3,194	\$ 843,267

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, 2016

Fund balances-total governmental funds	\$ 751,839
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.	2,283,072
Long-term liabilities, such as net pension liabilities and compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(1,014,863)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>141,778</u>
Net position of governmental activities	<u><u>\$2,161,826</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, 2016

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenues				
Intergovernmental	\$ 404,581	\$ 96,698	\$ -	\$ 501,279
Taxes	232,412	-	-	232,412
Fines and forfeitures	145,902	-	-	145,902
Charges for services	25,098	-	-	25,098
Other revenue	20,717	-	-	20,717
Licenses and permits	18,775	-	-	18,775
Franchise fees	13,195	-	-	13,195
Investment income	1,880	131	-	2,011
Total revenues	<u>862,560</u>	<u>96,829</u>	<u>-</u>	<u>959,389</u>
Expenditures				
Current				
General government	215,835	-	-	215,835
Public safety	480,717	-	-	480,717
Highways and streets	-	86,358	-	86,358
Culture and recreation	173,442	-	-	173,442
Capital outlay	74,141	29,058	-	103,199
Total expenditures	<u>944,135</u>	<u>115,416</u>	<u>-</u>	<u>1,059,551</u>
Net change in fund balances	(81,575)	(18,587)	-	(100,162)
Fund balance, beginning of year	<u>859,274</u>	<u>(10,467)</u>	<u>3,194</u>	<u>852,001</u>
Fund balance, end of year	<u>\$ 777,699</u>	<u>\$ (29,054)</u>	<u>\$ 3,194</u>	<u>\$ 751,839</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, 2016

Net change in fund balances-total governmental funds \$ (100,162)

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.

Current year capital acquisitions	103,199	
Current year depreciation expense	<u>(205,758)</u>	
		(102,559)

Revenue in the Statement of Activities that do not provide
current financial resources are not reported as revenue
in the funds. (32,330)

Town pension contributions are reported as expenditures
in the governmental funds when made. However,
they are reported as deferred outflows of resources in
the Statement of Net Position because the reported net
pension liability is measured a year before the Town's
report date. Pension expense, which is the change in
the net pension liability adjusted for changes in deferred
outflows and inflows of resources related to pensions,
is reported in the Statement of Activities.

Town pension contributions	92,692	
Pension expense	<u>(199,057)</u>	
		(106,365)

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.

Increase in compensated absences payable	<u>(1,963)</u>	
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Change in net position of governmental activities \$ (343,379)

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

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Assets			
Current assets			
Accounts receivable-net	\$ 28,195	\$ 16,468	\$ 44,663
Prepaid expenses	19,139	-	19,139
Due from other funds	-	24,284	24,284
Total current assets	<u>47,334</u>	<u>40,752</u>	<u>88,086</u>
Noncurrent assets			
Deposit	26,857	-	26,857
Cash, restricted	41,325	7,795	49,120
Capital assets, net of accumulated depreciation, where applicable:			
Land	30,540	120,000	150,540
Utilities systems	2,937,143	520,730	3,457,873
Equipment	86,046	128,755	214,801
Capital assets, net	<u>3,053,729</u>	<u>769,485</u>	<u>3,823,214</u>
Total noncurrent assets	<u>3,121,911</u>	<u>777,280</u>	<u>3,899,191</u>
Total assets	<u>3,169,245</u>	<u>818,032</u>	<u>3,987,277</u>
Deferred outflows of resources			
Deferred outflows related to pensions	<u>15,003</u>	<u>4,903</u>	<u>19,906</u>
Liabilities			
Current liabilities			
Accounts payable	30,713	1,839	32,552
Refundable deposits	14,468	7,795	22,263
Compensated absences	8,263	3,395	11,658
Due to other funds	26,302	-	26,302
Notes payable, current	17,787	18,275	36,062
Total current liabilities	<u>97,533</u>	<u>31,304</u>	<u>128,837</u>
Noncurrent liabilities			
Note payable	537,038	169,551	706,589
Estimated liability for landfill closure	-	281,780	281,780
Net pension liability	124,104	40,560	164,664
Total noncurrent liabilities	<u>661,142</u>	<u>491,891</u>	<u>1,153,033</u>
Total liabilities	<u>758,675</u>	<u>523,195</u>	<u>1,281,870</u>
Deferred inflows of resources			
Deferred inflows related to pensions	<u>22,301</u>	<u>7,288</u>	<u>29,589</u>
Net position			
Net investment in capital assets	2,498,904	581,659	3,080,563
Restricted for:			
Debt service	26,857	-	26,857
Repairs and replacements	26,857	-	26,857
Unrestricted (deficit)	<u>(149,346)</u>	<u>(289,207)</u>	<u>(438,553)</u>
Total net position	<u>\$ 2,403,272</u>	<u>\$ 292,452</u>	<u>\$ 2,695,724</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, 2016

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
	Fund	Fund	Total
Operating revenue			
Water (net of bad debts of \$177)	\$ 137,434	\$ -	\$ 137,434
Sewer (net of bad debts of \$105)	156,438	-	156,438
Sanitation (net of bad debts of \$102)	-	173,712	173,712
Total operating revenue	<u>293,872</u>	<u>173,712</u>	<u>467,584</u>
Operating expenses			
Personnel	138,840	56,509	195,349
Depreciation	125,318	42,656	167,974
Supplies	62,478	8,274	70,752
Contract services	22,181	21,011	43,192
Utilities	39,087	1,348	40,435
Landfill closure expense	-	35,864	35,864
Repairs and maintenance	16,496	8,792	25,288
Insurance	14,926	5,649	20,575
Travel and training	40	-	40
Total operating expenses	<u>419,366</u>	<u>180,103</u>	<u>599,469</u>
Operating income (loss)	<u>(125,494)</u>	<u>(6,391)</u>	<u>(131,885)</u>
Nonoperating revenue (expenses)			
Noncapital grant	8,811	-	8,811
Investment income	789	38	827
Interest expense	(18,480)	(8,142)	(26,622)
Total nonoperating revenue (expenses)	<u>(8,880)</u>	<u>(8,104)</u>	<u>(16,984)</u>
Increase (decrease) in net position	<u>(134,374)</u>	<u>(14,495)</u>	<u>(148,869)</u>
Total net position, beginning of year	<u>2,537,646</u>	<u>306,947</u>	<u>2,844,593</u>
Total net position, end of year	<u>\$ 2,403,272</u>	<u>\$ 292,452</u>	<u>\$ 2,695,724</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, 2016

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 292,432	\$ 173,421	\$ 465,853
Payments to suppliers	(162,792)	(48,439)	(211,231)
Payments to employees	(136,500)	(56,118)	(192,618)
Net cash provided (used) by operating activities	<u>(6,860)</u>	<u>68,864</u>	<u>62,004</u>
Cash Flows from Non-capital Financing Activities			
Contributions from noncapital grants	8,811	-	8,811
Principal payments to other funds	-	(42,329)	(42,329)
Received from other funds	44,347	-	44,347
Net cash provided (used) by non-capital financing activities	<u>53,158</u>	<u>(42,329)</u>	<u>10,829</u>
Cash Flows from Capital and Related Financing Activities			
Interest payments on notes payable	(18,480)	(8,142)	(26,622)
Principal payments on notes payable	(17,201)	(17,537)	(34,738)
Purchase of capital assets	(54,050)	-	(54,050)
Net cash provided (used) by capital and related financing activities	<u>(89,731)</u>	<u>(25,679)</u>	<u>(115,410)</u>
Cash Flows from Investing Activities			
Interest received	789	38	827
Net increase (decrease) in cash and cash equivalents	(42,644)	894	(41,750)
Cash and cash equivalents, beginning of year	83,969	6,901	90,870
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 41,325</u>	<u>\$ 7,795</u>	<u>\$ 49,120</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, 2016
(Continued)

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (125,494)	\$ (6,391)	\$ (131,885)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	125,318	42,656	167,974
Bad debt	282	102	384
Pension expense	3,286	1,074	4,360
Employer pension contributions	(9,199)	(2,992)	(12,191)
(Increase) decrease in:			
Accounts receivable	(2,738)	(1,287)	(4,025)
Prepaid expenses	95	-	95
Increase (decrease) in:			
Accounts payable	(1,766)	(1,147)	(2,913)
Refundable deposits	1,016	894	1,910
Compensated absences	2,340	390	2,730
Estimated liability for landfill closure	-	35,565	35,565
Total adjustments	<u>118,634</u>	<u>75,255</u>	<u>193,889</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (6,860)</u>	<u>\$ 68,864</u>	<u>\$ 62,004</u>

NON-CASH INVESTING AND FINANCING ACTIVITIES - The Town had purchased \$17,628 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
Notes to Financial Statements
June 30, 2016

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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2016 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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. 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,
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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Impact of Recently Issued Accounting Principles

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. 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.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local

TOWN OF PATAGONIA, ARIZONA

Notes to Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016, the carrying amount of the Town’s total cash in bank was \$82,828 and the bank balance was \$106,488. 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 \$49,120 consists of cash restricted for customer utility deposits and repairs and replacements.

Investments – At June 30, 2016, 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	AAA	\$ 549,432	\$ 549,432
Arizona LGIP Pool 7	N/A	Unrated	90,868	90,868
Arizona LGIP Pool 500	N/A	Unrated	35,747	35,747
			<u>\$ 676,047</u>	<u>\$ 676,047</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, 2016

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the governmental funds at June 30, 2016 included \$6,653 in state-shared revenue from sales taxes, \$11,135 in town sales taxes collected by the State of Arizona, \$3,161 in county-shared revenue from auto lieu taxes, \$5,325 in county library grants, \$1,056 in public safety and other grants from the State of Arizona, and \$8,801 in state-shared revenue from highway user revenue fund (HURF) taxes.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
Capital assets being depreciated:				
Equipment	560,651	84,141	-	644,792
Buildings	1,824,136	-	-	1,824,136
Parks	239,409	2,018	-	241,427
Streets	3,499,792	17,040	-	3,516,832
Total	<u>6,123,988</u>	<u>103,199</u>	<u>-</u>	<u>6,227,187</u>
Less accumulated depreciation for:				
Equipment	(416,327)	(29,015)	-	(445,342)
Buildings	(889,097)	(59,007)	-	(948,104)
Parks	(212,650)	(8,205)	-	(220,855)
Streets	(2,576,150)	(109,531)	-	(2,685,681)
Total	<u>\$ (4,094,224)</u>	<u>\$ (205,758)</u>	<u>\$ -</u>	<u>(4,299,982)</u>
Total capital assets being depreciated, net	<u>2,029,764</u>	<u>(102,559)</u>	<u>-</u>	<u>1,927,205</u>
Governmental activities capital assets, net	<u>\$ 2,385,631</u>	<u>\$ (102,559)</u>	<u>\$ -</u>	<u>\$ 2,283,072</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 4 – CAPITAL ASSETS – Continued

	Balance			Balance
	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 150,540	\$ -	\$ -	\$ 150,540
Capital assets being depreciated:				
Land improvements	738,732	-	-	738,732
Buildings	1,737,224	-	-	1,737,224
Utility systems	2,326,456	-	-	2,326,456
Machinery and equipment	641,894	39,646	-	681,540
Total	<u>5,444,306</u>	<u>39,646</u>	<u>-</u>	<u>5,483,952</u>
Less accumulated depreciation for:				
Land improvements	(193,377)	(24,625)	-	(218,002)
Buildings	(495,654)	(43,431)	-	(539,085)
Utility systems	(516,533)	(70,918)	-	(587,451)
Machinery and equipment	(437,740)	(29,000)	-	(466,740)
Total	<u>\$ (1,643,304)</u>	<u>\$ (167,974)</u>	<u>\$ -</u>	<u>(1,811,278)</u>
Total capital assets				
being depreciated, net	<u>3,801,002</u>	<u>(128,328)</u>	<u>-</u>	<u>3,672,674</u>
Business-type activities capital assets, net	<u>\$ 3,951,542</u>	<u>\$ (128,328)</u>	<u>\$ -</u>	<u>\$ 3,823,214</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 39,707
Public safety	27,537
Highways and streets	111,009
Culture and recreation	27,505
Total governmental activities depreciation expense	<u>\$ 205,758</u>
Business-type activities:	
Water/Wastewater	\$ 125,318
Solid Waste	42,656
Total business-type activities depreciation expense	<u>\$ 167,974</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 32,394	\$ 1,963	\$ -	\$ 34,357	\$ 34,357
Net pension liability	890,694	89,812	-	980,506	-
Governmental activities long-term liabilities	<u>\$ 923,088</u>	<u>\$ 91,775</u>	<u>\$ -</u>	<u>\$ 1,014,863</u>	<u>\$ 34,357</u>
Business-type activities					
Compensated absences payable	\$ 8,928	\$ 2,730	\$ -	\$ 11,658	\$ 11,658
Net pension liability	176,699	-	12,035	164,664	-
Landfill closure costs	246,215	35,565	-	281,780	-
Notes payable	777,389	-	34,738	742,651	36,062
Business-type activities long-term liabilities	<u>\$ 1,209,231</u>	<u>\$ 38,295</u>	<u>\$ 46,773</u>	<u>\$ 1,200,753</u>	<u>\$ 47,720</u>

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2016.

Year Ending June 30	<u>Business-type activities</u>	
	Notes Payable	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 36,062	\$ 25,299
2018	37,437	23,924
2019	38,864	22,497
2020	40,347	21,015
2021	41,886	19,475
2022-2026	149,584	75,881
2027-2031	48,128	61,012
2032-2036	56,608	52,532
2037-2041	66,582	42,558
2042-2046	78,313	30,827
2047-2051	92,110	17,030
2052-2056	56,730	2,618
Total	<u>\$ 742,651</u>	<u>\$ 394,668</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

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%	\$ 80,647
Note payable - United States Department of Agriculture	400,000	2009-2025	4.125%	187,826
Note payable - United States Department of Agriculture	<u>481,000</u>	2015-2054	3.250%	<u>474,178</u>
	<u>\$ 1,256,000</u>			<u>\$ 742,651</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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2016, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net pension liabilities	\$ 980,506	\$ 164,664	\$ 1,145,170
Deferred outflows of resources	208,719	19,906	228,625
Deferred inflows of resources	66,941	29,589	96,530
Pension expense	199,057	4,360	203,417

The Town reported \$91,941 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2016,

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$32,132. The Town’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2016	\$ 1,481	\$ 355
2015	1,536	312
2014	1,727	691

During fiscal year 2016, the Town paid for ASRS pension and OPEB contributions as follows: 54.56 percent from the General Fund, 8.05 percent from the HURF/LTAF Fund, 28.18 percent from the Water/Wastewater Fund, and 9.21 percent from the Solid Waste Fund.

Pension Liability – At June 30, 2016, the Town reported a liability of \$440,397 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town’s proportion of the net pension liability was based on the Town’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2015. The Town’s proportion measured as of June 30, 2015, was .002830 percent, which was a decrease of .000364 from its proportion measured as of June 30, 2014.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$11,660. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,017	\$ 23,077
Net difference between projected and actual earnings on pension plan investments	-	14,114
Changes in proportion and differences between Town contributions and proportionate share of contributions	9,089	41,946
Town contributions subsequent to the measurement date	<u>32,132</u>	<u>-</u>
Total	<u>\$ 53,238</u>	<u>\$ 79,137</u>

The \$32,132 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ (21,421)
2018	(32,786)
2019	(14,012)
2020	10,188
2021	-
Thereafter	-

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Town's proportionate share of the net pension liability	\$ 577,071	\$ 440,397	\$ 346,731

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System

Plan Descriptions – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS

	<u>Initial membership date:</u>	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3
Active employees	2
Total	7

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police
Active Members - Pension	11.65%
Town	
Pension	53.47%
Health insurance premium benefit	0.00%

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

PSPRS

Pension	<u>PSPRS Police</u>
Contributions Made	\$ 71,823
Health Insurance Premium Benefit	
Annual OPEB cost	-
Contributions made	-

During fiscal year 2016, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2016, the Town reported the following net pension liability:

	<u>Net Pension Liability (Asset)</u>
PSPRS Police	\$ 704,773

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town’s net pension liability as a result of the statutory adjustments is not known.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

PSPRS

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 1,162,051	\$ 567,243	\$ 594,808
Changes for the year			
Service Cost	23,998	-	23,998
Interest on the total pension liability	89,395	-	89,395
Differences between expected and actual experience in the measurement of the pension liability	83,333	-	83,333
Contributions-employer	-	53,850	(53,850)
Contributions-employee	-	13,518	(13,518)
Net investment income	-	20,805	(20,805)
Benefit payments, including refunds of employee contributions	(70,533)	(70,533)	-
Administrative expense	-	(889)	889
Other changes	-	(523)	523
Net changes	126,193	16,228	109,965
Balances at June 30, 2016	\$ 1,288,244	\$ 583,471	\$ 704,773

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	<u>1% Decrease (6.85%)</u>	<u>Current Discount Rate (7.85%)</u>	<u>1% Increase (8.85%)</u>
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 869,289	\$ 704,773	\$ 571,338

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2016, the Town recognized the following pension expense:

	<u>Pension Expense</u>
PSPRS Police	\$ 191,757

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 48,677	\$ -
Changes of assumptions or other inputs	36,052	-
Net difference between projected and actual earnings on pension plan investments	18,835	17,393
Town contributions subsequent to the measurement date	71,823	-
Total	<u>\$ 175,387</u>	<u>\$ 17,393</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	PSPRS Police	
2017	\$	71,359
2018		11,192
2019		(1,088)
2020		4,708
2021		-
Thereafter		-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts’ value and assumptions about the probability of events in the future. Amounts determined regarding the plans’ funded status 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 progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Projections of benefits are based on (1) the plans as understood by the Town and plans’ 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 plans’ 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 actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ -	100%	\$ -
2015	590	100%	-
2014	1,072	0%	-

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	<u>PSPRS Police</u>	
Actuarial value of assets (a)	\$	31,978
Actuarial accrued liability (b)	\$	4,020
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(27,958)
Funded ratio (a)/(b)		795.47%
Annual covered payroll (c)	\$	134,324
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll		0.00%

The actuarial methods and assumptions for the most recent valuation date are as follows:

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2016

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 \$281,780 reported as landfill closure and post closure care liability at June 30, 2016, represents the cumulative amount reported to date based on the use of 40 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$422,670 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 2015-2016. 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, 2016.

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 541,442	\$ 541,442	\$ 404,581	\$ (136,861)
Taxes	235,000	235,000	232,412	(2,588)
Fines and forfeitures	136,570	136,570	145,902	9,332
Charges for services	33,180	33,180	25,098	(8,082)
Other revenue	142,750	142,750	20,717	(122,033)
Licenses and permits	32,500	32,500	18,775	(13,725)
Franchise fees	16,000	16,000	13,195	(2,805)
Investment income	1,000	1,000	1,880	880
Total revenues	<u>1,138,442</u>	<u>1,138,442</u>	<u>862,560</u>	<u>(275,882)</u>
Expenditures				
Current				
General government	299,252	299,252	215,835	83,417
Public safety	571,069	571,069	480,717	90,352
Culture and recreation	193,962	193,962	173,442	20,520
Capital outlay	74,141	74,141	74,141	-
Total expenditures	<u>1,138,424</u>	<u>1,138,424</u>	<u>944,135</u>	<u>194,289</u>
Excess (deficiency) of revenue over (under) expenditures	<u>18</u>	<u>18</u>	<u>(81,575)</u>	<u>(81,593)</u>
Other financing sources (uses)				
Transfers	<u>(20,500)</u>	<u>(20,500)</u>	<u>-</u>	<u>20,500</u>
Net change in fund balances	(20,482)	(20,482)	(81,575)	(61,093)
Fund balance, beginning of year	<u>859,274</u>	<u>859,274</u>	<u>859,274</u>	<u>-</u>
Fund balance, end of year	<u>\$ 838,792</u>	<u>\$ 838,792</u>	<u>\$ 777,699</u>	<u>\$ (61,093)</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 125,821	\$ 125,821	\$ 96,698	\$ (29,123)
Investment income	-	-	131	131
Total revenues	<u>125,821</u>	<u>125,821</u>	<u>96,829</u>	<u>(28,992)</u>
Expenditures				
Current				
Highways and streets	86,592	86,592	86,358	234
Capital outlay	29,058	29,058	29,058	-
Total expenditures	<u>115,650</u>	<u>115,650</u>	<u>115,416</u>	<u>234</u>
Excess (deficiency) of revenue over (under) expenditures	<u>10,171</u>	<u>10,171</u>	<u>(18,587)</u>	<u>(28,758)</u>
Other financing sources (uses)				
Transfers	20,500	20,500	-	(20,500)
Net change in fund balances	30,671	30,671	(18,587)	(49,258)
Fund balance, beginning of year	(10,467)	(10,467)	(10,467)	-
Fund balance, end of year	<u>\$ 20,204</u>	<u>\$ 20,204</u>	<u>\$ (29,054)</u>	<u>\$ (49,258)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Charges for services	-	-	-	-
Other revenue	-	-	-	-
Licenses and permits	-	-	-	-
Franchise fees	-	-	-	-
Investment income	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfers	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<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, 2016

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 the Town's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Town's proportion of the net pension liability	0.002830%	0.003194%	Information not available
Town's proportionate share of the net pension liability	\$ 440,397	\$ 472,585	Information not available
Town's covered-employee payroll	\$ 260,413	\$ 287,907	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

PSPRS

	Reporting Fiscal Year		
	(Measurement Date)		
	2016	2015	2014
	(2015)	(2014)	through
			2007
Total pension liability			Information not available
Service cost	\$ 23,998	\$ 12,222	
Interest on the total pension liability	89,395	65,583	
Changes of benefit terms	-	51,744	
Differences between expected and actual experience in the measurement of the pension liability	83,333	5,598	
Changes of assumptions or other inputs	-	232,088	
Benefit payments, including refunds of employee contributions	<u>(70,533)</u>	<u>(69,041)</u>	
Net change in total pension liability	126,193	298,194	
Total pension liability - beginning	<u>1,162,051</u>	<u>863,857</u>	
Total pension liability - ending (a)	<u><u>\$ 1,288,244</u></u>	<u><u>\$ 1,162,051</u></u>	
Plan fiduciary net position			
Contributions - employer	\$ 53,850	\$ 22,396	
Contributions - employee	13,518	10,293	
Net investment income	20,805	70,331	
Benefit payments, including refunds of employee contributions	(70,533)	(69,041)	
Administrative expense	(889)	-	
Other changes	<u>(523)</u>	<u>(23,125)</u>	
Net change in plan fiduciary net position	16,228	10,854	
Plan fiduciary net position - beginning	<u>567,243</u>	<u>556,389</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 583,471</u></u>	<u><u>\$ 567,243</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ 704,773</u></u>	<u><u>\$ 594,808</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	45.29%	48.81%	
Covered-employee payroll	\$ 122,331	\$ 101,139	
Town's net pension liability (asset) as a percentage of covered-employee payroll	576.12%	588.11%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2016

Arizona State Retirement System

	<u>Reporting Fiscal Year</u>			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 32,132	\$ 28,359	\$ 30,806	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(32,132)</u>	<u>(28,359)</u>	<u>(30,806)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 296,147	\$ 260,413	\$ 287,907	
Town's contributions as a percentage of covered- employee payroll	10.85%	10.89%	10.70%	

PSPRS

	<u>Reporting Fiscal Year</u>			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 71,823	\$ 53,850	\$ 22,396	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(71,823)</u>	<u>(53,850)</u>	<u>(22,396)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 134,324	\$ 122,331	\$ 101,139	
Town's contributions as a percentage of covered- employee payroll	53.47%	44.02%	22.14%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

Health Insurance Premium Benefit - PSPRS

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 ([b-a]/c)
06/30/16	\$ 31,978	\$ 4,020	\$ (27,958)	795.5 %	\$ 134,324	0.00 %
06/30/15	29,977	2,910	(27,067)	1030.1	122,331	0.00
06/30/14	27,427	2,113	(25,314)	1298.0	101,139	0.00

See accompanying notes to schedule of agent OPEB plans' funding progress.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.



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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 the Town of Patagonia, Arizona, as of and for the year ended June 30, 2016, 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 16, 2017.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider all of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

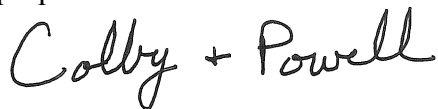
As part of obtaining reasonable assurance about whether the Town of Patagonia, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 questioned costs. 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 16, 2017

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2016

Financial Statement Findings

Item: 2007-003

Subject: Computer access controls.

Currently, every employee who uses the accounting software 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 the accounting software'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: 2010-003

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, 2016

Item: 2013-001

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 the accounting software provider 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.