

TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
Government-wide Statements	
Statement of Net Position	4
Statement of Activities.....	5
Fund Statements	
Governmental Funds	
Balance Sheet	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenue, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government- wide Statement of Activities	9
Proprietary Funds	
Statement of Net Position	10
Statement of Revenue, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	14
Required Supplementary Information	
Budgetary Comparison Schedules	42
Notes to Budgetary Comparison Schedules	44
Schedule of the Town's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans	45
Schedule of Changes in the Town's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans	46
Schedule of Town Pension/OPEB Contributions	48
Notes to Pension/OPEB plan schedules.....	50
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 <i>Government Auditing Standards</i>	51
Schedule of Findings and Responses	53



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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Patagonia, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Patagonia, Arizona, as of and for the year ended June 30, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2018, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75. Our opinions are not modified with respect to this matter.

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 Management's Discussion, Budgetary Comparison Schedules and net pension liability and other post-employment benefit plan information, as listed in the table of contents, 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 March 5, 2019, 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.

A handwritten signature in black ink that reads "Colby + Powell". The signature is written in a cursive, flowing style.

March 5, 2019

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 619,950	\$ 121,042	\$ 740,992
Cash and cash equivalents, restricted	-	77,857	77,857
Accounts receivable	-	71,778	71,778
Taxes receivable	2,493	-	2,493
Due from other governments	69,142	-	69,142
Prepaid expenses	35,654	18,553	54,207
Internal balances	20,470	(20,470)	-
Net other postemployment benefits asset	29,412	655	30,067
Capital assets, not being depreciated	355,867	150,540	506,407
Capital assets, being depreciated, net	1,660,431	3,739,618	5,400,049
Total assets	<u>2,793,419</u>	<u>4,159,573</u>	<u>6,952,992</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions and other postemployment benefits	<u>141,232</u>	<u>32,118</u>	<u>173,350</u>
LIABILITIES			
Accounts payable	76,759	7,808	84,567
Accrued expenses	9,116	-	9,116
Refundable deposits	-	25,200	25,200
Compensated absences			
Due within 1 year	35,322	13,540	48,862
Noncurrent liabilities			
Due within 1 year	-	38,864	38,864
Due in more than 1 year	934,104	1,100,055	2,034,159
Total liabilities	<u>1,055,301</u>	<u>1,185,467</u>	<u>2,240,768</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions and other postemployment benefits	<u>38,857</u>	<u>13,884</u>	<u>52,741</u>
NET POSITION			
Net investment in capital assets	2,016,298	3,221,007	5,237,305
Restricted for:			
Court enhancement	89,508	-	89,508
Debt service	-	26,857	26,857
Repairs and replacements	-	26,857	26,857
Unrestricted (deficit)	(265,313)	(282,381)	(547,694)
Total net position	<u>\$ 1,840,493</u>	<u>\$ 2,992,340</u>	<u>\$ 4,832,833</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 242,986	\$ 48,926	\$ 386	\$ -	\$ (193,674)	\$ -	\$ (193,674)
Public safety	497,973	53,663	-	-	(444,310)	-	(444,310)
Highways and streets	196,699	-	106,956	-	(89,743)	-	(89,743)
Culture and recreation	199,713	2,676	34,055	-	(162,982)	-	(162,982)
Total governmental activities	1,137,371	105,265	141,397	-	(890,709)	-	(890,709)
Business-type activities							
Water/wastewater	416,485	363,336	-	313,890	-	260,741	260,741
Solid waste	154,521	177,628	-	-	-	23,107	23,107
Total business-type activities	571,006	540,964	-	313,890	-	283,848	283,848
Total primary government	\$ 1,708,377	\$ 646,229	\$ 141,397	\$ 313,890	(890,709)	283,848	(606,861)
General revenue:							
Taxes:							
Town sales tax					384,713	-	384,713
Franchise fees					15,009	-	15,009
State revenue sharing					185,789	-	185,789
State sales tax					84,355	-	84,355
Auto lieu tax					74,615	-	74,615
Miscellaneous					1,186	-	1,186
Investment income					4,450	3,378	7,828
Total general revenue					750,117	3,378	753,495
Change in net position					(140,592)	287,226	146,634
Net position, beginning of year, as restated					1,981,085	2,705,114	4,686,199
Net position, end of year					\$ 1,840,493	\$ 2,992,340	\$ 4,832,833

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 616,756	\$ -	\$ 3,194	\$ 619,950
Taxes receivable	2,493	-	-	2,493
Due from other governments	59,475	9,667	-	69,142
Prepaid expenses	17,101	18,553	-	35,654
Due from other funds	105,849	-	-	105,849
Total assets	\$ 801,674	\$ 28,220	\$ 3,194	\$ 833,088
LIABILITIES				
Accounts payable	\$ 12,240	\$ 64,519	\$ -	\$ 76,759
Accrued expenses	9,116	-	-	9,116
Due to other funds	-	85,379	-	85,379
Total liabilities	21,356	149,898	-	171,254
FUND BALANCES				
Nonspendable	17,101	18,553	-	35,654
Restricted for:				
Court enhancement	89,508	-	-	89,508
Library	-	-	3,194	3,194
Unassigned	673,709	(140,231)	-	533,478
Total fund balance	780,318	(121,678)	3,194	661,834
Total liabilities and fund balance	\$ 801,674	\$ 28,220	\$ 3,194	\$ 833,088

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, 2018

Fund balances-total governmental funds	\$ 661,834
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,016,298
Net pension/OPEB assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds	29,412
Long-term liabilities, such as net pension/OPEB liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(969,426)
Deferred outflows and inflows of resources related to pensions/OPEB and deferred charges or credits on debt refundings are applicable to future reporting periods and,	<u>102,375</u>
Net position of governmental activities	<u><u>\$ 1,840,493</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, 2018

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
Revenues				
Intergovernmental	\$ 374,309	\$ 106,956	\$ -	\$ 481,265
Taxes	384,713	-	-	384,713
Fines and forfeitures	53,663	-	-	53,663
Charges for services	34,151	-	-	34,151
Other revenue	6,077	-	-	6,077
Franchise fees	15,009	-	-	15,009
Licenses and permits	17,451	-	-	17,451
Investment income	4,029	421	-	4,450
Total revenues	<u>889,402</u>	<u>107,377</u>	<u>-</u>	<u>996,779</u>
Expenditures				
Current				
General government	206,464	-	-	206,464
Public safety	423,872	-	-	423,872
Highways and streets	-	79,260	-	79,260
Culture and recreation	177,836	-	-	177,836
Total expenditures	<u>808,172</u>	<u>79,260</u>	<u>-</u>	<u>887,432</u>
Net change in fund balances	81,230	28,117	-	109,347
Fund balance, beginning of year	<u>699,088</u>	<u>(149,795)</u>	<u>3,194</u>	<u>552,487</u>
Fund balance, end of year	<u>\$ 780,318</u>	<u>\$ (121,678)</u>	<u>\$ 3,194</u>	<u>\$ 661,834</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, 2018

Net change in fund balances-total governmental funds		\$ 109,347
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciation expense		(216,479)
<p>Town pension/OPEB 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/OPEB liability is measured a year before the Town's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the Statement of Activities.</p>		
Town pension/OPEB contributions	76,522	
Pension/OPEB expense	(121,890)	(45,368)
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.</p>		
Decrease in PSPRS Parker liability	13,000	
Increase in compensated absences payable	(1,092)	11,908
Change in net position of governmental activities		\$ (140,592)

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

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2018

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 121,042	\$ 121,042
Cash and cash equivalents, restricted	69,612	8,245	77,857
Accounts receivable-net	50,717	21,061	71,778
Prepaid expenses	18,553	-	18,553
Total current assets	<u>138,882</u>	<u>150,348</u>	<u>289,230</u>
Noncurrent assets			
Net other postemployment benefits asset	494	161	655
Capital assets, not being depreciated	30,540	120,000	150,540
Capital assets, being depreciated, net	3,175,445	564,173	3,739,618
Total noncurrent assets	<u>3,206,479</u>	<u>684,334</u>	<u>3,890,813</u>
Total assets	<u>3,345,361</u>	<u>834,682</u>	<u>4,180,043</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions and other postemployment benefits	24,207	7,911	32,118
LIABILITIES			
Current liabilities			
Accounts payable	7,352	456	7,808
Refundable deposits	15,898	9,302	25,200
Compensated absences	9,188	4,352	13,540
Due to other funds	20,470	-	20,470
Notes payable, current	19,020	19,844	38,864
Total current liabilities	<u>71,928</u>	<u>33,954</u>	<u>105,882</u>
Noncurrent liabilities			
Note payable	499,624	130,663	630,287
Estimated liability for landfill closure	-	281,780	281,780
Net pension liability	141,682	46,306	187,988
Total noncurrent liabilities	<u>641,306</u>	<u>458,749</u>	<u>1,100,055</u>
Total liabilities	<u>713,234</u>	<u>492,703</u>	<u>1,205,937</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions and other postemployment benefits	10,464	3,420	13,884
NET POSITION			
Net investment in capital assets	2,687,341	533,666	3,221,007
Restricted for:			
Debt service	26,857	-	26,857
Repairs and replacements	26,857	-	26,857
Unrestricted (deficit)	(95,185)	(187,196)	(282,381)
Total net position	<u>\$ 2,645,870</u>	<u>\$ 346,470</u>	<u>\$ 2,992,340</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, 2018

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Operating revenue			
Water	\$ 172,099	\$ -	\$ 172,099
Sewer	191,237	-	191,237
Sanitation	-	177,628	177,628
Total operating revenue	<u>363,336</u>	<u>177,628</u>	<u>540,964</u>
Operating expenses			
Personnel	146,889	53,851	200,740
Depreciation	119,927	42,656	162,583
Supplies	47,993	15,957	63,950
Contract services	10,693	21,607	32,300
Utilities	42,841	2,147	44,988
Insurance	16,729	6,227	22,956
Repairs and maintenance	13,620	5,139	18,759
Travel and training	505	-	505
Landfill closure expense	-	300	300
Total operating expenses	<u>399,197</u>	<u>147,884</u>	<u>547,081</u>
Operating income (loss)	<u>(35,861)</u>	<u>29,744</u>	<u>(6,117)</u>
Nonoperating revenue (expenses)			
Investment income	3,242	136	3,378
Interest expense	(17,288)	(6,637)	(23,925)
Total nonoperating revenue (expenses)	<u>(14,046)</u>	<u>(6,501)</u>	<u>(20,547)</u>
Income (loss) before capital grant contribution	(49,907)	23,243	(26,664)
Capital grant contribution	<u>313,890</u>	<u>-</u>	<u>313,890</u>
Increase (decrease) in net position	263,983	23,243	287,226
Total net position, beginning of year, as restated	<u>2,381,887</u>	<u>323,227</u>	<u>2,705,114</u>
Total net position, end of year	<u>\$ 2,645,870</u>	<u>\$ 346,470</u>	<u>\$ 2,992,340</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, 2018

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers	\$ 350,193	\$ 176,200	\$ 526,393
Payments to suppliers	(139,950)	(55,495)	(195,445)
Payments to employees	(146,259)	(53,900)	(200,159)
Net cash provided (used) by operating activities	<u>63,984</u>	<u>66,805</u>	<u>130,789</u>
Cash Flows from Non-capital Financing Activities			
Advances (to) from other funds	<u>20,470</u>	<u>-</u>	<u>20,470</u>
Cash Flows from Capital and Related Financing Activities			
Contributions from capital grants	322,642	-	322,642
Interest payments on notes payable	(17,288)	(6,637)	(23,925)
Principal payments on notes payable	(18,394)	(19,043)	(37,437)
Purchase of capital assets	(388,289)	-	(388,289)
Net cash provided (used) by capital and related financing activities	<u>(101,329)</u>	<u>(25,680)</u>	<u>(127,009)</u>
Cash Flows from Investing Activities			
Interest received	<u>3,242</u>	<u>136</u>	<u>3,378</u>
Net increase (decrease) in cash and cash equivalents	(13,633)	41,261	27,628
Cash and cash equivalents, beginning of year	<u>83,245</u>	<u>88,026</u>	<u>171,271</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 69,612</u>	<u>\$ 129,287</u>	<u>\$ 198,899</u>
Cash and cash equivalents	\$ -	\$ 121,042	\$ 121,042
Cash, restricted	<u>69,612</u>	<u>8,245</u>	<u>77,857</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 69,612</u>	<u>\$ 129,287</u>	<u>\$ 198,899</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, 2018
(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)	\$ (35,861)	\$ 29,744	\$ (6,117)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	119,927	42,656	162,583
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	(13,838)	(2,485)	(16,323)
Net other postemployment benefits asset	(494)	(161)	(655)
Deferred outflows of resources related to pensions and other postemployment benefits	15,940	5,211	21,151
Accounts payable	(3,329)	(2,734)	(6,063)
Refundable deposits	695	1,057	1,752
Compensated absences	630	(49)	581
Net pension and other postemployment benefits liability	(5,823)	(1,903)	(7,726)
Deferred inflows of resources related to pensions and other postemployment benefits	(13,863)	(4,531)	(18,394)
Total adjustments	<u>99,845</u>	<u>37,061</u>	<u>136,906</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 63,984</u>	<u>\$ 66,805</u>	<u>\$ 130,789</u>

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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

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.

For the year ended June 30, 2018, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund’s principal activity. Accordingly, revenues, such as user charges and insurance premiums, in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, which is legally restricted to expenditures for authorized transportation purposes.

The ***Grants Fund*** accounts for specific revenue received that is legally restricted to expenditures for specified purposes.

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, proprietary fund, and fiduciary 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. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The Town applies grant resources to such programs before using general revenues.

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 they become both 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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, landfill closure and postclosure care costs, and pollution remediation obligations, 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 the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the Water/Wastewater 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, 2018 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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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 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

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

J. Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council has approved, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but that are neither restricted nor committed. The Town Council has authorized the Town manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use (the Town will use) restricted fund balance first. It is the Town's policy to use (the Town will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*.

	Governmental Activities	Business-type Activities	Total
Net position as previously reported at June 30, 2017	\$ 1,955,563	\$ 2,705,083	\$ 4,660,646
Prior period adjustments-implementation of GASB 75:			
Net OPEB asset (measurement date as of June 30, 2016)	25,468	-	25,468
Net OPEB liability (measurement date as of June 30, 2016)	(1,305)	(780)	(2,085)
Deferred outflows-Town contributions made during fiscal year 2017	1,359	811	2,170
Total prior period adjustment	25,522	31	25,553
Net position, as restated, July 1, 2017	\$ 1,981,085	\$ 2,705,114	\$ 4,686,199
	Water/ Wastewater Fund	Solid Waste Fund	
Net position as previously reported at June 30, 2017	\$ 2,381,864	\$ 323,219	
Prior period adjustments-implementation of GASB 75:			
Net OPEB liability (measurement date as of June 30, 2016)	(588)	(192)	
Deferred outflows-Town contributions made during fiscal year 2017	611	200	
Total prior period adjustment	23	8	
Net position, as restated, July 1, 2017	\$ 2,381,887	\$ 323,227	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investor's service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The Town's investment policy states that the Town will conform with Arizona Revised Statutes. The Town does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS – Continued

Deposits—At June 30, 2018, the carrying amount of the Town’s total cash in bank was \$123,319, and the bank balance was \$171,123. The entire bank balance was covered by federal depository insurance or similar insurance.

Investments—The Town reported the following investments with the State Treasurer:

<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	\$ 540,166	\$ 540,166
Arizona LGIP Pool 7	N/A	Unrated	91,869	91,869
Arizona LGIP Pool 500	N/A	Unrated	36,338	36,338
			<u>\$ 668,373</u>	<u>\$ 668,373</u>

Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Deposits	
Cash on hand	\$ 300
Cash held by trustee	26,857
Cash in bank	123,319
Investments	
State Treasurer's Investment Pool	<u>668,373</u>
Total deposits and investments	818,849
Cash and cash equivalents - restricted	<u>(77,857)</u>
Total cash and cash equivalents	<u>\$ 740,992</u>

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the governmental funds at June 30, 2018 included \$3,014 in state-shared revenue from sales taxes, \$48,419 in town sales taxes collected by the State of Arizona, \$2,717 in county-shared revenue from auto lieu taxes, \$5,325 in county library grants, and \$9,667 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
Capital assets being depreciated:				
Equipment	667,728	-	-	667,728
Buildings	1,829,175	-	-	1,829,175
Parks	241,427	-	-	241,427
Streets	3,649,920	-	-	3,649,920
Total	<u>6,388,250</u>	<u>-</u>	<u>-</u>	<u>6,388,250</u>
Less accumulated depreciation for:				
Equipment	(479,519)	(34,951)	-	(514,470)
Buildings	(1,007,216)	(59,259)	-	(1,066,475)
Parks	(229,180)	(5,655)	-	(234,835)
Streets	(2,795,425)	(116,614)	-	(2,912,039)
Total	<u>\$(4,511,340)</u>	<u>\$(216,479)</u>	<u>\$ -</u>	<u>(4,727,819)</u>
Total capital assets being depreciated, net	<u>1,876,910</u>	<u>(216,479)</u>	<u>-</u>	<u>1,660,431</u>
Governmental activities capital assets, net	<u>\$ 2,232,777</u>	<u>\$(216,479)</u>	<u>\$ -</u>	<u>\$ 2,016,298</u>
	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
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	2,335,098	331,448	-	2,666,546
Machinery and equipment	681,540	48,199	-	729,739
Total	<u>5,492,594</u>	<u>379,647</u>	<u>-</u>	<u>5,872,241</u>
Less accumulated depreciation for:				
Land improvements	(242,627)	(24,625)	-	(267,252)
Buildings	(582,516)	(43,431)	-	(625,947)
Utility systems	(648,638)	(63,475)	-	(712,113)
Machinery and equipment	(496,259)	(31,052)	-	(527,311)
Total	<u>\$(1,970,040)</u>	<u>\$(162,583)</u>	<u>\$ -</u>	<u>(2,132,623)</u>
Total capital assets being depreciated, net	<u>3,522,554</u>	<u>217,064</u>	<u>-</u>	<u>3,739,618</u>
Business-type activities capital assets, net	<u>\$ 3,673,094</u>	<u>\$ 217,064</u>	<u>\$ -</u>	<u>\$ 3,890,158</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 5 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 39,959
Public safety	33,234
Highways and streets	118,331
Culture and recreation	<u>24,955</u>
Total governmental activities depreciation expense	<u>\$ 216,479</u>
Business-type activities:	
Water/Wastewater	\$ 119,927
Solid Waste	<u>42,656</u>
Total business-type activities depreciation expense	<u>\$ 162,583</u>

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2018.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities:					
Compensated absences	\$ 34,230	\$ 1,092	\$ -	\$ 35,322	\$ 35,322
Net pension/OPEB liability	<u>946,213</u>	<u>-</u>	<u>12,109</u>	<u>934,104</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 980,443</u>	<u>\$ 1,092</u>	<u>\$ 12,109</u>	<u>\$ 969,426</u>	<u>\$ 35,322</u>
Business-type activities					
Compensated absences	\$ 12,959	\$ 581	\$ -	\$ 13,540	\$ 13,540
Net pension/OPEB liability	194,934	-	6,946	187,988	-
Landfill closure costs	281,780	-	-	281,780	-
Notes payable	<u>706,588</u>	<u>-</u>	<u>37,437</u>	<u>669,151</u>	<u>38,864</u>
Business-type activities long-term liabilities	<u>\$ 1,196,261</u>	<u>\$ 581</u>	<u>\$ 44,383</u>	<u>\$ 1,152,459</u>	<u>\$ 52,404</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 6 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2018.

Year Ending June 30	<u>Business-type activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 38,864	\$ 22,497
2020	40,347	21,015
2021	41,886	19,475
2022	43,485	17,876
2023	38,169	16,266
2024-2028	86,250	67,076
2029-2033	51,356	57,784
2034-2038	60,404	48,736
2039-2043	71,047	38,093
2044-2048	83,565	25,575
2049-2053	98,288	10,852
2054-2058	15,490	200
Total	<u>\$ 669,151</u>	<u>\$ 345,445</u>

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%	\$ 57,708
Note payable - United States Department of Agriculture	400,000	2009-2025	4.125%	150,507
Note payable - United States Department of Agriculture	<u>481,000</u>	2015-2054	3.250%	<u>460,936</u>
	<u>\$ 1,256,000</u>			<u>\$ 669,151</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 7 – RISK MANAGEMENT

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

NOTE 8 – 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, 2018, the Town reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net OPEB assets	\$ 29,412	\$ 655	\$ 30,067
Net pension and OPEB liabilities	934,104	187,988	1,122,092
Deferred outflows of resources related to pension and OPEB	141,232	32,118	173,350
Deferred inflows of resources related to pension and OPEB	38,857	13,884	52,741
Pension and OPEB expense	121,890	8,058	129,948

The Town reported \$76,522 of pension and OPEB contributions as expenditures in the governmental funds related to all 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 website at www.azasrs.gov.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – 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:

	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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 percent for retirement, 0.01 percent for health insurance premium benefit, and 0.13 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the ASRS would typically fill. The Town’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were \$33,790, \$1,364, and \$496, respectively.

During fiscal year 2018, 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.

Liability - At June 30, 2018, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB (Asset) Liability
Pension	\$ 501,613
Health insurance premium benefit	(1,753)
Long-term disability	1,164

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2018, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The Town’s proportion of the net asset or net 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, 2017. The Town’s proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.00322%	-0.00001%
Health insurance premium benefit	0.00322%	0.00000%
Long-term disability	0.00321%	0.00000%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town’s net asset and net liabilities as a result of these changes is not known.

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	19,904
Health insurance premium benefit	1,025
Long-term disability	621

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 15,041	\$ -	\$ -
Changes of assumptions or other inputs	21,786	14,999	-	-
Net difference between projected and actual earnings on pension plan investments	3,601	-	-	1,974
Changes in proportion and differences between Town contributions and proportionate share of contributions	24,864	4,943	-	2
Town contributions subsequent to the measurement date	33,790	-	1,364	-
Total	<u>\$ 84,041</u>	<u>\$ 34,983</u>	<u>\$ 1,364</u>	<u>\$ 1,976</u>
			<u>Long-Term Disability</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 174		
Town contributions subsequent to the measurement date	496	-		
Total	<u>\$ 496</u>	<u>\$ 174</u>		

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2019	\$ (3,741)	\$ (494)	\$ (44)
2020	24,502	(494)	(44)
2021	6,046	(493)	(44)
2022	(11,539)	(493)	(44)
2023	-	-	-
Thereafter	-	-	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension/OPEB 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:

	1 % Decrease (7 %)	Current Discount Rate (8 %)	1 % Increase (9 %)
Town's Proportionate share of the			
Net pension liability	\$ 643,829	\$ 501,613	\$ 382,780
Net insurance premium benefit liability (asset)	2,911	(1,753)	(5,717)
Net long-term disability liability	1,391	1,164	970

Plan Fiduciary Net Position – Detailed information about the plans’ 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 agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-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. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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, 2018

NOTE 8 – 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:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 36 consecutive months of last 20 years
Benefit percentage		
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%	1.5% to 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% to 100% of retired member's pension benefit	
Active Members	80% to 100% of 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. The adjustments are based on inflation. In addition, 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, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

Employees Covered by Benefit Terms – At June 30, 2018, the following employees were covered by the agent plans’ benefit terms:

	PSPRS Police	
	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	3	-
Active employees	2	2
Total	7	4

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, 2018, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Active Member- Pension	Town-Pension	Town-Health Insurance Premium Benefit
PSPRS Police	7.65% - 11.65%	47.85%	0.00%

The Town’s contributions to the plans for the year ended June 30, 2018, were:

	Pension	Health Insurance Premium Benefit
PSPRS Police	\$ 53,612	\$ -

Liability – At June 30, 2018, the Town reported the following liability:

	Net Pension (Asset) Liability	Net OPEB (Asset) Liability
PSPRS Police	\$ 619,315	\$ (28,314)

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the Town’s PSPRS net pension liabilities as a result of the refunds is not known.

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed Income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

Discount Rates – At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension/OPEB Liability (Asset)

	Pension		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2017	\$ 1,222,762	\$ 602,969	\$ 619,793
Changes for the year			
Service Cost	39,367	-	39,367
Interest on the total liability	90,538	-	90,538
Changes of benefit terms	13,959	-	13,959
Differences between expected and actual experience in the measurement of the liability	(14,364)	-	(14,364)
Changes of assumptions or other inputs	32,454	-	32,454
Contributions-employer	-	74,886	(74,886)
Contributions-employee	-	16,191	(16,191)
Net investment income	-	72,386	(72,386)
Benefit payments, including refunds of employee contributions	(70,533)	(70,533)	-
Administrative expense	-	(1,040)	1,040
Other changes	-	9	(9)
Net changes	91,421	91,899	(478)
Balances at June 30, 2018	\$ 1,314,183	\$ 694,868	\$ 619,315

	Health Insurance Premium Benefit		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at June 30, 2017	\$ 4,020	\$ 29,488	\$ (25,468)
Changes for the year			
Service Cost	958	-	958
Interest on the total liability	337	-	337
Differences between expected and actual experience in the measurement of the liability	(169)	-	(169)
Changes of assumptions or other inputs	(529)	-	(529)
Net investment income	-	3,474	(3,474)
Administrative expense	-	(31)	31
Net changes	597	3,443	(2,846)
Balances at June 30, 2018	\$ 4,617	\$ 32,931	\$ (28,314)

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension/OPEB Liability to Changes in the Discount Rate –

The following table presents the Town’s net pension/OPEB (assets) liabilities calculated using the discount rate of 7.4 percent, as well as what the Town’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
PSPRS Police			
Net pension (asset) liability	\$ 788,518	\$ 619,315	\$ 482,223
Net OPEB (asset) liability	(27,552)	(28,314)	(28,940)

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

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense:

	<u>Pension Expense</u>	<u>OPEB Expense</u>
PSPRS Police	\$ 109,712	\$ (1,314)

Deferred Outflows/Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 14,076	\$ -	\$ 126
Changes of assumptions or other inputs	25,575	-	-	395
Net difference between projected and actual earnings on pension plan investments	8,262	-	-	1,011
Town contributions subsequent to the measurement date	53,612	-	-	-
Total	<u>\$ 87,449</u>	<u>\$ 14,076</u>	<u>\$ -</u>	<u>\$ 1,532</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	PSPRS Police	
	Pension	Health
2019	\$ 11,681	\$ (430)
2020	10,058	(430)
2021	3,310	(420)
2022	(5,288)	(252)
2023	-	-
Thereafter	-	-

NOTE 9 – 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, 2018, 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 2016-2018. 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, 2018.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – Interfund balances at June 30, 2018, were as follows:

Payable from	Payable to General Fund
HURF Fund	\$ 85,379
Water/Wastewater Fund	<u>20,470</u>
	<u><u>\$ 105,849</u></u>

The purpose of the interfund balances between the General Fund, HURF Fund, and Water/Wastewater Fund shown above were to help HURF and Water/Wastewater Funds pay for expenditures expected to be reimbursed in future periods from HURF and Water/Wastewater proceeds.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 553,202	\$ 553,202	\$ 374,309	\$ (178,893)
Taxes	249,900	249,900	384,713	134,813
Fines and forfeitures	140,500	140,500	53,663	(86,837)
Charges for services	34,709	34,709	34,151	(558)
Other revenue	128,822	128,822	6,077	(122,745)
Franchise fees	13,250	13,250	15,009	1,759
Licenses and permits	26,500	26,500	17,451	(9,049)
Investment income	3,200	3,200	4,029	829
Total revenues	<u>1,150,083</u>	<u>1,150,083</u>	<u>889,402</u>	<u>(260,681)</u>
Expenditures				
Current				
General government	290,860	290,860	206,464	84,396
Public safety	677,690	677,690	423,872	253,818
Culture and recreation	181,128	181,128	177,836	3,292
Total expenditures	<u>1,149,678</u>	<u>1,149,678</u>	<u>808,172</u>	<u>341,506</u>
Excess (deficiency) of revenue over (under) expenditures	<u>405</u>	<u>405</u>	<u>81,230</u>	<u>80,825</u>
Other financing sources (uses)				
Transfers	<u>(6,000)</u>	<u>(6,000)</u>	<u>-</u>	<u>6,000</u>
Net change in fund balances	(5,595)	(5,595)	81,230	86,825
Fund balance, beginning of year	<u>699,088</u>	<u>699,088</u>	<u>699,088</u>	<u>-</u>
Fund balance, end of year	<u>\$ 693,493</u>	<u>\$ 693,493</u>	<u>\$ 780,318</u>	<u>\$ 86,825</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 131,692	\$ 131,692	\$ 106,956	\$ (24,736)
Investment income	-	-	421	421
Total revenues	<u>131,692</u>	<u>131,692</u>	<u>107,377</u>	<u>(24,315)</u>
Expenditures				
Current				
Highways and streets	131,423	131,423	79,260	52,163
Excess (deficiency) of revenue over (under) expenditures	<u>269</u>	<u>269</u>	<u>28,117</u>	<u>27,848</u>
Other financing sources (uses)				
Transfers	<u>6,000</u>	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>
Net change in fund balances	6,269	6,269	28,117	21,848
Fund balance, beginning of year	<u>(149,795)</u>	<u>(149,795)</u>	<u>(149,795)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (143,526)</u>	<u>\$ (143,526)</u>	<u>\$ (121,678)</u>	<u>\$ 21,848</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2018

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

A.R.S. requires 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.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2018

ASRS -Pension

	Reporting Fiscal Year				2014 through 2009
	(Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Town's proportion of the net pension liability	0.003220%	0.003230%	0.002830%	0.003194%	Information not available
Town's proportionate share of the net pension liability	\$ 501,613	\$ 521,354	\$ 440,397	\$ 472,585	
Town's covered payroll	\$ 314,434	\$ 302,433	\$ 260,413	\$ 287,907	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	159.53%	172.39%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

ASRS -Health Insurance

	Reporting Fiscal Year	
	(Measurement Date)	
	2018 (2017)	2017 through 2009
Town's proportion of the net OPEB asset	0.003220%	Information not available
Town's proportionate share of the net OPEB asset	\$ (1,753)	
Town's covered payroll	\$ 314,434	
Town's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	-0.56%	
Plan fiduciary net position as a percentage of the total pension liability	103.57%	

ASRS -Long-Term Disability

	Reporting Fiscal Year	
	(Measurement Date)	
	2018 (2017)	2017 through 2009
Town's proportion of the net OPEB liability	0.003210%	Information not available
Town's proportionate share of the net OPEB liability	\$ 1,164	
Town's covered payroll	\$ 314,434	
Town's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.37%	
Plan fiduciary net position as a percentage of the total pension liability	84.44%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension/OPEB Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2018

PSPRS - Pension

	Reporting Fiscal Year (Measurement Date)				2014 through 2009
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability					Information not available
Service cost	\$ 39,367	\$ 32,762	\$ 23,998	\$ 12,222	
Interest on the total pension liability	90,538	99,645	89,395	65,583	
Changes of benefit terms	13,959	(137,660)	-	51,744	
Differences between expected and actual experience in the measurement of the pension	(14,364)	(43,689)	83,333	5,598	
Changes of assumptions or other inputs	32,454	53,993	-	232,088	
Benefit payments, including refunds of employee contributions	(70,533)	(70,533)	(70,533)	(69,041)	
Net change in total pension liability	91,421	(65,482)	126,193	298,194	
Total pension liability - beginning	1,222,762	1,288,244	1,162,051	863,857	
Total pension liability - ending (a)	<u>\$ 1,314,183</u>	<u>\$ 1,222,762</u>	<u>\$ 1,288,244</u>	<u>\$ 1,162,051</u>	
Plan fiduciary net position					
Contributions - employer	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396	
Contributions - employee	16,191	15,649	13,518	10,293	
Net investment income	72,386	3,452	20,805	70,331	
Benefit payments, including refunds of employee contributions	(70,533)	(70,533)	(70,533)	(69,041)	
Administrative expense	(1,040)	(898)	(889)	-	
Other changes	9	5	(523)	(23,125)	
Net change in plan fiduciary net position	91,899	19,498	16,228	10,854	
Plan fiduciary net position - beginning	602,969	583,471	567,243	556,389	
Plan fiduciary net position - ending (b)	<u>\$ 694,868</u>	<u>\$ 602,969</u>	<u>\$ 583,471</u>	<u>\$ 567,243</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 619,315</u>	<u>\$ 619,793</u>	<u>\$ 704,773</u>	<u>\$ 594,808</u>	
Plan fiduciary net position as a percentage of the total pension liability	52.87%	49.31%	45.29%	48.81%	
Covered payroll	\$ 140,949	\$ 134,324	\$ 122,331	\$ 101,139	
Town's net pension (asset) liability as a percentage of covered payroll	439.39%	461.42%	576.12%	588.11%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension/OPEB Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2018

PSPRS - Health Insurance Premium Benefit

	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	through
		2009
Total OPEB liability		
Service cost	\$ 958	Information
Interest on the total OPEB liability	337	not
Changes of benefit terms	-	available
Differences between expected and actual experience in the measurement of the OPEB	(169)	
Changes of assumptions or other inputs	(529)	
Benefit payments	-	
Net change in total OPEB liability	<u>597</u>	
Total OPEB liability - beginning	4,020	
Total OPEB liability - ending (a)	<u>\$ 4,617</u>	
Plan fiduciary net position		
Contributions - employer	\$ -	
Net investment income	3,474	
Benefit payments	-	
Administrative expense	(31)	
Other changes	-	
Net change in plan fiduciary net position	<u>3,443</u>	
Plan fiduciary net position - beginning	29,488	
Plan fiduciary net position - ending (b)	<u>\$ 32,931</u>	
Town's net OPEB (asset) liability - ending (a) - (b)	<u>\$ (28,314)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	713.26%	
Covered payroll	\$ 140,949	
Town's net OPEB (asset) liability as a percentage of covered payroll	-20.09%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2018

ASRS-Pension	Reporting Fiscal Year					2013 through 2009
	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 33,790	\$ 33,896	\$ 32,814	\$ 28,359	\$ 30,806	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(33,790)</u>	<u>(33,896)</u>	<u>(32,814)</u>	<u>(28,359)</u>	<u>(30,806)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 310,003</u>	<u>\$ 314,434</u>	<u>\$ 302,433</u>	<u>\$ 260,413</u>	<u>\$ 287,907</u>	
Town's contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%	10.70%	

ASRS-Health Insurance Premium	Reporting Fiscal Year			2016 through 2009
	2018	2017		
Statutorily required contribution	\$ 1,364	\$ 1,733		Information not available
Town's contributions in relation to the statutorily required contribution	<u>(1,364)</u>	<u>(1,733)</u>		
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
Town's covered payroll	<u>\$ 310,003</u>	<u>\$ 314,434</u>		
Town's contributions as a percentage of covered payroll	0.44%	0.55%		

ASRS-Long-Term Disability	Reporting Fiscal Year			2016 through 2009
	2018	2017		
Statutorily required contribution	\$ 496	\$ 437		Information not available
Town's contributions in relation to the statutorily required contribution	<u>(496)</u>	<u>(437)</u>		
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
Town's covered payroll	<u>\$ 310,003</u>	<u>\$ 314,434</u>		
Town's contributions as a percentage of covered payroll	0.16%	0.14%		

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2018

PS PRS -Pension	Reporting Fiscal Year					2013 through 2009
	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(53,612)</u>	<u>(74,886)</u>	<u>(71,823)</u>	<u>(53,850)</u>	<u>(22,396)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 112,042</u>	<u>\$ 140,949</u>	<u>\$ 134,324</u>	<u>\$ 122,331</u>	<u>\$ 101,139</u>	
Town's contributions as a percentage of covered payroll	47.85%	53.13%	53.47%	44.02%	22.14%	
PS PRS -Health Insurance Premium						
	Reporting Fiscal Year		2016 through 2009			
	2018	2017				
Actuarially determined contribution	\$ -	\$ -			Information not available	
Town's contributions in relation to the actuarially determined contribution	<u>-</u>	<u>-</u>				
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>				
Town's covered payroll	<u>\$ 112,042</u>	<u>\$ 140,949</u>				
Town's contributions as a percentage of covered payroll	0.00%	0.00%				

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2018

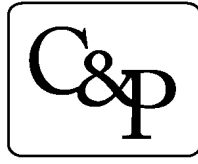
NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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-of-pay, closed
Remaining amortization period as of the 2016 actuarial	20 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. 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
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)

NOTE 2 – FACTORS THAT AFFECT TRENDS

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. Also, the Town refunded excess employee contributions to PSPRS members. PSPRS allowed the Town to reduce its actual employer contributions for the refund amounts. As a result, the Town's pension contributions were less than the actuarially or statutorily determined contributions for 2018.



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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, 2018, 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 March 5, 2019.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. 2017-01

Compliance and Other Matters

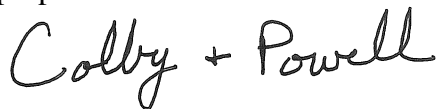
As part of obtaining reasonable assurance about whether the Town of Patagonia, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a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



March 5, 2019

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Responses
June 30, 2018

Financial Statement Findings

Item: 2017-001

Subject: General ledger maintenance and reconciliation.

Criteria/Specific Requirements: To help ensure that internal and external financial reports are accurate, timely, and in accordance with generally accepted accounting principles, general ledger accounts should be reconciled on a monthly basis and supporting schedules should be prepared and reconciled with these general ledger accounts.

Condition: At the time of the audit, the Town had incorrect balances in many of its asset and liability accounts. Significant audit adjustments were necessary in order to present the financial statements in accordance with generally accepted accounting principles. These entries were proposed, accepted, and recorded by the Town in the financial statements.

Cause/Effect: Due to employee oversight, the need of proper training, and lack of management's review of performance, internal control procedures such as reconciliations of various general ledger accounts were not performed.

Recommendation: The Town's Finance Department should evaluate and implement closing procedures that establish clear deadlines for recording transactions and reconciling accounts to the general ledger and subsidiary ledgers. The Finance Department should also evaluate procedures to ensure that all accounts are reconciled and supported by documentation.

Response: Management agrees with this finding and will evaluate and implement closing procedures that will establish clear timelines and deadlines for recording transactions and reconciliations to the general ledger and sub ledgers.