

**TOWN OF PATAGONIA, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Reports  
June 30, 2020



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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 (the Town), as of and for the year ended June 30, 2020, 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, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

The Town of Patagonia 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 required supplementary 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.

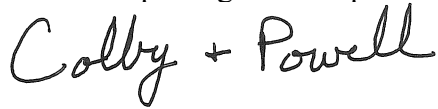
### *Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies*

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Patagonia, Arizona failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated State transportation revenues it received. 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 of Patagonia, Arizona's noncompliance with the authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of Highway User Revenue Fund and other dedicated State transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, (the Auditor General of the State of Arizona,) the Board of Supervisors, management, and other responsible parties within the Town and is not intended to be and should not be used by anyone other than these specified parties.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021, on our consideration of the Town'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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's internal control over financial reporting and compliance.

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

January 15, 2021

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Net Position**  
**June 30, 2020**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 933,124	\$ 104,179	\$ 1,037,303
Restricted cash and cash equivalents	-	44,291	44,291
Accounts receivable, net	-	56,784	56,784
Taxes receivable	6,335	-	6,335
Due from other governments	54,266	-	54,266
Prepaid expenses	35,654	18,553	54,207
Internal balances	24,845	(24,845)	-
Net OPEB asset	538	321	859
Capital assets, not being depreciated	355,867	150,540	506,407
Capital assets, being depreciated, net	1,436,563	3,411,252	4,847,815
<b>Total assets</b>	<b>2,847,192</b>	<b>3,761,075</b>	<b>6,608,267</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions and other postemployment benefits	294,664	20,791	315,455
<b>LIABILITIES</b>			
Accounts payable	72,863	13,342	86,205
Accrued expenses	10,356	-	10,356
Unearned revenue	-	63,920	63,920
Refundable deposits	-	29,851	29,851
Compensated absences payable	28,129	12,603	40,732
Noncurrent liabilities			
Due within 1 year	-	7,417	7,417
Due in more than 1 year	1,162,439	891,676	2,054,115
<b>Total liabilities</b>	<b>1,273,787</b>	<b>1,018,809</b>	<b>2,292,596</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions and other postemployment benefits	27,894	15,869	43,763
<b>NET POSITION</b>			
Net investment in capital assets	1,792,430	3,114,986	4,907,416
Restricted for:			
Highways and streets	13,697	-	13,697
Court enhancement	22,919	-	22,919
Debt service	-	14,440	14,440
Unrestricted (deficit)	11,129	(382,238)	(371,109)
<b>Total net position</b>	<b>\$ 1,840,175</b>	<b>\$ 2,747,188</b>	<b>\$ 4,587,363</b>

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



**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2020**

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		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 270,384	\$ 65,135	\$ 1,275	\$ -	\$ (203,974)	\$ -	\$ (203,974)
Public safety	572,080	47,439	-	-	(524,641)	-	(524,641)
Highways and streets	187,169	-	303,884	20,000	136,715	-	136,715
Culture and recreation	185,219	2,720	122,405	-	(60,094)	-	(60,094)
<b>Total governmental activities</b>	<u>1,214,852</u>	<u>115,294</u>	<u>427,564</u>	<u>20,000</u>	<u>(651,994)</u>	<u>-</u>	<u>(651,994)</u>
Business-type activities							
Water/Wastewater	545,328	335,638	-	-	-	(209,690)	(209,690)
Solid Waste	156,335	181,439	-	-	-	25,104	25,104
<b>Total business-type activities</b>	<u>701,663</u>	<u>517,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(184,586)</u>	<u>(184,586)</u>
<b>Total primary government</b>	<u>\$ 1,916,515</u>	<u>\$ 632,371</u>	<u>\$ 427,564</u>	<u>\$ 20,000</u>	<u>(651,994)</u>	<u>(184,586)</u>	<u>(836,580)</u>
<b>General revenues:</b>							
Taxes:							
Sales tax					384,168	-	384,168
Franchise tax					15,937	-	15,937
Shared revenue-Urban revenue					193,972	-	193,972
Shared revenue-State sales tax					90,937	-	90,937
Shared revenue-State vehicle license tax					81,608	-	81,608
Miscellaneous					14,934	-	14,934
Investment earnings					10,513	14,525	25,038
Total general revenue					<u>792,069</u>	<u>14,525</u>	<u>806,594</u>
Change in net position					140,075	(170,061)	(29,986)
Net position, beginning of year					1,700,100	2,917,249	4,617,349
Net position, end of year					<u>\$ 1,840,175</u>	<u>\$ 2,747,188</u>	<u>\$ 4,587,363</u>

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

**TOWN OF PATAGONIA, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2020**

	General Fund	HURF Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 878,819	\$ 54,305	\$ 933,124
Taxes receivable	6,335	-	6,335
Due from other governments	47,641	6,625	54,266
Prepaid expenses	17,101	18,553	35,654
Due from other funds	24,845	-	24,845
<b>Total assets</b>	<u>\$ 974,741</u>	<u>\$ 79,483</u>	<u>\$ 1,054,224</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 7,077	\$ 65,786	\$ 72,863
Accrued expenses	10,356	-	10,356
<b>Total liabilities</b>	<u>17,433</u>	<u>65,786</u>	<u>83,219</u>
<b>FUND BALANCES</b>			
Nonspendable	17,101	-	17,101
Restricted for:			
Highways and streets	-	13,697	13,697
Court enhancement	22,919	-	22,919
Unassigned	917,288	-	917,288
<b>Total fund balances</b>	<u>957,308</u>	<u>13,697</u>	<u>971,005</u>
<b>Total liabilities and fund balances</b>	<u>\$ 974,741</u>	<u>\$ 79,483</u>	<u>\$ 1,054,224</u>

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

**TOWN OF PATAGONIA, ARIZONA**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-wide Statement of Net Position**  
**June 30, 2020**

Fund balances-total governmental funds		\$ 971,005
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	6,548,482	
Less: Accumulated depreciation	<u>(4,756,052)</u>	1,792,430
<p>Net pension assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.</p>		
		538
<p>Long-term liabilities, such as net pension/OPEB liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported as a liability in the funds.</p>		
Compensated absences	(28,129)	
Net pension/OPEB liability	<u>(1,162,439)</u>	(1,190,568)
<p>Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions/OPEB	294,664	
Deferred inflows of resources related to pensions/OPEB	<u>(27,894)</u>	<u>266,770</u>
<b>Net position of governmental activities</b>		<b><u><u>\$ 1,840,175</u></u></b>

*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, 2020**

	General Fund	HURF Fund	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$ 493,482	\$ 303,884	\$ 797,366
Taxes	384,168	-	384,168
Fines and forfeitures	47,439	-	47,439
Licenses and permits	34,199	-	34,199
Charges for services	33,656	-	33,656
Franchise fees	15,937	-	15,937
Other revenue	11,648	-	11,648
Investment earnings	8,983	1,531	10,514
<b>Total revenues</b>	<u>1,029,512</u>	<u>305,415</u>	<u>1,334,927</u>
<b>Expenditures</b>			
Current			
General government	232,667	-	232,667
Public safety	486,284	-	486,284
Highways and streets	-	145,765	145,765
Culture and recreation	164,990	-	164,990
Capital outlay	3,900	15,900	19,800
<b>Total expenditures</b>	<u>887,841</u>	<u>161,665</u>	<u>1,049,506</u>
<b>Net change in fund balances</b>	141,671	143,750	285,421
Fund balance, beginning of year	815,637	(130,053)	685,584
<b>Fund balance, end of year</b>	<u>\$ 957,308</u>	<u>\$ 13,697</u>	<u>\$ 971,005</u>

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

**TOWN OF PATAGONIA, ARIZONA**  
**Reconciliation of the Governmental Funds Statement of**  
**Revenue, Expenditures, and Changes in Fund Balances**  
**to the Government-wide Statement of Activities**  
**Year Ended June 30, 2020**

Net change in fund balances-total governmental funds \$ 285,421

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	19,800	
Depreciation expense	<u>(131,860)</u>	(112,060)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Dontation of capital assets		20,000
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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.

Town pension/OPEB contributions	114,679	
Pension/OPEB expense	<u>(176,150)</u>	(61,471)

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.

Decrease in compensated absences payable		<u>8,185</u>
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<b>Change in net position of governmental activities</b>		<b><u><u>\$ 140,075</u></u></b>
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*The accompanying notes are an integral part of these financial statements.*

**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2020**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ -	\$ 104,179	\$ 104,179
Restricted cash and cash equivalents	33,384	10,907	44,291
Accounts receivable, net	35,633	21,151	56,784
Prepaid expenses	18,553	-	18,553
<b>Total current assets</b>	<u>87,570</u>	<u>136,237</u>	<u>223,807</u>
Noncurrent assets			
Net OPEB asset	242	79	321
Capital assets, not being depreciated	30,540	120,000	150,540
Capital assets, being depreciated, net	2,929,977	481,275	3,411,252
<b>Total noncurrent assets</b>	<u>2,960,759</u>	<u>601,354</u>	<u>3,562,113</u>
<b>Total assets</b>	<u>3,048,329</u>	<u>737,591</u>	<u>3,785,920</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions and other postemployment benefits	<u>15,670</u>	<u>5,121</u>	<u>20,791</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	-	13,342	13,342
Unearned revenue	63,920	-	63,920
Refundable deposits	18,944	10,907	29,851
Due to other funds	24,845	-	24,845
Compensated absences payable, current portion	9,120	3,483	12,603
Notes payable, current portion	7,417	-	7,417
<b>Total current liabilities</b>	<u>124,246</u>	<u>27,732</u>	<u>151,978</u>
Noncurrent liabilities			
Notes payable	439,389	-	439,389
Estimated liability for landfill closure	-	281,780	281,780
Net pension liability	128,507	42,000	170,507
<b>Total noncurrent liabilities</b>	<u>567,896</u>	<u>323,780</u>	<u>891,676</u>
<b>Total liabilities</b>	<u>692,142</u>	<u>351,512</u>	<u>1,043,654</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions and other postemployment benefits	<u>11,960</u>	<u>3,909</u>	<u>15,869</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,513,711	601,275	3,114,986
Restricted for:			
Debt service	14,440	-	14,440
Unrestricted (deficit)	(168,254)	(213,984)	(382,238)
<b>Total net position</b>	<u>\$ 2,359,897</u>	<u>\$ 387,291</u>	<u>\$ 2,747,188</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, 2020**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Operating revenues</b>			
Sewer	\$ 184,734	\$ -	\$ 184,734
Sanitation	-	181,439	181,439
Water	150,904	-	150,904
<b>Total operating revenues</b>	<u>335,638</u>	<u>181,439</u>	<u>517,077</u>
<b>Operating expenses</b>			
Personnel	177,461	65,344	242,805
Depreciation	122,650	40,727	163,377
Supplies	119,192	15,852	135,044
Repairs and maintenance	49,256	3,168	52,424
Utilities	43,628	2,216	45,844
Contract services	8,428	22,103	30,531
Insurance	9,563	3,174	12,737
Landfill closure expense	-	3,751	3,751
<b>Total operating expenses</b>	<u>530,178</u>	<u>156,335</u>	<u>686,513</u>
<b>Operating income (loss)</b>	<u>(194,540)</u>	<u>25,104</u>	<u>(169,436)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment earnings	10,735	3,790	14,525
Interest expense	(15,150)	-	(15,150)
<b>Total nonoperating revenues (expenses)</b>	<u>(4,415)</u>	<u>3,790</u>	<u>(625)</u>
<b>Increase (decrease) in net position</b>	<u>(198,955)</u>	<u>28,894</u>	<u>(170,061)</u>
Net position, beginning of year	<u>2,558,852</u>	<u>358,397</u>	<u>2,917,249</u>
Net position, end of year	<u><u>\$ 2,359,897</u></u>	<u><u>\$ 387,291</u></u>	<u><u>\$ 2,747,188</u></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, 2020**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 339,857	\$ 183,692	\$ 523,549
Payments to suppliers	(235,683)	(40,238)	(275,921)
Payments to employees	(177,686)	(67,242)	(244,928)
<b>Net cash provided (used) by operating activities</b>	<u>(73,512)</u>	<u>76,212</u>	<u>2,700</u>
<b>Cash flows from noncapital financing activities</b>			
Advances (to) from other funds	<u>24,845</u>	<u>-</u>	<u>24,845</u>
<b>Cash flows from capital and related financing activities</b>			
Interest payments on notes payable	(15,150)	-	(15,150)
Principal payments on notes payable	<u>(52,818)</u>	<u>(130,663)</u>	<u>(183,481)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(67,968)</u>	<u>(130,663)</u>	<u>(198,631)</u>
<b>Cash flows from investing activities</b>			
Interest received	<u>10,735</u>	<u>3,790</u>	<u>14,525</u>
<b>Net change in cash and cash equivalents</b>	(105,900)	(50,661)	(156,561)
Cash and cash equivalents, beginning of year	<u>139,284</u>	<u>165,747</u>	<u>305,031</u>
Cash and cash equivalents, end of year	<u>\$ 33,384</u>	<u>\$ 115,086</u>	<u>\$ 148,470</u>
<b>Reconciliation of cash and cash equivalents to statement of net position</b>			
Cash and cash equivalents	\$ -	\$ 104,179	\$ 104,179
Restricted cash and cash equivalents	<u>33,384</u>	<u>10,907</u>	<u>44,291</u>
<b>Total cash and cash equivalents, end of year</b>	<u>\$ 33,384</u>	<u>\$ 115,086</u>	<u>\$ 148,470</u>

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



**TOWN OF PATAGONIA, ARIZONA**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**Year Ended June 30, 2020**

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (194,540)	\$ 25,104	\$ (169,436)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	122,650	40,727	163,377
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	2,813	1,114	3,927
Net OPEB asset	84	28	112
Deferred outflows of resources related to pensions and other postemployment benefits	4,632	1,514	6,146
Accounts payable	(6,755)	9,652	2,897
Refundable deposits	1,406	1,139	2,545
Compensated absences	(225)	(1,898)	(2,123)
Net pension and other postemployment benefits liability	692	227	919
Deferred inflows of resources related to pensions and other postemployment benefits	(4,269)	(1,395)	(5,664)
<b>Net cash provided (used) by operating activities</b>	<b>\$ (73,512)</b>	<b>\$ 76,212</b>	<b>\$ 2,700</b>

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

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

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

**A. Reporting Entity**

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

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

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

**B. Basis of Presentation**

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

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

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

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

- Charges to customers or applicants for goods, services, or privileges provided.
- Operating grants and contributions.
- 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.

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.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

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.

The Town's major revenue sources that are susceptible to accrual are 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.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

**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.

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

**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, 2020 totaled \$13,000 and \$6,700, respectively.

**F. Investment Earnings**

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

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

**H. Capital Assets**

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

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life (years)
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 and 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. 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.

**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.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

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.

***NOTE 2 – DEPOSITS AND INVESTMENTS***

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; 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.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

***NOTE 2 – DEPOSITS AND INVESTMENTS – Continued***

*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*<sup>24-25</sup>

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.

*Deposits*—At June 30, 2020, the carrying amount of the Town’s total cash in bank was \$215,783, and the bank balance was \$272,452. Of the bank balance, \$250,000 was covered by federal depository insurance or similar insurance. The remainder was covered by collateral held by the pledging financial institution in the Town’s name.

*Restricted cash* – Restricted cash in the Water/Wastewater Fund consists of monies restricted for refundable customer deposits in the amount of \$18,944 and debt service requirements in the amount of \$14,440. Restricted cash in the Solid Waste Fund consists of monies restricted for refundable customer deposits in the amount of \$10,907.

*Investments*—The Town reported investments in the State Treasurer’s Investment Pool 5 with a reported amount of \$732,157. The Standard and Poor’s credit quality rating of the pool is AAA. The Town reported investments in the State Treasurer’s Investment Pool 7 and 500, with a reported amount of \$94,295 and \$39,059, respectively. The State Treasurer’s Investment Pool 7 and 500 is unrated.



**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

***NOTE 2 – DEPOSITS AND INVESTMENTS – Continued***

The State Board of Investment provides oversight for the State Treasurer’s pools. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares and the participant’s shares are not identified with specific investments.

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

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents:			
Cash on hand	\$ 300	\$ -	\$ 300
State treasurer's investment pool 5	677,982	54,175	732,157
State treasurer's investment pool 7	-	94,295	94,295
State treasurer's investment pool 500	39,059	-	39,059
Amount of deposits	215,783	-	215,783
Total	<u>\$ 933,124</u>	<u>\$ 148,470</u>	<u>\$ 1,081,594</u>

***NOTE 3 – DUE FROM OTHER GOVERNMENTS***

Amounts due from other governments in the General Fund at June 30, 2020 consisted of \$4,725 in state-shared revenue from sales taxes, \$3,631 in state-shared revenue from auto lieu taxes, and \$39,285 in local sales taxes collected by the State.

Amounts due from other governments in the HURF Fund at June 30, 2020 consisted of \$6,625 in state-shared revenue from highway user revenue fund (HURF) taxes.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
Capital assets being depreciated:				
Equipment	503,517	39,800	(92,084)	451,233
Buildings	1,829,175	-	-	1,829,175
Parks	241,427	-	-	241,427
Streets	3,670,780	-	-	3,670,780
<b>Total</b>	<u>6,244,899</u>	<u>39,800</u>	<u>(92,084)</u>	<u>6,192,615</u>
Less accumulated depreciation for:				
Equipment	(362,594)	(31,464)	92,084	(301,974)
Buildings	(1,125,734)	(59,259)	-	(1,184,993)
Parks	(237,840)	(2,304)	-	(240,144)
Streets	(2,990,108)	(38,833)	-	(3,028,941)
<b>Total</b>	<u>\$ (4,716,276)</u>	<u>\$ (131,860)</u>	<u>\$ 92,084</u>	<u>(4,756,052)</u>
<b>Total capital assets being depreciated, net</b>	<u>1,528,623</u>	<u>(92,060)</u>	<u>-</u>	<u>1,436,563</u>
Governmental activities capital assets, net	<u>\$ 1,884,490</u>	<u>\$ (92,060)</u>	<u>\$ -</u>	<u>\$ 1,792,430</u>

Depreciation expense was charged to the functions as follows:

Governmental activities:	
General government	\$ 39,959
Public safety	27,672
Highways and streets	42,254
Culture and recreation	21,975
Total governmental activities depreciation expense	<u>\$ 131,860</u>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
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	2,666,546	-	-	2,666,546
Machinery and equipment	674,339	-	(6,420)	667,919
<b>Total</b>	<b>5,816,841</b>	<b>-</b>	<b>(6,420)</b>	<b>5,810,421</b>
Less accumulated depreciation for:				
Land improvements	(291,877)	(24,625)	-	(316,502)
Buildings	(669,378)	(43,431)	-	(712,809)
Utility systems	(781,802)	(69,689)	-	(851,491)
Machinery and equipment	(499,155)	(25,632)	6,420	(518,367)
<b>Total</b>	<b>\$ (2,242,212)</b>	<b>\$ (163,377)</b>	<b>\$ 6,420</b>	<b>(2,399,169)</b>
<b>Total capital assets being depreciated, net</b>	<b>3,574,629</b>	<b>(163,377)</b>	<b>-</b>	<b>3,411,252</b>
Business-type activities capital assets, net	<b>\$ 3,725,169</b>	<b>\$ (163,377)</b>	<b>\$ -</b>	<b>\$ 3,561,792</b>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water/Wastewater	\$ 122,650
Solid Waste	40,727
Total business-type activities depreciation expense	<u>\$ 163,377</u>

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2020.

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 36,314	\$ -	\$ 8,185	\$ 28,129	\$ 28,129
Net pension/OPEB liability	944,558	217,881	-	1,162,439	-
Total governmental activities long-term liabilities	<b>\$ 980,872</b>	<b>\$ 217,881</b>	<b>\$ 8,185</b>	<b>\$ 1,190,568</b>	<b>\$ 28,129</b>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within 1 year
Business-type activities					
Compensated absences payable	\$ 14,726	\$ -	\$ 2,123	\$ 12,603	\$ 12,603
Net pension/OPEB liability	169,588	919	-	170,507	-
Landfill closure costs	281,780	-	-	281,780	-
Notes payable from direct borrowings and direct placements	630,287	-	183,481	446,806	7,417
Total business-type activities long-term liabilities	<u>\$ 1,096,381</u>	<u>\$ 919</u>	<u>\$ 185,604</u>	<u>\$ 911,696</u>	<u>\$ 20,020</u>

The Town's notes payable from direct borrowings and direct placements consisted of the following:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Note payable - United States Department of Agriculture	\$ 481,000	2015-2054	3.250%	\$ 446,806

The following schedule details debt service requirements to maturity for the Town's notes payable at June 30, 2020.

Year Ending June 30	Business-type Activities	
	Notes payable from direct borrowings and direct placements	
	Principal	Interest
2021	\$ 7,417	\$ 14,411
2022	7,661	14,167
2023	7,914	13,914
2024	8,175	13,653
2025	8,445	13,383
2026-2030	46,591	62,549
2031-2035	54,800	54,340
2036-2040	64,455	44,685
2041-2045	75,812	33,328
2046-2050	89,169	19,971
2051-2054	76,367	4,809
Total	<u>\$ 446,806</u>	<u>\$ 289,210</u>

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 – 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, 2020, the Town reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

<b>Statement of net position and statement of activities</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net OPEB assets	\$ 538	\$ 321	\$ 859
Net pension and OPEB liabilities	1,162,439	170,507	1,332,946
Deferred outflows of resources related to pension and OPEB	294,664	20,791	315,455
Deferred inflows of resources related to pension and OPEB	27,894	15,869	43,763
Pension and OPEB expense	176,150	17,291	193,441

The Town reported \$114,679 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](http://www.azasrs.gov).

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

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

	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 \$100 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, 2020**

**NOTE 7 – 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, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 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 10.41 percent (10.29 percent for retirement, 0.05 percent for health insurance premium benefit, and 0.07 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, 2020, were \$39,950, \$1,668, and \$581, respectively.

During fiscal year 2020, the Town paid for ASRS pension and OPEB contributions as follows: 54.56 percent from the General Fund, 8.05 percent from the HURF Fund, 28.18 percent from the Water/Wastewater Fund, and 9.21 percent from the Solid Waste Fund.

**Liability** - At June 30, 2020, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	<b>Net Pension/OPEB (Asset) Liability</b>
Pension	\$ 453,996
Health insurance premium benefit	(859)
Long-term disability	2,026

The net asset and net liabilities were measured as of June 30, 2019. 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, 2018, to the measurement date of June 30, 2019. 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, 2019. The Town’s proportions measured as of June 30, 2019, and the change from its proportions measured as of June 30, 2018, were:

	<b>Proportion June 30, 2019</b>	<b>Increase (decrease) from June 30, 2018</b>
Pension	0.00312%	-0.00012%
Health insurance premium benefit	0.00311%	-0.00011%
Long-term disability	0.00311%	-0.00014%

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Expense** – For the year ended June 30, 2020, the Town recognized the following pension and OPEB expense.

	<b>Pension/OPEB Expense</b>
Pension	44,520
Health insurance premium benefit	1,077
Long-term disability	649

**Deferred Outflows/Inflows of Resources**—At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>		
	<b>Pension</b>	<b>Health Insurance Premium</b>	<b>Long-Term Disability</b>
Differences between expected and actual experience	\$ 8,202	\$ -	\$ 239
Changes of assumptions or other inputs	1,919	1,690	303
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,045	-	10
Town contributions subsequent to the measurement date	39,950	1,668	581
Total	\$ 51,116	\$ 3,358	\$ 1,133

	<b>Deferred Inflows of Resources</b>		
	<b>Pension</b>	<b>Health Insurance Premium</b>	<b>Long-Term Disability</b>
Differences between expected and actual experience	\$ 85	\$ 1,027	\$ -
Changes of assumptions or other inputs	18,079	-	-
Net difference between projected and actual earnings on pension plan investments	10,204	1,118	43
Changes in proportion and differences between Town contributions and proportionate share of contributions	11,831	2	54
Total	\$ 40,199	\$ 2,147	\$ 97

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, 2021.



**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

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>
2021	\$ (12,156)	\$ (374)	\$ 43
2022	(17,650)	(373)	43
2023	(1,960)	105	85
2024	2,733	209	93
2025	-	(24)	77
Thereafter	-	-	114

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 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 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>
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	<u>100%</u>	

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Discount Rate** – The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 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.

**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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
<b>Town's Proportionate share of the</b>			
Net pension liability	\$ 646,142	\$ 453,996	\$ 293,412
Net insurance premium benefit liability (asset)	4,354	(859)	(5,301)
Net long-term disability liability	2,242	2,026	1,816

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

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

***NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

**B. Public Safety Personnel Retirement System**

**Plan Descriptions** – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). 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) which are not further disclosed because of their relative insignificance to the Town’s financial statements.

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](http://www.psprs.com).

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Benefits Provided** – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. 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
<b>Retirement and Disability</b>		
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 60 consecutive months of last 20 years
<b>Benefit percentage</b>		
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	
<b>Survivor Benefit</b>		
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 based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

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.

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

**Employees Covered by Benefit Terms** – At June 30, 2020, the following employees were covered by the agent plans’ benefit terms:

	<b>PSPRS Police</b>	
	<b>Pension</b>	<b>Health</b>
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	2	-
Active employees	3	3
<b>Total</b>	<b>7</b>	<b>5</b>

**Contributions** – 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, 2020, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<b>Active Member- Pension</b>	<b>Town-Pension</b>	<b>Town-Health Insurance Premium Benefit</b>
PSPRS Police	7.65% - 11.65%	41.12%	0.00%

The Town’s contributions to the plans for the year ended June 30, 2020, were:

	<b>Pension</b>	<b>Health Insurance Premium Benefit</b>
PSPRS Police	74,222	-

During fiscal year 2020, the Town paid for PSPRS pension and OPEB contributions 100 percent from the General Fund.

**Liability** – At June 30, 2020, the Town reported the following liability:

	<b>Net Pension (Asset) Liability</b>	<b>Net OPEB (Asset) Liability</b>
PSPRS Police	\$ 856,705	\$ 20,219

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

The net assets and net liabilities were measured as of June 30, 2019, 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, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.30%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 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%
Risk parity	4%	4.01%
Fixed Income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	6.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	16%	4.75%
Total	<u>100%</u>	

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Discount Rate** – At June 30, 2019, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. 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.

**Changes in the Net Pension/OPEB Liability (Asset)**

	<b>Pension</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at June 30, 2019	\$ 1,358,029	\$ 715,649	\$ 642,380
Changes for the year			
Service Cost	38,292	-	38,292
Interest on the total liability	100,615	-	100,615
Differences between expected and actual experience in the measurement of the liability	40,679	-	40,679
Changes of assumptions or other inputs	162,365	-	162,365
Contributions-employer	-	74,968	(74,968)
Contributions-employee	-	15,504	(15,504)
Net investment income	-	38,829	(38,829)
Benefit payments, including refunds of employee contributions	(73,323)	(73,323)	-
Administrative expense	-	(1,675)	1,675
Net changes	268,628	54,303	214,325
Balances at June 30, 2020	\$ 1,626,657	\$ 769,952	\$ 856,705

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

	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, 2019	\$ 37,988	\$ 19,786	\$ 18,202
Changes for the year			
Service Cost	801	-	801
Interest on the total liability	2,755	-	2,755
Differences between expected and actual experience in the measurement of the liability	(798)	-	(798)
Changes of assumptions or other inputs	237	-	237
Net investment income	-	995	(995)
Benefit payments, including refunds of employee contributions	(3,120)	(3,120)	-
Administrative expense	-	(17)	17
Net changes	(125)	(2,142)	2,017
Balances at June 30, 2020	\$ 37,863	\$ 17,644	\$ 20,219

**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 7.3 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 (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	Current Discount		
	1% Decrease (6.3%)	Rate (7.3%)	1% Increase (8.3%)
PSPRS Police			
Net pension (asset) liability	\$ 1,090,939	\$ 856,705	\$ 669,318
Net OPEB (asset) liability	24,044	20,219	16,984

**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, 2020, the Town recognized the following pension and OPEB expense:

	Pension Expense	OPEB Expense
PSPRS Police	\$ 132,126	\$ 15,069



**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Deferred Outflows/Inflows of Resources** – At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	
	<b>Pension</b>	<b>Health Insurance Premium</b>
	Differences between expected and actual experience	\$ 30,510
Changes of assumptions or other inputs	121,773	200
Net difference between projected and actual earnings on pension plan investments	11,876	-
Town contributions subsequent to the measurement date	74,222	-
Total	\$ 238,381	\$ 21,467

	<b>Deferred Inflows of Resources</b>	
	<b>Pension</b>	<b>Health Insurance Premium</b>
	Differences between expected and actual experience	\$ 214
Changes of assumptions or other inputs	-	127
Net difference between projected and actual earnings on pension plan investments	-	274
Total	\$ 214	\$ 1,106

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, 2021. 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:

	<b>PSPRS Police</b>	
	<b>Pension</b>	<b>Health</b>
Year ended June 30,		
2021	\$ 57,495	\$ 12,859
2022	49,111	7,658
2023	54,399	(41)
2024	2,940	(22)
2025	-	(93)
Thereafter	-	-

**TOWN OF PATAGONIA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 8 – INTERFUND BALANCES AND ACTIVITY**

Due from and to other funds as of June 30, 2020, was as follows:

	Due to
	General
Due From	Fund
Water/Wastewater Fund	\$ 24,845

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received or are expected to be received subsequent to June 30, 2020 to cover the deficit.

**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, 2020, 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 2016-2020. 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, 2020.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 332,314	\$ 332,314	\$ 493,482	\$ 161,168
Taxes	300,000	300,000	384,168	84,168
Fines and forfeitures	66,000	66,000	47,439	(18,561)
Licenses and permits	103,392	103,392	34,199	(69,193)
Charges for services	30,759	30,759	33,656	2,897
Franchise fees	13,250	13,250	15,937	2,687
Other revenue	111,000	111,000	11,648	(99,352)
Investment income	6,000	6,000	8,983	2,983
<b>Total revenues</b>	<b>962,715</b>	<b>962,715</b>	<b>1,029,512</b>	<b>66,797</b>
<b>Expenditures</b>				
Court	37,243	37,243	37,666	(423)
Administration	172,088	172,088	209,126	(37,038)
Mayor and council	2,500	2,500	424	2,076
Professional services	24,000	24,000	16,180	7,820
Fire company	55,000	55,000	55,000	-
Police	361,486	361,486	376,298	(14,812)
Animal control	12,250	12,250	17,320	(5,070)
Library	118,788	118,788	111,263	7,525
Parks	47,463	47,463	52,690	(5,227)
Miscellaneous	11,032	11,032	11,874	(842)
Contingency	121,000	121,000	-	121,000
<b>Total expenditures</b>	<b>962,850</b>	<b>962,850</b>	<b>887,841</b>	<b>75,009</b>
Excess (deficiency) of revenue over (under) expenditures	(135)	(135)	141,671	141,806
<b>Other financing sources (uses)</b>				
Transfers	(21,000)	(21,000)	-	21,000
<b>Net change in fund balances</b>	<b>(21,135)</b>	<b>(21,135)</b>	<b>141,671</b>	<b>162,806</b>
Fund balance, beginning of year	815,637	815,637	815,637	-
Fund balance, end of year	<b>\$ 794,502</b>	<b>\$ 794,502</b>	<b>\$ 957,308</b>	<b>\$ 162,806</b>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 131,563	\$ 131,563	\$ 303,884	\$ 172,321
Investment income	-	-	1,531	1,531
<b>Total revenues</b>	<u>131,563</u>	<u>131,563</u>	<u>305,415</u>	<u>173,852</u>
<b>Expenditures</b>				
Highways and streets	<u>152,273</u>	<u>152,273</u>	<u>161,665</u>	<u>(9,392)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(20,710)</u>	<u>(20,710)</u>	<u>143,750</u>	<u>164,460</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>21,000</u>	<u>21,000</u>	<u>-</u>	<u>(21,000)</u>
<b>Net change in fund balances</b>	290	290	143,750	143,460
Fund balance, beginning of year	(130,053)	(130,053)	(130,053)	-
Fund balance, end of year	<u>\$ (129,763)</u>	<u>\$ (129,763)</u>	<u>\$ 13,697</u>	<u>\$ 143,460</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2020**

***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.

***NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS***

For the year ended June 30, 2020, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Court, Administration, Police, Animal control, Parks, and Miscellaneous departments of the General Fund.

Expenditures exceeded final budget amounts in the HURF Fund.



**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Changes in the Town's**  
**Net Pension/OPEB Liability (Asset) and Related Ratios**  
**Agent Plans**  
**June 30, 2020**

**PSPRS - Pension**

	Reporting Fiscal Year (Measurement Date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							Information not available
Service cost	\$ 38,292	\$ 32,532	\$ 39,367	\$ 32,762	\$ 23,998	\$ 12,222	
Interest on the total pension liability	100,615	95,629	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 liability	40,679	(7,974)	(14,364)	(43,689)	83,333	5,598	
Changes of assumptions or other inputs	162,365	-	32,454	53,993	-	232,088	
Benefit payments, including refunds of employee contributions	(73,323)	(76,341)	(70,533)	(70,533)	(70,533)	(69,041)	
Net change in total pension liability	268,628	43,846	91,421	(65,482)	126,193	298,194	
Total pension liability - beginning	1,358,029	1,314,183	1,222,762	1,288,244	1,162,051	863,857	
Total pension liability - ending (a)	<u>\$ 1,626,657</u>	<u>\$ 1,358,029</u>	<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	\$ 74,968	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396	
Contributions - employee	15,504	11,403	16,191	15,649	13,518	10,293	
Net investment income	-	46,962	72,386	3,452	20,805	70,331	
Benefit payments, including refunds of employee contributions	38,829	(76,341)	(70,533)	(70,533)	(70,533)	(69,041)	
Hall/Parker Settlement	(73,323)	(13,449)	-	-	-	-	
Administrative expense	(1,675)	(1,415)	(1,040)	(898)	(889)	-	
Other changes	-	9	9	5	(523)	(23,125)	
Net change in plan fiduciary net position	54,303	20,781	91,899	19,498	16,228	10,854	
Plan fiduciary net position - beginning	715,649	694,868	602,969	583,471	567,243	556,389	
Plan fiduciary net position - ending (b)	<u>\$ 769,952</u>	<u>\$ 715,649</u>	<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>\$ 856,705</u>	<u>\$ 642,380</u>	<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	47.33%	52.70%	52.87%	49.31%	45.29%	48.81%	
Covered payroll	\$ 171,550	\$ 129,248	\$ 140,949	\$ 134,324	\$ 122,331	\$ 101,139	
Town's net pension (asset) liability as a percentage of covered payroll	499.39%	497.01%	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 Plans**  
**June 30, 2020**

**PSPRS - Health Insurance Premium Benefit**

	Reporting Fiscal Year (Measurement Date)			
	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2011
Total OPEB liability				
Service cost	\$ 801	\$ 737	\$ 958	Information
Interest on the total OPEB liability	2,755	(189)	337	not
Changes of benefit terms	-	-	-	available
Differences between expected and actual experience in the measurement of the pension liability	(798)	47,903	(169)	
Changes of assumptions or other inputs	237	-	(529)	
Benefit payments, including refunds of employee contributions	(3,120)	(15,080)	-	
Net change in total OPEB liability	(125)	33,371	597	
Total OPEB liability - beginning	37,988	4,617	4,020	
Total OPEB liability - ending (a)	<u>\$ 37,863</u>	<u>\$ 37,988</u>	<u>\$ 4,617</u>	
Plan fiduciary net position				
Contributions - employer	\$ -	\$ -	\$ -	
Net investment income	995	1,965	3,474	
Benefit payments, including refunds of employee contributions	(3,120)	(15,080)	-	
Administrative expense	(17)	(30)	(31)	
Other changes	-	-	-	
Net change in plan fiduciary net position	(2,142)	(13,145)	3,443	
Plan fiduciary net position - beginning	19,786	32,931	29,488	
Plan fiduciary net position - ending (b)	<u>\$ 17,644</u>	<u>\$ 19,786</u>	<u>\$ 32,931</u>	
Town's net OPEB (asset) liability - ending (a) - (b)	<u>\$ 20,219</u>	<u>\$ 18,202</u>	<u>\$ (28,314)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	46.60%	52.08%	713.26%	
Covered payroll	\$ 171,550	\$ 129,248	\$ 140,949	
Town's net OPEB (asset) liability as a percentage of covered payroll	11.79%	14.08%	-20.09%	

*See accompanying notes to pension plan schedules.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Town Pension/OPEB Contributions**  
**June 30, 2020**

	ASRS-Pension Reporting Fiscal Year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 39,950	\$ 36,753	\$ 35,148	\$ 33,896	\$ 32,814	\$ 28,359	\$ 30,806	Information not available
Town's contributions in relation to the statutorily required contribution	(39,950)	(36,753)	(35,148)	(33,896)	(32,814)	(28,359)	(30,806)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 350,061</u>	<u>\$ 329,919</u>	<u>\$ 322,459</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	11.45%	11.14%	10.90%	10.78%	10.85%	10.89%	10.70%	

	ASRS-Health Insurance Premium Reporting Fiscal Year				2016 through 2011	ASRS-Long-Term Disability Reporting Fiscal Year				2016 through 2011
	2020	2019	2018	2017		2020	2019	2018	2017	
Statutorily required contribution	\$ 1,668	\$ 1,474	\$ 1,380	\$ 1,733	Information not available	\$ 581	\$ 517	\$ 515	\$ 437	Information not available
Town's contributions in relation to the statutorily required contribution	(1,668)	(1,474)	(1,380)	(1,733)		(581)	(517)	(515)	(437)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 350,061</u>	<u>\$ 329,919</u>	<u>\$ 322,459</u>	<u>\$ 314,434</u>		<u>\$ 350,061</u>	<u>\$ 329,919</u>	<u>\$ 322,459</u>	<u>\$ 314,434</u>	
Town's contributions as a percentage of covered payroll	0.49%	0.44%	0.44%	0.55%		0.17%	0.15%	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, 2020**

	<b>PSPRS-Pension</b>							<b>2013 through 2011</b>
	<b>Reporting Fiscal Year</b>							
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Actuarially determined contribution	\$ 74,222	\$ 74,968	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(74,222)</u>	<u>(74,968)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 158,459</u>	<u>\$ 171,550</u>	<u>\$ 129,248</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	46.84%	43.70%	41.48%	53.13%	53.47%	44.02%	22.14%	

	<b>PSPRS-Health Insurance Premium</b>				
	<b>Reporting Fiscal Year</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016 through 2011</b>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 158,459</u>	<u>\$ 148,181</u>	<u>\$ 129,248</u>	<u>\$ 140,949</u>	
Town's contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	

*See accompanying notes to pension plan schedules.*

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Pension/OPEB Plan Schedules**  
**June 30, 2020**

***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 2018 actuarial valuation	19 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0% - 8.0% to 3.5% - 7.5% for PSPRS. In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0% for PSPRS. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5% for PSPRS.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS.
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	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

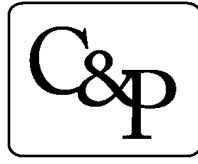
***NOTE 2 – FACTORS THAT AFFECT TRENDS***

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.

**TOWN OF PATAGONIA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Pension/OPEB Plan Schedules**  
**June 30, 2020**

***NOTE 2 – FACTORS THAT AFFECT TRENDS – Continued***

These changes 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 increased 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 and 2019.



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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, 2020, 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 January 15, 2021.

**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. 2020-01

### **Compliance and Other Matters**

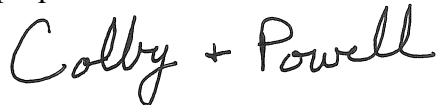
As part of obtaining reasonable assurance about whether the Town of Patagonia, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a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



January 15, 2021

**TOWN OF PATAGONIA, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2020**

**Financial Statement Findings**

***Item: 2020-001***

*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.