

TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2023

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Patagonia, Arizona

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Patagonia, Arizona (the Town), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Town, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Town of Patagonia, Arizona, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Patagonia, Arizona's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Patagonia, Arizona's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Patagonia, Arizona's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted 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. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of the City's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans, Schedule of Changes in the City's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans, and Schedule of City Pension/OPEB Contributions 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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Patagonia, Arizona's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

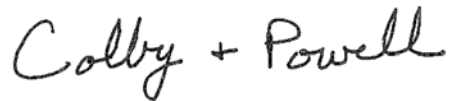
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, on our consideration of the Town of Patagonia, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Patagonia, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by *Arizona Revised Statutes*

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the Town solely for the authorized purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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 Arizona Auditor General,) the Town Council and 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.

A handwritten signature in cursive script that reads "Colby + Powell".

November 17, 2023

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
June 30, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,304,406	\$ 240,735	\$ 1,545,141
Restricted cash and cash equivalents	-	36,643	36,643
Accounts receivable, net	-	38,588	38,588
Taxes receivable	19,563	-	19,563
Due from other governments	386,409	-	386,409
Leases receivable	121,779	-	121,779
Prepaid expenses	35,654	18,553	54,207
Internal balances	633,131	(633,131)	-
Net OPEB asset	11,042	6,594	17,636
Capital assets, not being depreciated	355,867	167,258	523,125
Capital assets, being depreciated, net	2,666,855	3,545,443	6,212,298
Total assets	5,534,706	3,420,683	8,955,389
DEFERRED OUTFLOWS OF RESOURCES			
Pensions and other postemployment benefits	71,854	35,584	107,438
LIABILITIES			
Accounts payable	39,885	6,808	46,693
Accrued expenses	25,679	-	25,679
Unearned revenue	-	43,945	43,945
Refundable deposits	-	36,643	36,643
Compensated absences payable	14,040	6,848	20,888
Noncurrent liabilities			
Due in more than 1 year	895,711	468,519	1,364,230
Total liabilities	975,315	562,763	1,538,078
DEFERRED INFLOWS OF RESOURCES			
Pensions and other postemployment benefits	42,645	23,642	66,287
Leases	84,320	-	84,320
Total deferred inflows of resources	126,965	23,642	150,607
NET POSITION			
Net investment in capital assets	3,022,722	3,712,701	6,735,423
Restricted for:			
Court enhancement	24,831	-	24,831
Unrestricted (deficit)	1,456,726	(842,839)	613,887
Total net position	\$ 4,504,279	\$ 2,869,862	\$ 7,374,141

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2023

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 435,609	\$ 66,718	\$ 27,879	\$ -	\$ (341,012)	\$ -	\$ (341,012)
Public safety	321,102	29,052	-	-	(292,050)	-	(292,050)
Highways and streets	234,627	-	100,747	466,245	332,365	-	332,365
Culture and recreation	206,221	941	35,933	-	(169,347)	-	(169,347)
Total governmental activities	<u>1,197,559</u>	<u>96,711</u>	<u>164,559</u>	<u>466,245</u>	<u>(470,044)</u>	<u>-</u>	<u>(470,044)</u>
Business-type activities							
Water/Wastewater	530,624	338,740	-	158,790	-	(33,094)	(33,094)
Solid Waste	207,938	187,709	-	-	-	(20,229)	(20,229)
Total business-type activities	<u>738,562</u>	<u>526,449</u>	<u>-</u>	<u>158,790</u>	<u>-</u>	<u>(53,323)</u>	<u>(53,323)</u>
Total primary government	<u>\$ 1,936,121</u>	<u>\$ 623,160</u>	<u>\$ 164,559</u>	<u>\$ 625,035</u>	<u>(470,044)</u>	<u>(53,323)</u>	<u>(523,367)</u>
General revenues:							
Taxes:							
Sales tax					1,259,629	-	1,259,629
Franchise tax					21,310	-	21,310
Shared revenue-Urban revenue					284,552	-	284,552
Shared revenue-State sales tax					117,222	-	117,222
Shared revenue-State vehicle license tax					84,353	-	84,353
Miscellaneous					82,273	-	82,273
Investment earnings					19,277	25,183	44,460
Gain (loss) on disposal of capital assets					(39,889)	-	(39,889)
Transfers in (out)					(145,949)	145,949	-
Total general revenue					<u>1,682,778</u>	<u>171,132</u>	<u>1,853,910</u>
Change in net position					<u>1,212,734</u>	<u>117,809</u>	<u>1,330,543</u>
Net position, beginning of year - restated					<u>3,291,545</u>	<u>2,752,053</u>	<u>6,043,598</u>
Net position, end of year					<u>\$ 4,504,279</u>	<u>\$ 2,869,862</u>	<u>\$ 7,374,141</u>

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2023

	General Fund	HURF Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,304,406	\$ -	\$ 1,304,406
Taxes receivable	6,769	12,794	19,563
Due from other governments	219,582	166,827	386,409
Prepaid expenses	17,101	18,553	35,654
Due from other funds	1,078,126	-	1,078,126
Lease receivable	121,779	-	121,779
Total assets	\$ 2,747,763	\$ 198,174	\$ 2,945,937
LIABILITIES			
Accounts payable	\$ 7,022	\$ 32,863	\$ 39,885
Accrued expenses	25,679	-	25,679
Due to other funds	-	444,995	444,995
Deferred revenue	-	-	-
Total liabilities	32,701	477,858	510,559
Deferred inflows of resources			
Deferred inflows related to leases	84,320	-	84,320
FUND BALANCES			
Nonspendable	17,101	18,553	35,654
Restricted for:			
Court enhancement	26,627	-	26,627
Unassigned	2,587,014	(298,237)	2,288,777
Total fund balances	2,630,742	(279,684)	2,351,058
Total liabilities and fund balances	\$ 2,747,763	\$ 198,174	\$ 2,945,937

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, 2023

Fund balances-total governmental funds		\$ 2,351,058
<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	8,117,444	
Less: Accumulated depreciation	<u>(5,094,722)</u>	3,022,722
<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>		
		11,042
<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	(14,040)	
Net pension/OPEB liability	<u>(895,711)</u>	(909,751)
<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	71,853	
Deferred inflows of resources related to pensions/OPEB	<u>(42,645)</u>	<u>29,208</u>
Net position of governmental activities		<u>\$ 4,504,279</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2023

	General Fund	HURF Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 516,810	\$ 454,413	\$ 971,223
Taxes	1,259,629	-	1,259,629
Donation	-	112,580	112,580
Other revenue	115,401	-	115,401
Fines and forfeitures	29,052	-	29,052
Charges for services	31,405	-	31,405
Licenses and permits	36,254	-	36,254
Franchise fees	21,310	-	21,310
Investment earnings	17,015	2,262	19,277
Total revenues	<u>2,026,876</u>	<u>569,255</u>	<u>2,596,131</u>
Expenditures			
Current			
General government	378,183	-	378,183
Public safety	440,919	-	440,919
Highways and streets	-	187,346	187,346
Culture and recreation	178,579	-	178,579
Capital outlay	89,364	689,830	779,194
Total expenditures	<u>1,087,045</u>	<u>877,176</u>	<u>1,964,221</u>
Excess (deficiency) of revenue over (under) expenditures	<u>939,831</u>	<u>(307,921)</u>	<u>631,910</u>
Other financing sources (uses)			
Transfers	<u>(145,949)</u>	<u>-</u>	<u>(145,949)</u>
Net change in fund balances	793,882	(307,921)	485,961
Fund balance, beginning of year, as restated	<u>1,836,860</u>	<u>28,237</u>	<u>1,865,097</u>
Fund balance, end of year	<u>\$ 2,630,742</u>	<u>\$ (279,684)</u>	<u>\$ 2,351,058</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, 2023

Net change in fund balances-total governmental funds \$ 485,961

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	779,194	
Depreciation expense	<u>(143,664)</u>	635,530

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 is reported in the statement of activities.

Town pension/OPEB contributions	56,576	
Pension/OPEB expense	<u>36,814</u>	93,390

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.

Increase in compensated absences payable		<u>(2,147)</u>
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Change in net position of governmental activities		<u>\$ 1,212,734</u>
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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, 2023

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 240,735	\$ 240,735
Restricted cash and cash equivalents	22,842	13,801	36,643
Accounts receivable, net	24,545	14,043	38,588
Prepaid expenses	18,553	-	18,553
Total current assets	<u>65,940</u>	<u>268,579</u>	<u>334,519</u>
Noncurrent assets			
Net OPEB asset	4,970	1,624	6,594
Capital assets, not being depreciated	47,258	120,000	167,258
Capital assets, being depreciated, net	3,164,164	381,279	3,545,443
Capital assets, net	<u>3,211,422</u>	<u>501,279</u>	<u>3,712,701</u>
Total noncurrent assets	<u>3,216,392</u>	<u>502,903</u>	<u>3,719,295</u>
Total assets	<u>3,282,332</u>	<u>771,482</u>	<u>4,053,814</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions and other postemployment benefits	<u>26,819</u>	<u>8,765</u>	<u>35,584</u>
LIABILITIES			
Current liabilities			
Accounts payable	4,159	2,649	6,808
Unearned revenue	43,945	-	43,945
Refundable deposits	22,842	13,801	36,643
Due to other funds	633,131	-	633,131
Compensated absences payable, current portion	6,027	821	6,848
Total current liabilities	<u>710,104</u>	<u>17,271</u>	<u>727,375</u>
Noncurrent liabilities			
Notes payable	-	-	-
Estimated liability for landfill closure	-	276,780	276,780
Net pension liability	144,509	47,230	191,739
Total noncurrent liabilities	<u>144,509</u>	<u>324,010</u>	<u>468,519</u>
Total liabilities	<u>854,613</u>	<u>341,281</u>	<u>1,195,894</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions and other postemployment benefits	<u>17,818</u>	<u>5,824</u>	<u>23,642</u>
NET POSITION			
Net investment in capital assets	3,211,422	501,279	3,712,701
Unrestricted (deficit)	<u>(774,702)</u>	<u>(68,137)</u>	<u>(842,839)</u>
Total net position	<u>\$ 2,436,720</u>	<u>\$ 433,142</u>	<u>\$ 2,869,862</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, 2023

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Operating revenues			
Sewer	\$ 200,330	\$ -	\$ 200,330
Sanitation	-	187,709	187,709
Water	138,410	-	138,410
Total operating revenues	<u>338,740</u>	<u>187,709</u>	<u>526,449</u>
Operating expenses			
Personnel	208,040	86,094	294,134
Depreciation	151,173	43,575	194,748
Supplies	76,834	23,542	100,376
Utilities	45,842	4,571	50,413
Contract services	13,197	24,294	37,491
Other	8,117	5,838	13,955
Repairs and maintenance	16,294	15,976	32,270
Insurance	11,040	4,048	15,088
Travel and training	87	-	87
Total operating expenses	<u>530,624</u>	<u>207,938</u>	<u>738,562</u>
Operating income (loss)	<u>(191,884)</u>	<u>(20,229)</u>	<u>(212,113)</u>
Nonoperating revenues (expenses)			
Capital grants	158,790	-	158,790
Investment earnings	18,984	6,199	25,183
Transfers	145,949	-	145,949
Total nonoperating revenues (expenses)	<u>323,723</u>	<u>6,199</u>	<u>329,922</u>
Income (loss)	131,839	(14,030)	117,809
Net position, beginning of year	<u>2,304,881</u>	<u>447,172</u>	<u>2,752,053</u>
Net position, end of year	<u>\$ 2,436,720</u>	<u>\$ 433,142</u>	<u>\$ 2,869,862</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, 2023

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 345,565	\$ 193,199	\$ 538,764
Payments to suppliers	(169,829)	(77,494)	(247,323)
Payments to employees	(207,330)	(86,002)	(293,332)
Net cash provided (used) by operating activities	<u>(31,594)</u>	<u>29,703</u>	<u>(1,891)</u>
Cash flows from noncapital financing activities			
Received from other funds	<u>354,604</u>	<u>230,615</u>	<u>585,219</u>
Net cash provided (used) by non-capital financing activities	<u>354,604</u>	<u>230,615</u>	<u>585,219</u>
Cash flows from capital and related financing activities			
Purchase of capital asset	(500,342)	(25,033)	(525,375)
Proceeds from noncapital contribution	<u>158,790</u>	<u>-</u>	<u>158,790</u>
Net cash provided (used) by capital and related financing activities	<u>(341,552)</u>	<u>(25,033)</u>	<u>(366,585)</u>
Cash flows from investing activities			
Interest received	<u>18,984</u>	<u>6,199</u>	<u>25,183</u>
Net change in cash and cash equivalents	442	241,484	241,926
Cash and cash equivalents, beginning of year	<u>22,400</u>	<u>13,052</u>	<u>35,452</u>
Cash and cash equivalents, end of year	<u>\$ 22,842</u>	<u>\$ 254,536</u>	<u>\$ 277,378</u>
Reconciliation of cash and cash equivalents to statement of net position			
Cash and cash equivalents	\$ -	\$ 240,735	\$ 240,735
Restricted cash and cash equivalents	<u>22,842</u>	<u>13,801</u>	<u>36,643</u>
Total cash and cash equivalents, end of year	<u>\$ 22,842</u>	<u>\$ 254,536</u>	<u>\$ 277,378</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, 2023

	Business-type Activities--Enterprise Funds		
	Water/ Wastewater Fund	Solid Waste Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (191,884)	\$ (20,229)	\$ (212,113)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	151,173	43,575	194,748
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	6,383	4,741	11,124
Net OPEB asset	(110)	(35)	(145)
Deferred outflows of resources related to pensions and other postemployment benefits	15,804	5,166	20,970
Accounts payable	(452)	108	(344)
Refundable deposits	442	749	1,191
Compensated absences	710	92	802
Net pension and other postemployment benefits liability	13,968	4,565	18,533
Deferred inflows of resources related to pensions and other postemployment benefits	(27,628)	(9,029)	(36,657)
Net cash provided (used) by operating activities	<u>\$ (31,594)</u>	<u>\$ 29,703</u>	<u>\$ (1,891)</u>

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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

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, 2023

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, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town reports the following major enterprise funds:

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

C. Basis of Accounting

The government-wide, 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, 2023

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.

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, 2023 totaled \$5,000 and \$2,500, 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, 2023

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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

L. Leases

As lessee, the Town recognizes lease liabilities with an initial, individual value of \$20,000 or more. The Town uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. The Town’s estimated incremental borrowing rate is based on the Town’s borrowing rate for unsecured debt for a comparable amount and time period, and then decreased the based on full collateral.

As lessor, the Town recognizes lease receivables with an initial, individual value of \$20,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate the Town charges the lessee) and the implicit rate cannot be determined, the Town uses its own estimated incremental borrowing rate as the discount rate to measure lease receivables. The Town’s estimated incremental borrowing rate is calculated as described above.

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, 2023

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

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, 2023, the carrying amount of the Town’s total cash in bank was \$557,805, and the bank balance was \$772,668. 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 \$22,842. Restricted cash in the Solid Waste Fund consists of monies restricted for refundable customer deposits in the amount of \$13,801.

Investments—The Town reported investments in the State Treasurer’s Investment Pool 5 with a reported amount of \$990,695. 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, with a reported amount of \$32,674. The State Treasurer’s Investment Pool 7 is unrated.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

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	\$ 611	\$ -	\$ 611
State treasurer's investment pool 5	954,051	36,643	990,694
State treasurer's investment pool 7	32,674	-	32,674
Amount of deposits	317,070	240,735	557,805
Total	\$ 1,304,406	\$ 277,378	\$ 1,581,784

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2023 consisted of \$4,609 in state-shared revenue from sales taxes, \$3,639 in state-shared revenue from auto lieu taxes, and \$211,334 in local sales taxes collected by the State.

Amounts due from other governments in the HURF Fund at June 30, 2023 consisted of \$10,179 in state-shared revenue from highway user revenue fund (HURF) taxes and 156,648 in grant revenue from the Community Development Block Grant Program.

NOTE 4 – LEASE RECEIVABLE

The Town leases land to a third party under the terms of a lease agreement. The lease began May 2006 for a period of 20 years. The agreement has two 5-year renewal options and then an amendment added two more 10 year renewal options that would make the lease ending in May 2056. The current annual rate is \$5,808.

During the fiscal year ended June 30, 2023, the Town recognized total lease-related revenues of \$4,995 of interest and \$2,555 of rents from this lease.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
Construction in progress	735,569	-	(735,569)	-
Total capital assets not being depreciated	<u>1,091,436</u>	<u>-</u>	<u>(735,569)</u>	<u>355,867</u>
Capital assets being depreciated:				
Equipment	490,517	10,000	(116,333)	384,184
Buildings	1,829,175	-	-	1,829,175
Parks	372,675	79,364	-	452,039
Streets	3,670,780	1,425,399	-	5,096,179
Total	<u>6,363,147</u>	<u>1,514,763</u>	<u>(116,333)</u>	<u>7,761,577</u>
Less accumulated depreciation for:				
Equipment	(369,969)	(11,567)	76,444	(305,092)
Buildings	(1,303,511)	(59,097)	-	(1,362,608)
Parks	(247,415)	(10,410)	-	(257,825)
Streets	(3,106,607)	(62,590)	-	(3,169,197)
Total	<u>(5,027,502)</u>	<u>(143,664)</u>	<u>76,444</u>	<u>(5,094,722)</u>
Total capital assets being depreciated, net	<u>1,335,645</u>	<u>1,371,099</u>	<u>(39,889)</u>	<u>2,666,855</u>
Governmental activities capital assets, net	<u>\$ 2,427,081</u>	<u>\$ 1,371,099</u>	<u>\$ (775,458)</u>	<u>\$ 3,022,722</u>

Depreciation expense was charged to the functions as follows:

Governmental activities:	
General government	\$ 53,804
Public safety	17,982
Highways and streets	46,214
Culture and recreation	25,664
Total governmental activities depreciation expense	<u>\$ 143,664</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 150,540	\$ -	\$ -	\$ 150,540
Construction in progress	16,718	-	-	16,718
Total capital assets not being depreciated	167,258	-	-	167,258
Capital assets being depreciated:				
Land improvements	738,732	-	-	738,732
Buildings	1,737,224	-	-	1,737,224
Utility systems	2,711,806	500,343	-	3,212,149
Machinery and equipment	757,504	25,033	-	782,537
Total	5,945,266	525,376	-	6,470,642
Less accumulated depreciation for:				
Land improvements	(365,752)	(39,402)	-	(405,154)
Buildings	(799,671)	(43,431)	-	(843,102)
Utility systems	(989,591)	(58,259)	-	(1,047,850)
Machinery and equipment	(575,436)	(53,656)	-	(629,092)
Total	(2,730,450)	(194,748)	-	(2,925,198)
Total capital assets being depreciated, net	3,214,816	330,628	-	3,545,444
Business-type activities capital assets, net	<u>\$ 3,382,074</u>	<u>\$ 330,628</u>	<u>\$ -</u>	<u>\$ 3,712,702</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water/Wastewater	\$ 151,173
Solid Waste	43,575
Total business-type activities depreciation expense	<u>\$ 194,748</u>

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2023.

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 11,893	\$ 2,147	\$ -	\$ 14,040	\$ 14,040
Net pension/OPEB liability	867,965	27,746	-	895,711	-
Total governmental activities long-term liabilities	<u>\$ 879,858</u>	<u>\$ 29,893</u>	<u>\$ -</u>	<u>\$ 909,751</u>	<u>\$ 14,040</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 6 – LONG-TERM LIABILITIES – Continued

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due within 1 year
Business-type activities					
Compensated absences payable	\$ 6,046	\$ 802	\$ -	\$ 6,848	\$ 6,848
Net pension/OPEB liability	173,206	18,533	-	191,739	-
Landfill closure costs	276,780	-	-	276,780	-
Total business-type activities					
long-term liabilities	<u>\$ 456,032</u>	<u>\$ 19,335</u>	<u>\$ -</u>	<u>\$ 475,367</u>	<u>\$ 6,848</u>

NOTE 7 – RISK MANAGEMENT

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

At June 30, 2023, the Town reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of net position and statement of activities	Governmental Activities	Business-type Activities	Total
Net OPEB assets	\$ 11,042	\$ 6,594	\$ 17,636
Net pension and OPEB liabilities	895,711	191,739	1,087,450
Deferred outflows of resources related to pension and OPEB	71,854	35,584	107,438
Deferred inflows of resources related to pension and OPEB	42,645	23,642	66,287
Pension and OPEB expense	(36,814)	20,948	(15,866)

The Town reported \$56,576 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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.

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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. 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.

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, 2023, statute required active ASRS members to contribute at the actuarially determined rate of 12.17 percent (12.03 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.17 percent (11.92 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2023, were \$47,806, \$441, and \$561, respectively.

During fiscal year 2023, 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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Liability – At June 30, 2023, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB (Asset) Liability
Pension	\$ 512,518
Health insurance premium benefit	(17,636)
Long-term disability	290

The net asset and net liabilities were measured as of June 30, 2022. 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, 2021, to the measurement date of June 30, 2022.

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, 2022. The Town’s proportions measured as of June 30, 2022, and the change from its proportions measured as of June 30, 2021, were:

	Proportion June 30, 2022	Increase (decrease) from June 30, 2021
Pension	0.00314%	0.00352%
Health insurance premium benefit	0.00316%	0.00354%
Long-term disability	0.00314%	0.00353%

Expense – For the year ended June 30, 2023, the Town recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	\$ 58,450
Health insurance premium benefit	(2,521)
Long-term disability	97

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources		
	Health		
	Pension	Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$ 4,367	\$ -	\$ 151
Changes of assumptions or other inputs	25,437	286	158
Net difference between projected and actual earnings on pension plan investment	-	-	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	15,363	439	162
Town contributions subsequent to the measurement date	47,806	441	561
Total	\$ 92,973	\$ 1,166	\$ 1,032
	Deferred Inflows of Resources		
	Health		
	Pension	Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$ -	\$ 9,000	\$ 270
Changes of assumptions	-	481	708
Difference between projected and actual investment earnings	13,500	594	9
Changes in proportion and differences between employer contributions and proportionate share of contributions	38,361	103	202
Total	\$ 51,861	\$ 10,178	\$ 1,189

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, 2024.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – 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>
2024	\$ 19,450	\$ (2,625)	\$ (63)
2025	(24,312)	(2,862)	(80)
2026	(23,440)	(3,142)	(150)
2027	21,608	(390)	(22)
2028	-	(434)	(137)
Thereafter	-	-	(266)

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

ASRS

Actuarial valuation date	June 30, 2021
Actuarial roll forward date	June 30, 2022
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4% 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
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 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. 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%	3.90%
Fixed income - credit	20%	5.30%
Fixed income - interest rate sensitive	10%	(0.20)%
Real estate	20%	6.00%
Total	<u>100%</u>	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rate – At June 30, 2022, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 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 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Town's Proportionate share of the			
Net pension liability	\$ 756,205	\$ 512,518	\$ 309,321
Net insurance premium benefit liability (asset)	(12,681)	(17,636)	(21,840)
Net long-term disability liability	481	290	105

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, 2023

NOTE 8 – 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.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – 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
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percentage		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments 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, 2023

NOTE 8 – 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, 2023, the following employees were covered by the agent plans’ benefit terms:

	PSPRS Police	
	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	3	-
Active employees	-	2
Total	5	4

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, 2023, are indicated below. Rates are a percentage of active members’ annual covered payroll.

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

The Town’s contributions to the plans for the year ended June 30, 2022, were:

	Pension	Health Insurance Premium Benefit
PSPRS Police	-	-

During fiscal year 2023, the Town paid for PSPRS pension and OPEB contributions 100 percent from the General Fund.

Liability – At June 30, 2023, the Town reported the following liability:

	Net Pension (Asset) Liability	Net OPEB (Asset) Liability
PSPRS Police	\$ 563,017	\$ 11,625

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net assets and net liabilities were measured as of June 30, 2022, 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, 2022, reflect changes of actuarial assumptions, including decreasing the investment rate of return from 7.3 percent to 7.2 percent, changing the wage inflation from 3.5 percent to a range of 3.0 – 6.25 percent, and increasing the cost-of-living adjustment from 1.75 percent to 1.85 percent.

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

Actuarial valuation date	June 30, 2022
Actuarial cost method	Entry age normal
Investment rate of return	7.20%
Wage inflation	2.0% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.85% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2021.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.2 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>
U.S Public Equity	24%	3.49%
International Public Equity	16%	4.47%
Global Private Equity	20%	7.18%
Other Assets (Capital Appreciation)	7%	4.83%
Core Bonds	2%	0.45%
Private credit	20%	5.10%
Diversifying Strategies	10%	2.68%
Cash - Mellon	1%	(0.35)%
Total	<u>100%</u>	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rate – At June 30, 2022, the discount rate used to measure the PSPRS and CORP total pension/OPEB liabilities was 7.2 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2021. 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)

	Pension		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2022	\$ 1,575,044	\$ 1,013,494	\$ 561,550
Changes for the year			
Service Cost	30,020	-	30,020
Interest on the total liability	112,857	-	112,857
Differences between expected and actual experience in the measurement of the liability	(143,987)	-	(143,987)
Changes of assumptions or other inputs	32,949	-	32,949
Contributions-employer	-	68,095	(68,095)
Contributions-employee	-	956	(956)
Net investment income	-	(37,993)	37,993
Benefit payments, including refunds of employee contributions	(118,151)	(118,151)	-
Administrative expense	-	(686)	686
Net changes	(86,312)	(87,779)	1,467
Balances at June 30, 2023	\$ 1,488,732	\$ 925,715	\$ 563,017

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	Health Insurance Premium Benefit Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net OPEB (Asset) Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2022	\$ 36,136	\$ 19,756	\$ 16,380
Changes for the year			
Service Cost	1,022	-	1,022
Interest	2,589	-	2,589
Differences between expected and actual experience in the measurement of the liability	(9,271)	-	(9,271)
Changes of assumptions or other inputs	353	-	353
Contributions-employer	-	188	(188)
Contributions-employee	-	-	-
Net investment income	-	(727)	727
Benefit payments, including refunds of employee contributions	(3,380)	(3,380)	-
Administrative expense	-	(13)	13
Net changes	(8,687)	(3,932)	(4,755)
Balances at June 30, 2023	\$ 27,449	\$ 15,824	\$ 11,625

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 7.2 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 (6.2 percent) or 1 percentage point higher (8.2 percent) than the current rate:

	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
PSPRS Police			
Net pension (asset) liability	\$ 738,663	\$ 563,017	\$ 420,565
Net OPEB (asset) liability	13,987	11,625	9,606

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, 2023, the Town recognized the following pension and OPEB expense:

	Pension Expense	OPEB Expense
PSPRS Police	\$ (64,450)	\$ (7,442)

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources – At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources	
	Pension	Health Insurance Premium
	Differences between expected and actual experience	\$ -
Changes of assumptions or other inputs	-	80
Net difference between projected and actual earnings on pension plan investments	11,477	257
Total	\$ 11,477	\$ 790

	Deferred Inflows of Resources	
	Pension	Health Insurance Premium
	Differences between expected and actual experience	\$ -
Total	\$ -	\$ 2,056

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, 2024. 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:

	PSPRS Police	
	Pension	Health
Year ended June 30,		
2024	\$ 1,558	\$ (806)
2025	(1,382)	(877)
2026	(10,731)	(993)
2027	22,032	410
2028	-	-
Thereafter	-	-

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2023

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Due from and to other funds as of June 30, 2023, was as follows:

Due to	Due from		Total
	Water/Wastewater Fund	HURF Fund	
General Fund	\$ 633,131	\$ 444,995	\$ 1,078,126

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, 2023 to cover the deficit.

NOTE 10 – 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 \$276,780 reported as landfill closure and post closure care liability at June 30, 2023, represents the cumulative amount reported to date based on the use of 42 percent of the estimated capacity of the landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$339,896 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 2022-2023. 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, 2023.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

	Governmental Activities	General Fund
Net position/fund balance as previously reported at June 30, 2022	\$ 3,255,828	\$ 1,801,143
Prior period adjustments - implementation of GASB 87:		
Lease receivables	122,592	122,592
Deferred inflows related to leases	(86,875)	(86,875)
Total prior period adjustment	35,717	35,717
Net position/fund balance as restated, July 1, 2022	\$ 3,291,545	\$ 1,836,860

OTHER REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 322,396	\$ 322,396	\$ 516,810	\$ 194,414
Taxes	593,753	593,753	1,259,629	665,876
Fines and forfeitures	30,121	30,121	29,052	(1,069)
Licenses and permits	32,169	32,169	36,254	4,085
Charges for services	35,818	35,818	31,405	(4,413)
Franchise fees	13,250	13,250	21,310	8,060
Other revenue	139,285	139,285	115,401	(23,884)
Investment income	588	588	17,015	16,427
Total revenues	<u>1,167,380</u>	<u>1,167,380</u>	<u>2,026,876</u>	<u>859,496</u>
Expenditures				
Court	41,905	41,905	31,649	10,256
Administration	281,356	281,356	228,183	53,173
Mayor and council	5,800	5,800	5,918	(118)
Professional services	38,500	38,500	34,538	3,962
Fire company	65,000	65,000	55,000	10,000
Police	363,000	363,000	358,434	4,566
Animal control	25,500	25,500	-	25,500
Library	148,258	148,258	181,518	(33,260)
Parks	77,763	77,763	68,818	8,945
Miscellaneous	16,897	16,897	13,998	2,899
Contingency	100,000	100,000	108,989	(8,989)
Total expenditures	<u>1,163,979</u>	<u>1,163,979</u>	<u>1,087,045</u>	<u>76,934</u>
Excess (deficiency) of revenue over (under) expenditures	<u>3,401</u>	<u>3,401</u>	<u>939,831</u>	<u>936,430</u>
Other financing sources (uses)				
Transfers	<u>(441,899)</u>	<u>(441,899)</u>	<u>(145,949)</u>	<u>295,950</u>
Net change in fund balances	<u>(438,498)</u>	<u>(438,498)</u>	<u>793,882</u>	<u>1,232,380</u>
Fund balance, beginning of year	<u>1,836,860</u>	<u>1,836,860</u>	<u>1,836,860</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,398,362</u>	<u>\$ 1,398,362</u>	<u>\$ 2,630,742</u>	<u>\$ 1,232,380</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 387,315	\$ 387,315	\$ 454,413	\$ 67,098
Donation	160,000	160,000	112,580	(47,420)
Other revenue	15,000	15,000	-	(15,000)
Investment income	125	125	2,262	2,137
Total revenues	<u>562,440</u>	<u>562,440</u>	<u>569,255</u>	<u>6,815</u>
Expenditures				
Highways and streets	-	-	187,346	(187,346)
Capital outlay	<u>556,582</u>	<u>556,582</u>	<u>689,830</u>	<u>(133,248)</u>
Total expenditures	<u>556,582</u>	<u>556,582</u>	<u>877,176</u>	<u>(320,594)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>5,858</u>	<u>5,858</u>	<u>(307,921)</u>	<u>(313,779)</u>
Other financing sources (uses)				
Transfers	<u>441,899</u>	<u>441,899</u>	<u>-</u>	<u>(441,899)</u>
Net change in fund balances	447,757	447,757	(307,921)	(755,678)
Fund balance, beginning of year	28,237	28,237	28,237	-
Fund balance, end of year	<u>\$ 475,994</u>	<u>\$ 475,994</u>	<u>\$ (279,684)</u>	<u>\$ (755,678)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2023

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, 2023, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Mayor and Council, Library, and Contingency departments of the General Fund. The Town exceeded their total budget for the HURF Fund.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Plans
June 30, 2023

	ASRS-Pension Reporting Fiscal Year (Measurement Date)									
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)
Town's proportion of the net pension liability	0.003140%	0.003520%	0.003200%	0.003120%	0.003240%	0.003220%	0.003230%	0.002830%	0.003194%	Information not available
Town's proportionate share of the net pension liability	\$ 512,518	\$ 462,512	\$ 554,449	\$ 453,996	\$ 451,866	\$ 501,613	\$ 521,354	\$ 440,397	\$ 472,585	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 329,919	\$ 329,919	\$ 322,459	\$ 314,434	\$ 302,433	\$ 260,413	\$ 287,907	
Town's proportionate share of the net pension liability as a percentage of its covered payroll	127.79%	123.64%	168.06%	137.61%	140.13%	159.53%	172.39%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	74.26%	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Plans
June 30, 2023

	ASRS-Health Insurance						2017 through 2014
	Reporting Fiscal Year (Measurement Date)						
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Town's proportion of the net OPEB (asset) liability	0.003160%	0.003540%	0.003180%	0.003110%	0.003220%	0.003220%	Information not available
Town's proportionate share of the net OPEB (asset) liability	\$ (17,636)	\$ (17,247)	\$ (2,251)	\$ (859)	\$ (1,159)	\$ (1,753)	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 329,919	\$ 329,919	\$ 322,459	\$ 314,434	
Town's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	-4.40%	-4.61%	-0.68%	-0.26%	-0.36%	-0.56%	
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	137.79%	130.24%	104.33%	101.62%	102.20%	103.57%	

	ASRS-Long-Term Disability						2017 through 2014
	Reporting Fiscal Year (Measurement Date)						
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Town's proportion of the net OPEB (asset) liability	0.003530%	0.003530%	0.003250%	0.003110%	0.003250%	0.003210%	Information not available
Town's proportionate share of the net OPEB (asset) liability	\$ 290	\$ 729	\$ 2,465	\$ 2,026	\$ 1,698	\$ 1,164	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 329,919	\$ 329,919	\$ 322,459	\$ 314,434	
Town's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	0.07%	0.19%	0.75%	0.61%	0.53%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	90.38%	90.38%	68.01%	72.85%	77.83%	84.44%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension/OPEB Liability (Asset) and Related Ratios
Agent Plans
June 30, 2023

PSPRS - Pension

	Reporting Fiscal Year (Measurement Date)										
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	
Total pension liability											Information not available
Service cost	\$ 30,020	\$ 41,714	\$ 47,351	\$ 38,292	\$ 32,532	\$ 39,367	\$ 32,762	\$ 23,998	\$ 12,222		
Interest on the total pension liability	112,857	112,612	107,362	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	(143,987)	(42,053)	(21,843)	40,679	(7,974)	(14,364)	(43,689)	83,333	5,598		
Changes of assumptions or other inputs	32,949	-	(145,682)	162,365	-	32,454	53,993	-	232,088		
Benefit payments, including refunds of employee contributions	(118,151)	(76,285)	(74,789)	(73,323)	(76,341)	(70,533)	(70,533)	(70,533)	(69,041)		
Net change in total pension liability	(86,312)	35,988	(87,601)	268,628	43,846	91,421	(65,482)	126,193	298,194		
Total pension liability - beginning	1,575,044	1,539,056	1,626,657	1,358,029	1,314,183	1,222,762	1,288,244	1,162,051	863,857		
Total pension liability - ending (a)	<u>\$ 1,488,732</u>	<u>\$ 1,575,044</u>	<u>\$ 1,539,056</u>	<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	\$ 68,095	\$ 68,093	\$ 74,771	\$ 74,968	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396		
Contributions - employee	956	10,305	14,338	15,504	11,403	16,191	15,649	13,518	10,293		
Net investment income	(37,993)	221,587	9,955	-	46,962	72,386	3,452	20,805	70,331		
Benefit payments, including refunds of employee contributions	(118,151)	(76,285)	(74,789)	38,829	(76,341)	(70,533)	(70,533)	(70,533)	(69,041)		
Hall/Parker Settlement	-	-	-	(73,323)	(13,449)	-	-	-	-		
Administrative expense	(686)	(1,043)	(812)	(1,675)	(1,415)	(1,040)	(898)	(889)	-		
Other changes	-	-	(2,578)	-	9	9	5	(523)	(23,125)		
Net change in plan fiduciary net position	(87,779)	222,657	20,885	54,303	20,781	91,899	19,498	16,228	10,854		
Plan fiduciary net position - beginning	1,013,494	790,837	769,952	715,649	694,868	602,969	583,471	567,243	556,389		
Plan fiduciary net position - ending (b)	<u>\$ 925,715</u>	<u>\$ 1,013,494</u>	<u>\$ 790,837</u>	<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>\$ 563,017</u>	<u>\$ 561,550</u>	<u>\$ 748,219</u>	<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	62.18%	64.35%	51.38%	47.33%	52.70%	52.87%	49.31%	45.29%	48.81%		
Covered payroll	\$ -	\$ 112,820	\$ 164,325	\$ 171,550	\$ 129,248	\$ 140,949	\$ 134,324	\$ 122,331	\$ 101,139		
Town's net pension (asset) liability as a percentage of covered payroll	0.00%	497.74%	455.33%	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, 2023

PSPRS - Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)						2017 through 2014
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Total OPEB liability							
Service cost	\$ 1,022	\$ 1,285	\$ 1,311	\$ 801	\$ 737	\$ 958	Information not available
Interest on the total OPEB liability	2,589	2,881	2,783	2,755	(189)	337	
Changes of benefit terms	-	-	-	-	-	-	
Differences between expected and actual experience in the measurement of the pension liability	(9,271)	(4,652)	-	(798)	47,903	(169)	
Changes of assumptions or other inputs	353	-	905	237	-	(529)	
Benefit payments, including refunds of employee contributions	(3,380)	(3,120)	(3,120)	(3,120)	(15,080)	-	
Net change in total OPEB liability	(8,687)	(3,606)	1,879	(125)	33,371	597	
Total OPEB liability - beginning	36,136	39,742	37,863	37,988	4,617	4,020	
Total OPEB liability - ending (a)	<u>\$ 27,449</u>	<u>\$ 36,136</u>	<u>\$ 39,742</u>	<u>\$ 37,863</u>	<u>\$ 37,988</u>	<u>\$ 4,617</u>	
Plan fiduciary net position							
Contributions - employer	\$ 188	\$ 1,679	\$ 2,199	\$ -	\$ -	\$ -	
Net investment income	(727)	4,302	207	995	1,965	3,474	
Benefit payments, including refunds of employee contributions	(3,380)	(3,120)	(3,120)	(3,120)	(15,080)	-	
Administrative expense	(13)	(18)	(17)	(17)	(30)	(31)	
Other changes	-	-	-	-	-	-	
Net change in plan fiduciary net position	(3,932)	2,843	(731)	(2,142)	(13,145)	3,443	
Plan fiduciary net position - beginning	19,756	16,913	17,644	19,786	32,931	29,488	
Plan fiduciary net position - ending (b)	<u>\$ 15,824</u>	<u>\$ 19,756</u>	<u>\$ 16,913</u>	<u>\$ 17,644</u>	<u>\$ 19,786</u>	<u>\$ 32,931</u>	
Town's net OPEB (asset) liability - ending (a) - (b)	<u>\$ 11,625</u>	<u>\$ 16,380</u>	<u>\$ 22,829</u>	<u>\$ 20,219</u>	<u>\$ 18,202</u>	<u>\$ (28,314)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	57.65%	54.67%	42.56%	46.60%	52.08%	713.26%	
Covered payroll	\$ -	\$ 112,820	\$ 164,325	\$ 171,550	\$ 129,248	\$ 140,949	
Town's net OPEB (asset) liability as a percentage of covered payroll	0.00%	14.52%	13.89%	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, 2023

	ASRS-Pension Reporting Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 48,247	\$ 44,888	\$ 46,692	\$ 40,016	\$ 36,753	\$ 35,148	\$ 33,896	\$ 32,814	\$ 28,359	\$ 30,806
Town's contributions in relation to the statutorily required contribution	(48,247)	(44,888)	(46,692)	(40,016)	(36,753)	(35,148)	(33,896)	(32,814)	(28,359)	(30,806)
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	\$ 302,433	\$ 260,413	\$ 287,907
Town's contributions as a percentage of covered payroll	12.03%	12.00%	12.04%	11.45%	11.14%	10.90%	10.78%	10.85%	10.89%	10.70%

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2023

ASRS-Health Insurance Premium								
Reporting Fiscal Year								
	2023	2022	2021	2020	2019	2018	2017	2016 through 2014
Statutorily required contribution	\$ 441	\$ 771	\$ 1,512	\$ 1,665	\$ 1,474	\$ 1,380	\$ 1,733	Information not available
Town's contributions in relation to the statutorily required contribution	(441)	(771)	(1,512)	(1,665)	(1,474)	(1,380)	(1,733)	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	
Town's contributions as a percentage of covered payroll	0.11%	0.21%	0.39%	0.49%	0.44%	0.44%	0.55%	

ASRS-Long-Term Disability								
Reporting Fiscal Year								
	2023	2022	2021	2020	2019	2018	2017	2016 through 2014
Statutorily required contribution	\$ 561	\$ 705	\$ 698	\$ 596	\$ 517	\$ 515	\$ 437	Information not available
Town's contributions in relation to the statutorily required contribution	(561)	(705)	(698)	(596)	(517)	(515)	(437)	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	
Town's contributions as a percentage of covered payroll	0.14%	0.19%	0.18%	0.49%	0.44%	0.44%	0.14%	

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2023

	PS PRS-Pension Reporting Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ -	\$ 2,376	\$ 53,106	\$ 74,222	\$ 74,968	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850	\$ 22,396
Town's contributions in relation to the actuarially determined contribution	-	(2,376)	(53,106)	(74,222)	(74,968)	(53,612)	(74,886)	(71,823)	(53,850)	(22,396)
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ -	\$ 3,916	\$ 123,560	\$ 158,459	\$ 171,550	\$ 129,248	\$ 140,949	\$ 134,324	\$ 122,331	\$ 101,139
Town's contributions as a percentage of covered payroll	0.00%	60.67%	42.98%	46.84%	43.70%	41.48%	53.13%	53.47%	44.02%	22.14%

	PS PRS-Health Insurance Premium Reporting Fiscal Year								2016 through 2014
	2023	2022	2022	2021	2020	2019	2018	2017	
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 1,679	\$ 2,199	\$ -	\$ -	\$ -	Information not available
Town's contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Town's covered payroll	\$ -	\$ -	\$ 3,916	\$ 123,560	\$ 158,459	\$ 171,550	\$ 129,248	\$ 134,324	
Town's contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	1.36%	1.39%	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, 2023

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 2021 actuarial valuation	17 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2021 actuarial valuation, the investment rate of return was decreased form 7.3% to 7.2%. In the 2019 actuarial valuation, the investment rate of return was decreased form 7.4% to 7.3%. 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 2019 actuarial valuation, changed to PubS-2010 tables. 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

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2023

NOTE 2 – FACTORS THAT AFFECT TRENDS – Continued

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 2020 (measurement date 2017) for members who retired or will retire after the law's effective date.

These changes increased the PSPRS-required pension contributions beginning in fiscal year 2019 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, 2023, 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 November 17, 2023.

Report on 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) as a basis for designing 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 questioned costs as item 2023-01 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

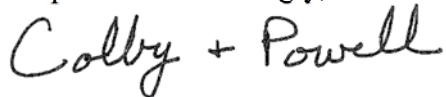
As part of obtaining reasonable assurance about whether the Town of Patagonia, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-002.

Town of Patagonia, Arizona's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Town of Patagonia, Arizona's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Town of Patagonia, Arizona's response was not subjected to the other auditing procedures applied in the audit in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



November 17, 2023



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Town Council
Town of Patagonia, Arizona

Report on Compliance for Each Major Federal Program

We have audited the Town of Patagonia, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Town of Patagonia, Arizona's major federal programs for the year ended June 30, 2023. The Town of Patagonia, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Town of Patagonia, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Town of Patagonia, Arizona and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Town of Patagonia, Arizona's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Town of Patagonia, Arizona's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Town of Patagonia, Arizona's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Town of Patagonia, Arizona's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Town of Patagonia, Arizona's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Town of Patagonia, Arizona's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Town of Patagonia, Arizona's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Colby + Powell

November 17, 2023

TOWN OF PATAGONIA, ARIZONA
Schedule of Expenditures of Federal Awards
June 30, 2023

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Arizona Department of Housing:			
Community Development Block Grant	14.228	132-3	\$ 652,624
<u>U.S. Department of Treasury</u>			
Coronavirus State and Local Fiscal Resovery Funds	21.027		<u>291,899</u>
Total Federal Assistance			<u>\$ 944,523</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2023

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Town of Patagonia, Arizona under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Patagonia, Arizona, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Patagonia, Arizona.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual/accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town of Patagonia, Arizona did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ X Yes _____ No

Noncompliance material to financial statements noted? _____ X Yes _____ No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X No

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a)? _____ Yes X No

Identification of major federal programs:

CFDA

Number	Name of Federal Program
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2023

Financial Statement Findings

Item: 2023-001

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.

Management's Views and Corrective Action: See corrective action plan.

Item: 2023-002

Subject: Annual Expenditure Limitation.

Criteria/Specific Requirements: State law requires that the Town approve an annual expenditure limitation to control the Town's yearly expenditures.

Condition: During the year the Town received a CDBG grant and donations to fix their streets.

Cause/Effect: The expenditure of fixing of their streets increased their expenditures which caused them to go over their approved annual expenditure limitation. The result could be that the Town will not receive their total share of State Urban Revenue funds for one year.

TOWN OF PATAGONIA, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2023

Recommendation: When preparing the Town's annual expenditure limitation, the Town should plan for all contingencies that might happen during the year to ensure they stay under the expenditure limitation. If the Town, due to unforeseen circumstances, plans on exceeding their approved expenditure limitation, the Town should revise their annual expenditure limitation.

Management's Views and Corrective Action: See corrective action plan.

Federal Award Findings and Questioned Costs

None noted.



TOWN OF PATAGONIA

P.O. BOX 767
PATAGONIA, AZ 85624
Ron Robinson
Town Manager

Corrective Action Plan

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each item, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Financial Statement Findings

Item: 2023-001 – General Ledger Maintenance and Reconciliation

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 the generally accepted accounting principles. These entries were proposed, accepted, and recorded by the Town in the financial statements.

Recommendation: The auditors recommend that 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.

Corrective Action Planned: The Town 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.

Name of Contact Person: Ron Robinson, Town Manager

Anticipated Completion Date: Immediately

Item: 2023-002 – Annual Expenditure Limitation

Condition: During the year the Town received a CDBG grant to fix their streets. Because of these expenditures, the Town exceeded their approved annual expenditure limitation.

Recommendation: Prepare an annual expenditure limitation that includes all contingencies. If there is a project that will cause the Town to exceed their expenditure limitation, the Town should either revise the annual expenditure limitation or wait till the expenditure is budgeted before expending.

Corrective Action Planned: The Town Finance Department will construct future budgets to ensure that the Town does not exceed the approved expenditure limitation by including all grants and any other government funded projects in the annual expenditure limitation.

Name of Contact Person: Ron Robinson, Town Manager

Anticipated Completion Date: Immediately as we build the fiscal 2023-2024 budget.

TOWN OF PATAGONIA, ARIZONA
Summary of Prior Audit Findings
June 30, 2023

The status of audit findings from the prior year is as follows:

Financial Statement Findings

Item: 2022-001 – General ledger maintenance and reconciliation

Subject: General ledger maintenance and reconciliation.

Condition: 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.

Status: Not corrected: see current year finding 2023-001.

Item: 2022-002 – Annual Expenditure Limitation

Subject: Town exceeded their approved annual expenditure limitation.

Condition: During the year the Town received a CDBG grant and donations to fix their streets which caused the Town to exceed their approved annual expenditure limitation.

Status: Not corrected: see current year finding 2023-001.