

TOWN OF PATAGONIA, ARIZONA

Annual Financial Statements
and Independent Auditors' Reports
June 30, 2024

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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, 2024, 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, 2024, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town, 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 the 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'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.

Auditors' 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 auditors' report that includes our opinions. 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 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'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'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 Town’s Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Plans, Schedule of Changes in the Town’s Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Plans, and Schedule of Town 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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2024, on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town’s internal control over financial reporting and compliance.

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 comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of Highway User Revenue Fund and other dedicated State transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, (the 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.

Colby + Powell

October 22, 2024

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
June 30, 2024

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,608,642	\$ 276,152	\$ 3,884,794
Restricted cash and cash equivalents	-	35,908	35,908
Accounts receivable, net	-	42,715	42,715
Taxes receivable	6,513	-	6,513
Due from other governments	133,126	-	133,126
Leases receivable	120,932	-	120,932
Prepaid expenses	35,654	18,553	54,207
Internal balances	698,586	(698,586)	-
Net OPEB asset	10,649	6,359	17,008
Capital assets, not being depreciated	424,537	150,540	575,077
Capital assets, being depreciated, net	<u>2,663,652</u>	<u>3,491,987</u>	<u>6,155,639</u>
Total assets	<u>7,702,291</u>	<u>3,323,628</u>	<u>11,025,919</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions and other postemployment benefits	<u>56,698</u>	<u>28,129</u>	<u>84,827</u>
LIABILITIES			
Accounts payable	84,287	17,838	102,125
Accrued expenses	26,533	-	26,533
Unearned revenue	1,491,211	43,945	1,535,156
Refundable deposits	-	35,908	35,908
Compensated absences payable	23,103	8,229	31,332
Noncurrent liabilities			
Due in more than 1 year	<u>908,615</u>	<u>466,306</u>	<u>1,374,921</u>
Total liabilities	<u>2,533,749</u>	<u>572,226</u>	<u>3,105,975</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions and other postemployment benefits	30,596	17,082	47,678
Leases	<u>81,765</u>	<u>-</u>	<u>81,765</u>
Total deferred inflows of resources	<u>112,361</u>	<u>17,082</u>	<u>129,443</u>
NET POSITION			
Net investment in capital assets	3,088,189	3,642,527	6,730,716
Restricted for:			
Net pension and OPEB assets	10,649	6,359	17,008
Unrestricted (deficit)	<u>2,014,041</u>	<u>(886,437)</u>	<u>1,127,604</u>
Total net position	<u>\$ 5,112,879</u>	<u>\$ 2,762,449</u>	<u>\$ 7,875,328</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Activities
Year Ended June 30, 2024

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	\$ 411,127	\$ 142,679	\$ 7,353	\$ -	\$ (261,095)	\$ -	\$ (261,095)
Public safety	656,237	17,918	-	-	(638,319)	-	(638,319)
Highways and streets	269,265	-	114,700	64,374	(90,191)	-	(90,191)
Culture and recreation	301,812	502	31,060	105,939	(164,311)	-	(164,311)
Total governmental activities	<u>1,638,441</u>	<u>161,099</u>	<u>153,113</u>	<u>170,313</u>	<u>(1,153,916)</u>	<u>-</u>	<u>(1,153,916)</u>
Business-type activities							
Water/Wastewater	507,115	380,144	-	-	-	(126,971)	(126,971)
Solid Waste	220,453	196,340	-	-	-	(24,113)	(24,113)
Total business-type activities	<u>727,568</u>	<u>576,484</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(151,084)</u>	<u>(151,084)</u>
Total primary government	<u>\$ 2,366,009</u>	<u>\$ 737,583</u>	<u>\$ 153,113</u>	<u>\$ 170,313</u>	<u>(1,153,916)</u>	<u>(151,084)</u>	<u>(1,305,000)</u>
General revenues:							
Taxes:							
Sales tax					1,070,660	-	1,070,660
Franchise tax					17,640	-	17,640
Shared revenue-Urban revenue					397,487	-	397,487
Shared revenue-State sales tax					120,053	-	120,053
Shared revenue-State vehicle license tax					87,875	-	87,875
Miscellaneous					19,361	-	19,361
Investment earnings					49,440	43,671	93,111
Total general revenue					<u>1,762,516</u>	<u>43,671</u>	<u>1,806,187</u>
Change in net position					608,600	(107,413)	501,187
Net position, beginning of year					4,504,279	2,869,862	7,374,141
Net position, end of year					<u>\$ 5,112,879</u>	<u>\$ 2,762,449</u>	<u>\$ 7,875,328</u>

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

TOWN OF PATAGONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2024

	<u>General</u> <u>Fund</u>	<u>HURF</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,365,234	\$ 1,243,408	\$ 3,608,642
Taxes receivable	6,513	-	6,513
Due from other governments	119,913	13,213	133,126
Prepaid expenses	17,101	18,553	35,654
Due from other funds	698,586	-	698,586
Lease receivable	120,932	-	120,932
Total assets	<u>\$ 3,328,279</u>	<u>\$ 1,275,174</u>	<u>\$ 4,603,453</u>
LIABILITIES			
Accounts payable	\$ 50,224	\$ 34,063	\$ 84,287
Accrued expenses	26,533	-	26,533
Deferred revenue	-	1,491,211	1,491,211
Total liabilities	<u>76,757</u>	<u>1,525,274</u>	<u>1,602,031</u>
Deferred inflows of resources			
Deferred inflows related to leases	<u>81,765</u>	<u>-</u>	<u>81,765</u>
FUND BALANCES			
Nonspendable	698,586	18,553	717,139
Unassigned	2,471,171	(268,653)	2,202,518
Total fund balances	<u>3,169,757</u>	<u>(250,100)</u>	<u>2,919,657</u>
Total liabilities and fund balances	<u>\$ 3,328,279</u>	<u>\$ 1,275,174</u>	<u>\$ 4,603,453</u>

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

TOWN OF PATAGONIA, ARIZONA
Reconciliation of the Governmental Funds Balance Sheet
to the Government-wide Statement of Net Position
June 30, 2024

Fund balances-total governmental funds		\$ 2,919,657
<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	8,271,507	
Less: Accumulated depreciation	<u>(5,183,318)</u>	3,088,189
<p>Net OPEB assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.</p>		
		10,649
<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	(23,103)	
Net pension/OPEB liability	<u>(908,615)</u>	(931,718)
<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	56,698	
Deferred inflows of resources related to pensions/OPEB	<u>(30,596)</u>	<u>26,102</u>
Net position of governmental activities		<u><u>\$ 5,112,879</u></u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2024

	General Fund	HURF Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 633,443	\$ 254,720	\$ 888,163
Taxes	1,070,660	-	1,070,660
Donation	105,939	-	105,939
Other revenue	29,746	-	29,746
Fines and forfeitures	17,918	-	17,918
Charges for services	32,528	-	32,528
Licenses and permits	35,006	-	35,006
Franchise fees	17,640	-	17,640
Investment earnings	43,600	5,840	49,440
Total revenues	<u>1,986,480</u>	<u>260,560</u>	<u>2,247,040</u>
Expenditures			
Current			
General government	353,632	-	353,632
Public safety	621,610	-	621,610
Highways and streets	-	127,623	127,623
Culture and recreation	282,426	-	282,426
Capital outlay	189,797	103,353	293,150
Total expenditures	<u>1,447,465</u>	<u>230,976</u>	<u>1,678,441</u>
Net change in fund balances	539,015	29,584	568,599
Fund balances, beginning of year	2,630,742	(279,684)	2,351,058
Fund balances, end of year	<u>\$ 3,169,757</u>	<u>\$ (250,100)</u>	<u>\$ 2,919,657</u>

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

TOWN OF PATAGONIA, ARIZONA
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Government-wide Statement of Activities
Year Ended June 30, 2024

Net change in fund balances-total governmental funds \$ 568,599

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	293,150	
Depreciation expense	<u>(227,683)</u>	65,467

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	116,464	
Pension/OPEB expense	<u>(132,867)</u>	(16,403)

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>(9,063)</u>
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Change in net position of governmental activities \$ 608,600

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

TOWN OF PATAGONIA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2024

	<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	\$ -	\$ 276,152	\$ 276,152
Restricted cash and cash equivalents	22,628	13,280	35,908
Accounts receivable, net of bad debt	27,141	15,574	42,715
Prepaid expenses	18,553	-	18,553
Total current assets	<u>68,322</u>	<u>305,006</u>	<u>373,328</u>
Noncurrent assets			
Net OPEB asset	4,793	1,566	6,359
Capital assets, not being depreciated	30,540	120,000	150,540
Capital assets, being depreciated, net	3,146,580	345,407	3,491,987
Capital assets, net	3,177,120	465,407	3,642,527
Total noncurrent assets	<u>3,181,913</u>	<u>466,973</u>	<u>3,648,886</u>
Total assets	<u>3,250,235</u>	<u>771,979</u>	<u>4,022,214</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions and other postemployment benefits	21,200	6,929	28,129
LIABILITIES			
Current liabilities			
Accounts payable	7,634	10,204	17,838
Unearned revenue	43,945	-	43,945
Refundable deposits	22,628	13,280	35,908
Due to other funds	698,586	-	698,586
Compensated absences payable, current portion	7,461	768	8,229
Total current liabilities	<u>780,254</u>	<u>24,252</u>	<u>804,506</u>
Noncurrent liabilities			
Estimated liability for landfill closure	-	276,780	276,780
Net pension liability	142,841	46,685	189,526
Total noncurrent liabilities	<u>142,841</u>	<u>323,465</u>	<u>466,306</u>
Total liabilities	<u>923,095</u>	<u>347,717</u>	<u>1,270,812</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions and other postemployment benefits	12,874	4,208	17,082
NET POSITION			
Net investment in capital assets	3,177,120	465,407	3,642,527
Unrestricted (deficit)	(841,654)	(38,424)	(880,078)
Total net position	<u>\$ 2,335,466</u>	<u>\$ 426,983</u>	<u>\$ 2,762,449</u>

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

TOWN OF PATAGONIA, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2024

	<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	179,814	8,631	188,445
Total operating revenues	<u>380,144</u>	<u>196,340</u>	<u>576,484</u>
Operating expenses			
Personnel	196,901	109,614	306,515
Depreciation	159,371	41,912	201,283
Supplies	67,489	19,506	86,995
Utilities	37,794	4,597	42,391
Contract services	14,310	23,340	37,650
Other	7,941	6,615	14,556
Repairs and maintenance	7,248	9,279	16,527
Insurance	15,013	5,505	20,518
Travel and training	1,048	85	1,133
Total operating expenses	<u>507,115</u>	<u>220,453</u>	<u>727,568</u>
Operating income (loss)	<u>(126,971)</u>	<u>(24,113)</u>	<u>(151,084)</u>
Nonoperating revenues (expenses)			
Investment earnings	<u>25,717</u>	<u>17,954</u>	<u>43,671</u>
Income (loss)	<u>(101,254)</u>	<u>(6,159)</u>	<u>(107,413)</u>
Net position, beginning of year	<u>2,436,720</u>	<u>433,142</u>	<u>2,869,862</u>
Net position, end of year	<u>\$ 2,335,466</u>	<u>\$ 426,983</u>	<u>\$ 2,762,449</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, 2024

	<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	\$ 377,335	\$ 194,288	\$ 571,623
Payments to suppliers	(148,184)	(61,639)	(209,823)
Payments to employees	(195,467)	(109,667)	(305,134)
Net cash provided (used) by operating activities	<u>33,684</u>	<u>22,982</u>	<u>56,666</u>
Cash flows from noncapital financing activities			
Payments to other funds	<u>65,455</u>	<u>-</u>	<u>65,455</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	<u>(125,068)</u>	<u>(6,040)</u>	<u>(131,108)</u>
Cash flows from investing activities			
Interest received	<u>25,717</u>	<u>17,954</u>	<u>43,671</u>
Net change in cash and cash equivalents	(212)	34,896	34,684
Cash and cash equivalents, beginning of year	<u>22,842</u>	<u>254,536</u>	<u>277,378</u>
Cash and cash equivalents, end of year	<u>\$ 22,630</u>	<u>\$ 289,432</u>	<u>\$ 312,062</u>
Reconciliation of cash and cash equivalents to statement of net position			
Cash and cash equivalents	\$ -	\$ 276,152	\$ 276,152
Restricted cash and cash equivalents	<u>22,628</u>	<u>13,280</u>	<u>35,908</u>
Total cash and cash equivalents, end of year	<u>\$ 22,628</u>	<u>\$ 289,432</u>	<u>\$ 312,060</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, 2024

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water/ Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (126,971)	\$ (24,113)	\$ (151,084)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	159,371	41,912	201,283
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	(2,596)	(1,531)	(4,127)
Net OPEB asset	177	58	235
Deferred outflows of resources related to pensions and other postemployment benefits	5,619	1,836	7,455
Accounts payable	3,475	7,555	11,030
Refundable deposits	(214)	(521)	(735)
Compensated absences	1,434	(53)	1,381
Net pension and other postemployment benefits liability	(1,668)	(545)	(2,213)
Deferred inflows of resources related to pensions and other postemployment benefits	(4,944)	(1,616)	(6,560)
Net cash provided (used) by operating activities	<u>\$ 33,683</u>	<u>\$ 22,982</u>	<u>\$ 56,665</u>

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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town 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 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, 2024

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, 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, 2024

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, 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, 2024

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, 2024 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, 2024

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, 2024

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 and Subscription-based Information Technology Arrangements

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.

The Town recognizes subscription liabilities with an initial, individual value of \$20,000 or more. The Town uses its estimated incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate implicit in the arrangement. 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

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

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

Deposits—At June 30, 2024, the carrying amount of the Town’s total cash in bank was \$1,999,149, and the bank balance was \$2,017,699. 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 \$22,628. Restricted cash in the Solid Waste Fund consists of monies restricted for refundable customer deposits in the amount of \$13,280.

Investments—The Town reported investments in the State Treasurer’s Investment Pool 5 with a reported amount of \$1,792,518. 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 \$128,514. The State Treasurer’s Investment Pool 7 is unrated.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

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	\$ 521	\$ -	\$ 521
State treasurer's investment pool 5	1,792,518	-	1,792,518
State treasurer's investment pool 7	128,514	-	128,514
Amount of deposits	1,687,089	312,060	1,999,149
Total	\$ 3,608,642	\$ 312,060	\$ 3,920,702

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2024 consisted of \$3,718 in state-shared revenue from sales taxes, \$3,321 in state-shared revenue from auto lieu taxes, and \$112,874 in local sales taxes collected by the State.

Amounts due from other governments in the HURF Fund at June 30, 2024 consisted of \$13,213 in state-shared revenue from highway user revenue fund (HURF) taxes.

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, 2024, the Town recognized total lease-related revenues of \$4,961 of interest and \$2,555 of rents from this lease.

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2024, was as follows:

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 355,867	\$ -	\$ -	\$ 355,867
Construction in progress	-	68,670	-	68,670
Total capital assets not being depreciated	<u>355,867</u>	<u>68,670</u>	<u>-</u>	<u>424,537</u>
Capital assets being depreciated:				
Equipment	384,184	-	(139,087)	245,097
Buildings	1,829,175	-	-	1,829,175
Parks	452,039	117,550	-	569,589
Streets	5,096,179	106,930	-	5,203,109
Total	<u>7,761,577</u>	<u>224,480</u>	<u>(139,087)</u>	<u>7,846,970</u>
Less accumulated depreciation for:				
Equipment	(305,092)	(11,534)	139,087	(177,539)
Buildings	(1,362,608)	(58,484)	-	(1,421,092)
Parks	(257,825)	(21,056)	-	(278,881)
Streets	(3,169,197)	(136,609)	-	(3,305,806)
Total	<u>(5,094,722)</u>	<u>(227,683)</u>	<u>139,087</u>	<u>(5,183,318)</u>
Total capital assets being depreciated, net	<u>2,666,855</u>	<u>(3,203)</u>	<u>-</u>	<u>2,663,652</u>
Governmental activities capital assets, net	<u>\$ 3,022,722</u>	<u>\$ 65,467</u>	<u>\$ -</u>	<u>\$ 3,088,189</u>

Depreciation expense was charged to the functions as follows:

Governmental activities:	
General government	\$ 60,398
Public safety	3,778
Highways and streets	142,451
Culture and recreation	21,056
Total governmental activities depreciation expense	<u>\$ 227,683</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
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	<u>167,258</u>	<u>-</u>	<u>(16,718)</u>	<u>150,540</u>
Capital assets being depreciated:				
Land improvements	738,732	-	-	738,732
Buildings	1,737,224	16,718	-	1,753,942
Utility systems	3,212,149	66,018	-	3,278,167
Machinery and equipment	782,537	65,090	-	847,627
Total	<u>6,470,642</u>	<u>147,826</u>	<u>-</u>	<u>6,618,468</u>
Less accumulated depreciation for:				
Land improvements	(405,154)	(9,848)	-	(415,002)
Buildings	(843,102)	(44,267)	-	(887,369)
Utility systems	(1,047,850)	(129,253)	-	(1,177,103)
Machinery and equipment	(629,092)	(17,915)	-	(647,007)
Total	<u>(2,925,198)</u>	<u>(201,283)</u>	<u>-</u>	<u>(3,126,481)</u>
Total capital assets being depreciated, net	<u>3,545,444</u>	<u>(53,457)</u>	<u>-</u>	<u>3,491,987</u>
Business-type activities capital assets, net	<u>\$ 3,712,702</u>	<u>\$ (53,457)</u>	<u>\$ (16,718)</u>	<u>\$ 3,642,527</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water/Wastewater	\$ 159,371
Solid Waste	41,912
Total business-type activities depreciation expense	<u>\$ 201,283</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, 2024.

	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 14,040	\$ 9,063	\$ -	\$ 23,103	\$ 23,103
Net pension/OPEB liability	895,711	12,904	-	908,615	-
Total governmental activities long-term liabilities	<u>\$ 909,751</u>	<u>\$ 21,967</u>	<u>\$ -</u>	<u>\$ 931,718</u>	<u>\$ 23,103</u>

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 6 – LONG-TERM LIABILITIES – Continued

	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Due within 1 year
Business-type activities					
Compensated absences payable	\$ 6,046	\$ 2,183	\$ -	\$ 8,229	\$ 8,229
Net pension/OPEB liability	191,739	-	2,213	189,526	-
Landfill closure costs	276,780	-	-	276,780	-
Total business-type activities					
long-term liabilities	<u>\$ 474,565</u>	<u>\$ 2,183</u>	<u>\$ 2,213</u>	<u>\$ 474,535</u>	<u>\$ 8,229</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, 2024, 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	\$ 10,649	\$ 6,359	\$ 17,008
Net pension and OPEB liabilities	908,615	189,526	1,098,141
Deferred outflows of resources related to pension and OPEB	56,698	28,129	84,827
Deferred inflows of resources related to pension and OPEB	30,596	17,082	47,678
Pension and OPEB expense	132,867	22,456	155,323

The Town reported \$116,464 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, 2024

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, 2024

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, 2024, statute required active ASRS members to contribute at the actuarially determined rate of 12.29 percent (12.14 percent for retirement and 0.15 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.29 percent (12.03 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.15 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 \$60,796, \$556, and \$747, respectively.

During fiscal year 2024, 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, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Liability – At June 30, 2024, 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	\$ 506,479
Health insurance premium benefit	(17,008)
Long-term disability	410

The net asset and net liabilities were measured as of June 30, 2023. 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, 2022, to the measurement date of June 30, 2023.

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, 2023. The Town’s proportions measured as of June 30, 2023, and the change from its proportions measured as of June 30, 2022, were:

	Proportion June 30, 2023	Increase (decrease) from June 30, 2022
Pension	0.00313%	-0.00001%
Health insurance premium benefit	0.00315%	-0.00001%
Long-term disability	0.00313%	-0.00001%

Expense – For the year ended June 30, 2024, the Town recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	\$ 61,630
Health insurance premium benefit	(1,961)
Long-term disability	390

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2024, 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	\$ 11,444	\$ 718	\$ 370
Changes of assumptions or other inputs	-	-	108
Net difference between projected and actual earnings on pension plan in	-	-	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	358	134
Town contributions subsequent to the measurement date	60,796	556	747
Total	\$ 72,240	\$ 1,632	\$ 1,359

	Deferred Inflows of Resources		
	Health		
	Pension	Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$ -	\$ 6,343	\$ 231
Changes of assumptions	-	338	597
Difference between projected and actual investment earnings	17,920	747	33
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,233	71	172
Total	\$ 37,153	\$ 7,499	\$ 1,033

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, 2025.

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:

	Pension	Health Insurance Premium Benefit	Long-Term Disability
Year ended June 30,			
2025	\$ (21,343)	\$ (2,768)	\$ (53)
2026	(21,451)	(3,049)	(120)
2027	19,312	(305)	6
2028	(2,227)	(351)	(108)
2029	-	50	(108)
Thereafter	-	-	(38)

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS

Actuarial valuation date	June 30, 2022
Actuarial roll forward date	June 30, 2023
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, 2022, 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>
Public equity	44%	3.50%
Credit	23%	5.90%
Real estate	17%	5.90%
Private equity	10%	6.70%
Interest rate sensitive	6%	1.50%
Total	<u>100%</u>	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rate – At June 30, 2023, 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	\$ 758,631	\$ 506,479	\$ 296,229
Net insurance premium benefit liability (asset)	(11,888)	(17,008)	21,359

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, 2024

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, 2024

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, 2024

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, 2024, 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	2	-
Total	4	2

	Active Member- Pension	Town-Pension
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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, 2024, are indicated below. Rates are a percentage of active members’ annual covered payroll.

PSPRS Police	0.00%	0.00%	0.00%
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The Town’s contributions to the plans for the year ended June 30, 2024, were:

PSPRS Police	\$	-	\$	-
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During fiscal year 2024, the Town paid for PSPRS pension and OPEB contributions 100 percent from the General Fund.

Liability – At June 30, 2024, the Town reported the following liability:

PSPRS Police	\$	579,918	\$	11,334
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TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net assets and net liabilities were measured as of June 30, 2023, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2023
Actuarial cost method	Entry age normal
Investment rate of return	7.20%
Wage inflation	3.0 -6.25% for pensions/not applicable for OPEB
Price inflation	1.85% 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, 2023, 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.S Public Equity	24%	3.98%
International Public Equity	16%	4.49%
Global Private Equity	20%	7.28%
Other Assets (Capital Appreciation)	7%	4.49%
Core Bonds	6%	1.90%
Private credit	20%	6.19%
Diversifying Strategies	5%	3.68%
Cash - Mellon	2%	0.69%
Total	<u>100%</u>	

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rate – At June 30, 2023, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.2 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2022. 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, 2023	\$ 1,488,732	\$ 925,715	\$ 563,017
Changes for the year			
Interest on the total liability	100,096	-	100,096
Differences between expected and actual experience in the measurement of the liability	55,073	-	55,073
Contributions-employer	-	75,903	(75,903)
Net investment income	-	63,190	(63,190)
Benefit payments, including refunds of employee contributions	(197,030)	(197,030)	-
Administrative expense	-	(825)	825
Net changes	(41,861)	(58,762)	16,901
Balances at June 30, 2024	\$ 1,446,871	\$ 866,953	\$ 579,918

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	Health Insurance Premium Benefit		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at June 30, 2023	\$ 27,449	\$ 15,824	\$ 11,625
Changes for the year			
Interest	1,864	-	1,864
Differences between expected and actual experience in the measurement of the liability	181	-	181
Contributions-employer	-	1,143	(1,143)
Net investment income	-	1,210	(1,210)
Benefit payments, including refunds of employee contributions	(3,120)	(3,120)	-
Administrative expense	-	(17)	17
Net changes	(1,075)	(784)	(291)
Balances at June 30, 2024	\$ 26,374	\$ 15,040	\$ 11,334

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:

PSPRS Police			
Net pension (asset) liability	\$ 758,390	\$ 579,918	\$ 434,884
Net OPEB (asset) liability	13,615	11,334	9,383

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, 2024, the Town recognized the following pension and OPEB expense:

	\$ 95,106	\$ 158
PSPRS Police		

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources – At June 30, 2024, 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 Insurance	
	Pension	Premium
Differences between expected and actual experience	\$ -	\$ 302
Changes of assumptions or other inputs	-	40
Net difference between projected and actual earnings on pension plan investments	9,175	79
Total	\$ 9,175	\$ 421
	Deferred Inflows of Resources	
	Health Insurance	
	Pension	Premium
Differences between expected and actual experience	\$ -	\$ 1,993

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, 2025. 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:

	Pension	Health
Year ended June 30,		
2025	\$ (1,568)	\$ (905)
2026	(10,917)	(1,021)
2027	21,846	382
2028	(186)	(28)
2029	-	-
Thereafter	-	-

TOWN OF PATAGONIA, ARIZONA
Notes to Financial Statements
June 30, 2024

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Due from and to other funds as of June 30, 2024, was as follows:

	<u>Due from</u>
	Water/Wastewater
<u>Due to</u>	<u>Fund</u>
General Fund	<u>\$ 698,586</u>

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, 2024 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, 2024, 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 2023-2024. 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, 2024.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 399,680	\$ 399,680	\$ 633,443	\$ 233,763
Taxes	780,500	780,500	1,070,660	290,160
Donation	-	-	105,939	
Fines and forfeitures	14,912	14,912	17,918	3,006
Licenses and permits	135,884	135,884	35,006	(100,878)
Charges for services	33,337	33,337	32,528	(809)
Franchise fees	17,250	17,250	17,640	390
Other revenue	155,260	155,260	29,746	(125,514)
Investment income	10,728	10,728	43,600	32,872
Total revenues	<u>1,547,551</u>	<u>1,547,551</u>	<u>1,986,480</u>	<u>332,990</u>
Expenditures				
Court	43,523	43,523	40,065	3,458
Administration	398,823	398,823	360,491	38,332
Mayor and council	7,225	7,225	6,304	921
Professional services	32,200	32,200	46,768	(14,568)
Fire company	55,000	55,000	55,000	-
Police	468,557	468,557	502,640	(34,083)
Animal control	26,250	26,250	26,250	-
Library	141,400	141,400	117,527	23,873
Parks	107,538	107,538	216,019	(108,481)
Miscellaneous	17,940	17,940	75,707	(57,767)
Contingency	100,000	100,000	694	99,306
Total expenditures	<u>1,398,456</u>	<u>1,398,456</u>	<u>1,447,465</u>	<u>(49,009)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>149,095</u>	<u>149,095</u>	<u>539,015</u>	<u>389,920</u>
Other financing sources (uses)				
Transfers	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>50,000</u>
Net change in fund balances	99,095	99,095	539,015	439,920
Fund balance, beginning of year	<u>2,630,742</u>	<u>2,630,742</u>	<u>2,630,742</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,729,837</u>	<u>\$ 2,729,837</u>	<u>\$ 3,169,757</u>	<u>\$ 439,920</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 118,562	\$ 118,562	\$ 254,720	\$ 136,158
Investment income	-	-	5,840	5,840
Total revenues	<u>118,562</u>	<u>118,562</u>	<u>260,560</u>	<u>141,998</u>
Expenditures				
Highways and streets	194,808	194,808	127,623	67,185
Capital outlay	-	-	103,353	(103,353)
Total expenditures	<u>194,808</u>	<u>194,808</u>	<u>230,976</u>	<u>(36,168)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(76,246)</u>	<u>(76,246)</u>	<u>29,584</u>	<u>105,830</u>
Other financing sources (uses)				
Transfers	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Net change in fund balances	(26,246)	(26,246)	29,584	55,830
Fund balance, beginning of year	<u>(279,684)</u>	<u>(279,684)</u>	<u>(279,684)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (305,930)</u>	<u>\$ (305,930)</u>	<u>\$ (250,100)</u>	<u>\$ 55,830</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2024

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, 2024, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Professional services, Police, Parks and Miscellaneous 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, 2024

	ASRS-Pension Reporting Fiscal Year (Measurement Date)									
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Town's proportion of the net pension liability	0.003130%	0.003140%	0.003520%	0.003200%	0.003120%	0.003240%	0.003220%	0.003230%	0.002830%	0.003194%
Town's proportionate share of the net pension liability	\$ 506,479	\$ 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	\$ 387,806	\$ 350,061	\$ 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	126.29%	137.01%	119.26%	158.39%	137.61%	140.13%	159.53%	172.39%	169.11%	164.15%
Plan fiduciary net position as a percentage of the total pension liability	75.47%	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, 2024

	ASRS-Health Insurance Reporting Fiscal Year (Measurement Date)							2017 through 2015
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Town's proportion of the net OPEB (asset) liability	0.003150%	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	\$ (17,008)	\$ (17,636)	\$ (17,247)	\$ (2,251)	\$ (859)	\$ (1,159)	\$ (1,753)	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	
Town's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	-4.24%	-4.71%	-4.45%	-0.64%	-0.26%	-0.36%	-0.56%	
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	134.37%	137.79%	130.24%	104.33%	101.62%	102.20%	103.57%	

	ASRS-Long-Term Disability Reporting Fiscal Year (Measurement Date)							2017 through 2015
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Town's proportion of the net OPEB (asset) liability	0.003130%	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	\$ 410	\$ 290	\$ 729	\$ 2,465	\$ 2,026	\$ 1,698	\$ 1,164	
Town's covered payroll	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	
Town's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	0.10%	0.08%	0.19%	0.70%	0.61%	0.53%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	93.70%	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, 2024

PSPRS - Pension

	Reporting Fiscal Year (Measurement Date)									
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability										
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	100,096	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	55,073	(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	(197,030)	(118,151)	(76,285)	(74,789)	(73,323)	(76,341)	(70,533)	(70,533)	(70,533)	(69,041)
Net change in total pension liability	(41,861)	(86,312)	35,988	(87,601)	268,628	43,846	91,421	(65,482)	126,193	298,194
Total pension liability - beginning	1,488,732	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>\$ 1,446,871</u>	<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	\$ 75,903	\$ 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	63,190	(37,993)	221,587	9,955	-	46,962	72,386	3,452	20,805	70,331
Benefit payments, including refunds of employee contributions	(197,030)	(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	(825)	(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	(58,762)	(87,779)	222,657	20,885	54,303	20,781	91,899	19,498	16,228	10,854
Plan fiduciary net position - beginning	925,715	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>\$ 866,953</u>	<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>\$ 579,918</u>	<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	59.92%	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%	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, 2024

PSPRS - Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)							2017 through 2015	
	2024 (2023)	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	1,864	2,589	2,881	2,783	2,755	(189)	337		
Differences between expected and actual experience in the measurement of the pension liability	181	(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	(3,120)	(3,380)	(3,120)	(3,120)	(3,120)	(15,080)	-		
Net change in total OPEB liability	(1,075)	(8,687)	(3,606)	1,879	(125)	33,371	597		
Total OPEB liability - beginning	27,449	36,136	39,742	37,863	37,988	4,617	4,020		
Total OPEB liability - ending (a)	<u>\$ 26,374</u>	<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	\$ 1,143	\$ 188	\$ 1,679	\$ 2,199	\$ -	\$ -	\$ -		
Net investment income	1,210	(727)	4,302	207	995	1,965	3,474		
Benefit payments, including refunds of employee contributions	(3,120)	(3,380)	(3,120)	(3,120)	(3,120)	(15,080)	-		
Administrative expense	(17)	(13)	(18)	(17)	(17)	(30)	(31)		
Other changes	-	-	-	-	-	-	-		
Net change in plan fiduciary net position	(784)	(3,932)	2,843	(731)	(2,142)	(13,145)	3,443		
Plan fiduciary net position - beginning	15,824	19,756	16,913	17,644	19,786	32,931	29,488		
Plan fiduciary net position - ending (b)	<u>\$ 15,040</u>	<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>\$ 11,334</u>	<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	57.03%	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%	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, 2024

	ASRS-Pension Reporting Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 60,796	\$ 48,247	\$ 44,888	\$ 46,692	\$ 40,016	\$ 36,753	\$ 35,148	\$ 33,896	\$ 32,814	\$ 28,359
Town's contributions in relation to the statutorily required contribution	<u>(60,796)</u>	<u>(48,247)</u>	<u>(44,888)</u>	<u>(46,692)</u>	<u>(40,016)</u>	<u>(36,753)</u>	<u>(35,148)</u>	<u>(33,896)</u>	<u>(32,814)</u>	<u>(28,359)</u>
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	<u>\$ 505,372</u>	<u>\$ 401,056</u>	<u>\$ 374,076</u>	<u>\$ 387,806</u>	<u>\$ 350,061</u>	<u>\$ 329,919</u>	<u>\$ 322,459</u>	<u>\$ 314,434</u>	<u>\$ 302,433</u>	<u>\$ 260,413</u>
Town's contributions as a percentage of covered payroll	12.03%	12.03%	12.00%	12.04%	11.45%	11.14%	10.90%	10.78%	10.85%	10.89%

See accompanying notes to pension plan schedules.

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2024

ASRS-Health Insurance Premium									
Reporting Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016 through 2015
Statutorily required contribution	\$ 556	\$ 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	(556)	(441)	(771)	(1,512)	(1,665)	(1,474)	(1,380)	(1,733)	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Town's covered payroll	\$ 505,372	\$ 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%	0.11%	0.21%	0.39%	0.49%	0.44%	0.44%	0.55%	
ASRS-Long-Term Disability									
Reporting Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016 through 2015
Statutorily required contribution	\$ 747	\$ 561	\$ 705	\$ 698	\$ 596	\$ 517	\$ 515	\$ 437	Information not available
Town's contributions in relation to the statutorily required contribution	(747)	(561)	(705)	(698)	(596)	(517)	(515)	(437)	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Town's covered payroll	\$ 505,372	\$ 401,056	\$ 374,076	\$ 387,806	\$ 350,061	\$ 329,919	\$ 322,459	\$ 314,434	
Town's contributions as a percentage of covered payroll	0.15%	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, 2024

	PS PRS-Pension									
	Reporting Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ 2,376	\$ 53,106	\$ 74,222	\$ 74,968	\$ 53,612	\$ 74,886	\$ 71,823	\$ 53,850
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)
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ -	\$ -	\$ 3,916	\$ 123,560	\$ 158,459	\$ 171,550	\$ 129,248	\$ 140,949	\$ 134,324	\$ 122,331
Town's contributions as a percentage of covered payroll	0.00%	0.00%	60.67%	42.98%	46.84%	43.70%	41.48%	53.13%	53.47%	44.02%

	PS PRS-Health Insurance Premium								
	Reporting Fiscal Year								
	2024	2023	2022	2021	2020	2019	2018	2017	2016 through 2015
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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ -	\$ -	\$ 3,916	\$ 123,560	\$ 158,459	\$ 171,550	\$ 129,248	\$ 140,949	
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, 2024

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 2022 actuarial valuation	15 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2022 actuarial valuation, the investment rate of return was decreased from 7.3% to 7.2%. In the 2019 actuarial valuation, the investment rate of return was decreased from 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 2022 actuarial valuation, wage growth was changed from 3.5% to a range of 3.0-6.25%. 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

TOWN OF PATAGONIA, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2024

NOTE 2 – FACTORS THAT AFFECT TRENDS – Continued

prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 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, 2024, 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 October 22, 2024.

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 responses as item 2024-01 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 no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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.

Colby + Powell

October 22, 2024

Financial Statement Findings

Item: 2024-001

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: 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.