

**TOWN OF HUACHUCA CITY, ARIZONA**

**YEAR ENDED JUNE 30, 2016**

# TOWN OF HUACHUCA CITY, ARIZONA

YEAR ENDED JUNE 30, 2016

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Independent Auditors' Report

Honorable Mayor and Members of the Town Council  
Town of Huachuca City, Arizona

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Huachuca City, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Basis for Qualified Opinion on Capital Assets**

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying government-wide financial statements at June 30, 2016 (stated at \$19,579,218 and \$8,818,046) or the amount of depreciation expense for the year then ended (stated at \$556,292).

## **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion on Capital Assets" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Huachuca City, Arizona, as of June 30, 2016, and the changes in the financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the net pension liability and related ratios, schedule of pension contributions, and schedule of funding progress - post-retirement health insurance subsidy, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Huachuca City, Arizona's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2017, on our consideration of the Town of Huachuca City, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Huachuca City, Arizona's internal control over financial reporting and compliance.

*Beach Fleischman PC*

Tucson, Arizona  
April 27, 2017

## **Management's Discussion and Analysis**

**TOWN OF HUACHUCA CITY, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

As management of the Town of Huachuca City, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

**FINANCIAL HIGHLIGHTS**

The financial statements which follow the Management's Discussion and Analysis provide significant key financial highlights for 2015-2016 as follows.

- The Town's total net position of governmental activities decreased \$590,844 to \$4,314,827 and business-type activities decreased \$477,850 to \$8,312,278 representing 34% and 66% respectively, of the total net position of \$12,627,105.
- General revenues from governmental activities accounted for \$801,947 in revenue, or 43% of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,071,157 or 57% of total governmental activities revenues. The Town had \$1,605,801 of program revenues related to business-type activities, an increase of \$174,356 from the prior year.
- The Town had \$2.45 million in expenses related to governmental activities, an increase of 1.2% from the prior fiscal year. The Town had \$2.1 million in expenses related to business-type activities, a decrease of 2% from the prior fiscal year.
- Among major funds, the General Fund had \$1.7 million in revenues, which primarily consisted of taxes and state shared revenues. The total expenditures of the General Fund were \$2.1 million. The General Fund's fund balance decreased from \$(903,816) to \$(1,344,664) due to a continued trend of expenses exceeding revenues for the fund.
- Total net position of the enterprise funds decreased \$477,850. Operating expenses of \$2 million exceeded operating revenues of \$1.6 million.
- The Town adopted GASB No. 72, *Fair Value Measurement and Application*, and No. 79 *Certain External Investment Pools and Pool Participants*.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The *statement of net position* presents information on all of the Town's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

In the government-wide financial statements the Town's activities are presented in the following categories:

- **Governmental activities** – Most of the Town's basic services are included here, such as general government, public safety, highways and streets, and culture and recreation. Sales taxes, intergovernmental revenues, and charges for services finance most of these activities.
- **Business-type activities** – The services provided by the Town included here are water, sewer, sanitation, and landfill. The services are primarily financed through user fees and charges.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.



Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

**Proprietary funds.** The Town maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water, Sewer, Sanitation and Landfill Funds, which are considered to be major funds of the Town.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process. The Town adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund as required supplementary information. Further, the Town presents required supplementary information relating to the police department's participation in the Public Safety Personnel Retirement System (PSPRS).

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$12.6 million at the current fiscal year end.

A significant portion of the Town's net position reflects its investment in capital assets (e.g., land, land improvements; buildings and improvements; infrastructure; vehicles, machinery, and equipment; and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table presents a summary of the Town's net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	2015 Business-type Activities	2016 Total	2015 Total
Current and other assets	\$ (681,741)	\$ (291,781)	\$6,316,121	\$6,796,692	\$5,634,380	\$6,504,911
Capital assets, net	5,404,074	5,656,705	5,357,098	5,458,151	10,761,172	11,114,856
<b>Total assets</b>	<b>4,722,333</b>	<b>5,364,924</b>	<b>11,673,219</b>	<b>12,254,843</b>	<b>16,395,552</b>	<b>17,619,767</b>
<b>Total Deferred outflows</b>	<b>215,886</b>	<b>100,195</b>	<b>-</b>	<b>-</b>	<b>215,886</b>	<b>100,195</b>
Current liabilities	250,561	198,498	196,416	211,764	446,977	410,262
Long-term liabilities	372,831	350,305	3,164,525	3,252,951	3,537,356	3,603,256
<b>Total liabilities</b>	<b>623,392</b>	<b>548,803</b>	<b>3,360,941</b>	<b>3,464,715</b>	<b>3,984,333</b>	<b>4,013,518</b>
<b>Total Deferred inflows</b>	<b>-</b>	<b>10,645</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,645</b>
Net investment in capital assets	5,265,788	5,478,355	4,898,564	4,898,578	10,164,352	10,376,933
Restricted	551,504	552,565	718,834	-	1,270,338	552,565
Unrestricted	(1,502,465)	(1,125,249)	2,694,880	3,891,550	1,192,415	2,766,301
<b>Total net position</b>	<b>\$ 4,314,827</b>	<b>\$ 4,905,671</b>	<b>\$ 8,312,278</b>	<b>\$ 8,790,128</b>	<b>\$12,627,105</b>	<b>\$13,695,799</b>

## GOVERNMENT-WIDE FINANCIAL ALYSIS

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Changes in net position.** The Town's total revenues for the current fiscal year were \$3.5 million. The total cost of all programs and services was \$4.5 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016	2015	2016	2015	2016	2015
	Governmental	Governmental	Business-type	Business-type	2016	2015
	Activities	Activities	Activities	Activities	Total	Total
<b>Program revenues:</b>						
Charges for services	\$ 847,981	\$ 864,761	\$ 1,605,801	\$ 1,431,445	\$ 2,453,782	\$ 2,296,206
Operating grants and contributions	223,176	257,721			223,176	257,721
Capital grants and contributions		3,921				3,921
<b>General revenues:</b>						
Property taxes	58,930	65,586			58,930	65,586
Sales taxes	311,220	329,572			311,220	329,572
Franchise taxes	13,615	13,633			13,615	13,633
State shared revenues	309,105	306,541			309,105	306,541
Investment income			2,564	8,395	2,564	8,395
Miscellaneous	109,077	54,649			109,077	54,649
<b>Total revenues</b>	<b>1,873,104</b>	<b>1,896,384</b>	<b>1,608,365</b>	<b>1,439,840</b>	<b>3,481,469</b>	<b>3,336,224</b>
<b>Expenses:</b>						
General government	970,353	972,039			970,353	972,039
Public safety	1,124,426	1,135,050			1,124,426	1,135,050
Highways and streets	111,326	95,262			111,326	95,262
Culture and recreation	246,801	220,530			246,801	220,530
Water			251,056	294,523	251,056	294,523
Sewer			165,578	152,121	165,578	152,121
Landfill			1,562,181	1,585,441	1,562,181	1,585,441
Sanitation			106,331	95,393	106,331	95,393
<b>Total expenses</b>	<b>2,452,906</b>	<b>2,422,881</b>	<b>2,085,146</b>	<b>2,127,478</b>	<b>4,538,052</b>	<b>4,550,359</b>
Transfers	-	479,779	-	(479,779)	-	-
Special item	(11,042)	(16,378)	(1,069)	(1,448)	(12,111)	(17,826)
<b>Change in net position</b>	<b>(590,844)</b>	<b>(63,096)</b>	<b>(477,850)</b>	<b>(1,168,865)</b>	<b>(1,068,694)</b>	<b>(1,231,961)</b>
<b>Net position, beginning, as restated</b>	<b>4,905,671</b>	<b>4,968,767</b>	<b>8,790,128</b>	<b>9,958,993</b>	<b>13,695,799</b>	<b>14,927,760</b>
<b>Net position, ending</b>	<b>\$ 4,314,827</b>	<b>\$ 4,905,671</b>	<b>\$8,312,278</b>	<b>\$8,790,128</b>	<b>\$ 12,627,105</b>	<b>\$ 13,695,799</b>

- Program revenues decreased \$55,246 for governmental activities and increased \$174,356 for business-type activities. The main reasons for the change in revenue for governmental activities are small decreases in sales taxes and property taxes. For the business-type activities, increases in landfill rates and overall tonnage for the landfill are reasons for the change in revenue.

- Overall expenses decreased \$12,307. The increase in expenses on the governmental activities were more than offset by decreases in expenses on the business-type activities.

**Governmental and Business-type activities.** The following table presents the cost of the Town's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and Town's taxpayers by each of these functions.

	2016		2015	
	Total Expenses	Net (Expenses)/ Revenue	Total Expenses	Net (Expenses)/ Revenue
<b>Governmental Activities</b>				
General government	\$ 970,353	\$ (417,694)	\$ 972,039	\$ (412,413)
Public safety	1,124,426	(741,143)	1,135,050	(700,177)
Highways and streets	111,326	23,560	95,262	35,820
Culture and recreation	246,801	(246,472)	220,530	(219,978)
<b>Total</b>	<b>\$ 2,452,906</b>	<b>\$ (1,381,749)</b>	<b>\$ 2,422,881</b>	<b>\$ (1,296,478)</b>
<b>Business-type Activities</b>				
Water	\$ 251,056	\$ (97,740)	\$ 294,523	\$ (127,545)
Sewer	165,578	(56,356)	152,121	(36,792)
Landfill	1,562,181	(351,237)	1,585,441	(572,005)
Sanitation	106,331	25,988	95,393	40,309
<b>Total</b>	<b>\$ 2,085,146</b>	<b>\$ (479,345)</b>	<b>\$ 2,127,478</b>	<b>\$ (696,033)</b>

- The cost of all governmental activities this year was \$2.45 million, which represents a increase of \$30,025 from the prior year.
- The cost of all business-type activities this year was \$2.1 million, a decrease of \$42,332 from the prior year.
- The costs of governmental activities were financed by general revenues, which are made up of primarily sales taxes and unrestricted state shared revenues of \$620,325.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** At year end, the Town had a net investment of \$10.8 million in capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. This amount represents a net increase prior to depreciation of \$202,608 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$556,292.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2015.

	2016	2015	2016	2015
	Governmental	Governmental	Business-type	Business-type
	Activities	Activities	Activities	Activities
Non-depreciable assets	\$ 27,056	\$ 27,056	\$ 251,619	\$ 251,619
Depreciable assets	10,004,200	9,960,728	9,296,343	9,137,207
Less: Accumulated depreciation	(4,627,182)	(4,331,079)	(4,190,864)	(3,930,675)
<b>Total</b>	<b>\$ 5,404,074</b>	<b>\$ 5,656,705</b>	<b>\$ 5,357,098</b>	<b>\$ 5,458,151</b>

Additional information on the Town's capital assets can be found in Note 5.

**Debt Administration.** At year end, the Town had \$714,884 in capital lease obligations outstanding, with \$167,361 due within one year.

Additional information on the Town's long-term debt can be found in Notes 6 through 8.

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined negative fund balance of (\$841,253), a decrease of \$441,910 from the prior year.



The General Fund is the principal operating fund of the Town. The decrease in fund balance of \$440,848 for the current fiscal year was due to decreases in revenue from fines and forfeits and grants revenue, as well as increased highways and streets and culture and recreation expenditures.

**Proprietary funds.** Net position of the enterprise funds in total at the end of the year amounted to \$8.3 million, a decrease of \$477,850 from the prior year.

## **BUDGETARY HIGHLIGHTS**

A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The positive variance of \$272,507 in general government expenditures was a result of lower than expected costs for general government, public safety and capital outlays. Revenues were also lower than expected, by \$723,914, due to less grants received and lower sales taxes than budgeted.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The adopted combined operating and capital expenditure budget for fiscal year 2016 - 2017 totals \$4,836,087, an increase of \$162,331 or 3% greater than fiscal year 2015 - 2016.

### ***General Fund***

The budget for the General Fund increased \$12,384 in fiscal year 2016 - 2017, an increase of approximately .01% due to estimated increases in city sales taxes and grants.

### ***Enterprise Fund***

The Town's budget for utility enterprise funds in total for fiscal year 2016 - 2017 are consistent with the budgeted amounts for fiscal year 2015 - 2016.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Accounting Department, 500 North Gonzales Blvd., Town of Huachuca City, Arizona 85616.

## **Basic Financial Statements**

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental activities	Business-type activities	Total
<b>Assets:</b>			
Current assets:			
Cash and investments	\$ 498,067	\$ 1,277,301	\$ 1,775,368
Restricted cash and investments	-	3,536,666	3,536,666
Accounts receivable, net	23,494	244,842	268,336
Taxes receivable, net	34,576	-	34,576
Prepaid expenses	19,434	-	19,434
Due (to) from other funds	(1,257,312)	1,257,312	-
Total current assets	<u>(681,741)</u>	<u>6,316,121</u>	<u>5,634,380</u>
Noncurrent assets:			
Capital assets, non-depreciable	27,056	251,619	278,675
Capital assets, depreciable, net	5,377,018	5,105,479	10,482,497
Total noncurrent assets	<u>5,404,074</u>	<u>5,357,098</u>	<u>10,761,172</u>
Total assets	<u>4,722,333</u>	<u>11,673,219</u>	<u>16,395,552</u>
<b>Deferred outflows of resources:</b>			
Deferred outflows related to pensions	215,886	-	215,886
Total deferred outflows of resources	<u>215,886</u>	<u>-</u>	<u>215,886</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	50,507	28,451	78,958
Accrued payroll and related benefits	64,841	19,440	84,281
Compensated absences payable	35,529	15,004	50,533
Unearned revenue	44,164	-	44,164
Customer deposits	-	21,680	21,680
Current portion of capital lease obligations	55,520	111,841	167,361
Total current liabilities	<u>250,561</u>	<u>196,416</u>	<u>446,977</u>
Noncurrent liabilities:			
Capital lease obligations, net of current portion	82,766	346,693	429,459
Landfill closure and post-closure payable	-	2,817,832	2,817,832
Net pension liability	290,065	-	290,065
Total noncurrent liabilities	<u>372,831</u>	<u>3,164,525</u>	<u>3,537,356</u>
Total liabilities	<u>623,392</u>	<u>3,360,941</u>	<u>3,984,333</u>
<b>Deferred inflows of resources:</b>			
Deferred inflows of resources related to pensions	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net position:</b>			
Net investment in capital assets	5,265,788	4,898,564	10,164,352
Restricted	551,504	718,834	1,270,338
Unrestricted	(1,502,465)	2,694,880	1,192,415
Total net position	<u>\$ 4,314,827</u>	<u>\$ 8,312,278</u>	<u>\$ 12,627,105</u>

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program revenues	
		Charges for services	Operating grants and contributions
Primary government:			
Governmental activities:			
General government	\$ 970,353	\$ 546,716	\$ 5,943
Public safety	1,124,426	300,936	82,347
Highways and streets	111,326	-	134,886
Culture and recreation	246,801	329	-
Total governmental activities	2,452,906	847,981	223,176
Business-type activities:			
Water	251,056	153,316	-
Sewer	165,578	109,222	-
Landfill	1,562,181	1,210,944	-
Sanitation	106,331	132,319	-
Total business-type activities	2,085,146	1,605,801	-
Total primary government	\$ 4,538,052	\$ 2,453,782	\$ 223,176

General revenues:

Taxes:

Property taxes, levied for general purposes

Sales taxes

Franchise taxes

State shared revenues

Investment income

Miscellaneous

Special item - undocumented credit card expenses

Transfers

Total general revenues, special items and transfers

Change in net position

Net position, beginning of year

Net position, end of year

Net (expense) revenue and  
change in net position

Capital grants and contributions	Governmental activities	Business-type activities	Total
\$ -	\$ (417,694)	\$ -	\$ (417,694)
-	(741,143)	-	(741,143)
-	23,560	-	23,560
-	(246,472)	-	(246,472)
-	(1,381,749)	-	(1,381,749)
-	-	(97,740)	(97,740)
-	-	(56,356)	(56,356)
-	-	(351,237)	(351,237)
-	-	25,988	25,988
-	-	(479,345)	(479,345)
\$ -	(1,381,749)	(479,345)	(1,861,094)
	58,930	-	58,930
	311,220	-	311,220
	13,615	-	13,615
	309,105	-	309,105
	-	2,564	2,564
	109,077	-	109,077
	(11,042)	(1,069)	(12,111)
	-	-	-
	790,905	1,495	792,400
	(590,844)	(477,850)	(1,068,694)
	4,905,671	8,790,128	13,695,799
\$ -	\$ 4,314,827	\$ 8,312,278	\$ 12,627,105

See notes to financial statements.



**TOWN OF HUACHUCA CITY, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2016**

	General	Non-major governmental funds	Total governmental funds
<b>Assets:</b>			
Cash and investments	\$ -	\$ 498,067	\$ 498,067
Accounts receivable, net	23,494	-	23,494
Taxes receivable, net	22,625	11,951	34,576
Prepaid expenses	19,434	-	19,434
	<u>\$ 65,553</u>	<u>\$ 510,018</u>	<u>\$ 575,571</u>
<b>Liabilities:</b>			
Accounts payable	\$ 47,618	\$ 2,889	\$ 50,507
Accrued payroll and related benefits	61,123	3,718	64,841
Due to other funds	1,257,312	-	1,257,312
Unearned revenue	44,164	-	44,164
	<u>1,410,217</u>	<u>6,607</u>	<u>1,416,824</u>
<b>Fund balances:</b>			
Nonspendable	19,434	-	19,434
Restricted	-	551,504	551,504
Unassigned	(1,364,098)	(48,093)	(1,412,191)
	<u>(1,344,664)</u>	<u>503,411</u>	<u>(841,253)</u>
Total fund balances			
	<u>\$ 65,553</u>	<u>\$ 510,018</u>	<u>\$ 575,571</u>
Total liabilities and fund balances			
	<u>\$ 65,553</u>	<u>\$ 510,018</u>	<u>\$ 575,571</u>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2016**

Total fund balances - governmental funds	\$ (841,253)
Amounts reported for governmental activities in the statement of net position are different because:	
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,404,074
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences payable	(35,529)
Capital lease obligations	(138,286)
Net pension liability	(290,065)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	215,886
Net position of governmental activities	\$ 4,314,827

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	General	Non-major governmental funds	Total governmental funds
Revenues:			
Property taxes	\$ 58,930	\$ -	\$ 58,930
Sales taxes	311,220	-	311,220
Franchise taxes	13,615	-	13,615
Landfill land lease	530,000	-	530,000
Licenses and permits	16,716	-	16,716
Intergovernmental	34,301	182,932	217,233
Charges for services	55,113	-	55,113
Fines and forfeits	246,152	-	246,152
State shared revenues	309,105	-	309,105
Contributions and donations	5,943	-	5,943
Other	109,077	-	109,077
Total revenues	<u>1,690,172</u>	<u>182,932</u>	<u>1,873,104</u>
Expenditures:			
Current:			
General government	667,819	-	667,819
Public safety	1,137,262	54,168	1,191,430
Highway and streets	-	107,955	107,955
Culture and recreation	246,801	-	246,801
Capital outlay	21,601	21,871	43,472
Debt service:			
Principal retirement	61,665	-	61,665
Interest and fiscal charges	6,431	-	6,431
Total expenditures	<u>2,141,579</u>	<u>183,994</u>	<u>2,325,573</u>
Deficiency of revenues over expenditures	(451,407)	(1,062)	(452,469)
Other financing sources:			
Proceeds from capital leases	21,601	-	21,601
Total other financing sources	<u>21,601</u>	<u>-</u>	<u>21,601</u>
Special item:			
Undocumented credit card expenses	(11,042)	-	(11,042)
Net change in fund balances	(440,848)	(1,062)	(441,910)
Fund balances (deficits), beginning of year	<u>(903,816)</u>	<u>504,473</u>	<u>(399,343)</u>
Fund balances (deficits), end of year	<u>\$ (1,344,664)</u>	<u>\$ 503,411</u>	<u>\$ (841,253)</u>

**TOWN OF HUACHUCA CITY, ARIZONA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2016**

Net changes in fund balances - total governmental funds \$ (441,910)

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Capital outlays are reported in governmental funds as expenditures.  
However, in the Statement of Activities, the cost of those capital  
assets is allocated over their estimated useful lives as  
depreciation expense. In the current period, these amounts are:

Capital outlay	43,472
Depreciation expense	(296,103)

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

Pension contributions	71,646
Pension expense	(4,642)

Compensated absence expenses reported in the statement of  
activities do not require the use of current financial resources  
and, therefore, are not reported as expenditures in government funds.

(3,371)

Addition of capital lease agreements provides current financial  
resources to governmental funds, but the agreement increases  
long-term liabilities in the Statement of Net Position. Repayment of  
capital lease obligations is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
Statement of Net Position. In the current year, the amount  
consists of:

Capital lease proceeds	(21,601)
Principal paid	61,665

Change in net position of governmental activities

\$ (590,844)

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2016

	Water	Sewer
<b>Assets:</b>		
Current assets:		
Cash and investments	\$ -	\$ 293,963
Restricted cash and investments	-	-
Accounts receivable, net	4,493	12,528
Due (to) from other funds	(120,654)	-
Total current assets	<u>(116,161)</u>	<u>306,491</u>
Noncurrent assets:		
Capital assets, non-depreciable	1,012	1,969
Capital assets, depreciable, net	2,022,010	1,941,677
Total noncurrent assets	<u>2,023,022</u>	<u>1,943,646</u>
Total assets	<u>1,906,861</u>	<u>2,250,137</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	11,579	620
Accrued payroll and related benefits	2,443	2,372
Compensated absences payable	2,428	2,060
Customer deposits	17,190	3,690
Current portion of capital lease obligations	-	-
Total current liabilities	<u>33,640</u>	<u>8,742</u>
Noncurrent liabilities:		
Capital lease obligations, net of current portion	-	-
Landfill closure and post-closure payable	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>33,640</u>	<u>8,742</u>
<b>Net position:</b>		
Net investment in capital assets	2,023,022	1,943,646
Restricted	-	-
Unrestricted	<u>(149,801)</u>	<u>297,749</u>
Total net position	<u>\$ 1,873,221</u>	<u>\$ 2,241,395</u>



Enterprise Funds

Landfill	Sanitation	Total
\$ 540,657	\$ 442,681	\$ 1,277,301
3,536,666	-	3,536,666
217,187	10,634	244,842
1,377,966	-	1,257,312
<u>5,672,476</u>	<u>453,315</u>	<u>6,316,121</u>
248,638	-	251,619
1,140,066	1,726	5,105,479
<u>1,388,704</u>	<u>1,726</u>	<u>5,357,098</u>
<u>7,061,180</u>	<u>455,041</u>	<u>11,673,219</u>
11,802	4,450	28,451
12,746	1,879	19,440
9,445	1,071	15,004
800	-	21,680
111,841	-	111,841
<u>146,634</u>	<u>7,400</u>	<u>196,416</u>
346,693	-	346,693
2,817,832	-	2,817,832
<u>3,164,525</u>	<u>-</u>	<u>3,164,525</u>
<u>3,311,159</u>	<u>7,400</u>	<u>3,360,941</u>
930,170	1,726	4,898,564
718,834	-	718,834
2,101,017	445,915	2,694,880
<u>\$ 3,750,021</u>	<u>\$ 447,641</u>	<u>\$ 8,312,278</u>

See notes to financial statements.

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
 PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	Water	Sewer
Operating revenues:		
Charges for services	\$ 153,316	\$ 109,222
Total operating revenues	<u>153,316</u>	<u>109,222</u>
Operating expenses:		
Cost of sales and services	201,189	121,486
Change in landfill closure and post closure	-	-
Depreciation	49,867	44,092
Total operating expenses	<u>251,056</u>	<u>165,578</u>
Operating income (loss)	<u>(97,740)</u>	<u>(56,356)</u>
Nonoperating revenues (expenses):		
Investment income	-	-
Interest expense	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>
Income (loss) before special item	<u>(97,740)</u>	<u>(56,356)</u>
Special item - undocumented credit card expenses	<u>-</u>	<u>-</u>
Changes in net position	<u>(97,740)</u>	<u>(56,356)</u>
Total net position, beginning of year	<u>1,970,961</u>	<u>2,297,751</u>
Total net position, end of year	<u>\$ 1,873,221</u>	<u>\$ 2,241,395</u>

Enterprise Funds

Landfill	Sanitation	Total
\$ 1,210,944	\$ 132,319	\$ 1,605,801
<u>1,210,944</u>	<u>132,319</u>	<u>1,605,801</u>
1,356,828	105,468	1,784,971
16,237	-	16,237
165,367	863	260,189
<u>1,538,432</u>	<u>106,331</u>	<u>2,061,397</u>
<u>(327,488)</u>	<u>25,988</u>	<u>(455,596)</u>
2,564	-	2,564
(23,749)	-	(23,749)
<u>(21,185)</u>	<u>-</u>	<u>(21,185)</u>
<u>(348,673)</u>	<u>25,988</u>	<u>(476,781)</u>
<u>(1,069)</u>	<u>-</u>	<u>(1,069)</u>
<u>(349,742)</u>	<u>25,988</u>	<u>(477,850)</u>
4,099,763	421,653	8,790,128
<u>\$ 3,750,021</u>	<u>\$ 447,641</u>	<u>\$ 8,312,278</u>

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	Water	Sewer
Cash flows from operating activities:		
Cash received from customers	\$ 156,718	\$ 109,722
Cash payments to suppliers for goods and services	(121,099)	(44,481)
Cash payments to employees for services	(82,193)	(78,477)
Other operating cash payments	-	-
Net cash provided by (used in) operating activities	<u>(46,574)</u>	<u>(13,236)</u>
Cash flows from noncapital and related financing activities:		
Advances (to) from other funds	<u>52,751</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>52,751</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(6,177)	-
Investment income	-	-
Principal paid on capital lease obligations	-	-
Interest paid on capital lease obligations	-	-
Net cash used in capital and related financing activities	<u>(6,177)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-	(13,236)
Cash and cash equivalents, beginning	-	307,199
Cash and cash equivalents, ending	<u>\$ -</u>	<u>\$ 293,963</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (97,740)	\$ (56,356)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	49,867	44,092
Undocumented credit card expenses	-	-
Changes in operating assets and liabilities:		
Accounts receivable	5,484	(746)
Accounts payable	(2,284)	(1,950)
Accrued payroll and related benefits	179	479
Customer deposits	(2,080)	1,245
Landfill closure and postclosure liability	-	-
Total adjustments	<u>51,166</u>	<u>43,120</u>
Net cash provided by (used in) operating activities	<u>\$ (46,574)</u>	<u>\$ (13,236)</u>

Enterprise Funds

Landfill	Sanitation	Total
\$ 1,237,582	\$ 130,230	\$ 1,634,252
(938,185)	(31,803)	(1,135,568)
(438,407)	(68,419)	(667,496)
(1,069)	-	(1,069)
<u>(140,079)</u>	<u>30,008</u>	<u>(169,881)</u>
(464,385)	-	(411,634)
(464,385)	-	(411,634)
(152,959)	-	(159,136)
2,564	-	2,564
(101,039)	-	(101,039)
(23,749)	-	(23,749)
(275,183)	-	(281,360)
(879,647)	30,008	(862,875)
4,956,970	412,673	5,676,842
<u>\$ 4,077,323</u>	<u>\$ 442,681</u>	<u>\$ 4,813,967</u>
\$ (327,488)	\$ 25,988	\$ (455,596)
165,367	863	260,189
(1,069)	-	(1,069)
26,637	(2,045)	29,330
(25,185)	4,408	(25,011)
5,422	838	6,918
-	(44)	(879)
16,237	-	16,237
<u>187,409</u>	<u>4,020</u>	<u>285,715</u>
<u>\$ (140,079)</u>	<u>\$ 30,008</u>	<u>\$ (169,881)</u>

TOWN OF HUACHUCA CITY, ARIZONA  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016

	<u>Pension Trust</u>
Assets:	
Cash and investments	<u>\$ 73,874</u>
Total assets	<u>73,874</u>
Net position:	
Held in trust	<u>\$ 73,874</u>



TOWN OF HUACHUCA CITY, ARIZONA  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 YEAR ENDED JUNE 30, 2016

	Pension Trust
Additions:	
Investment income	\$ 2,195
Total additions	2,195
Deductions:	
Distributions	1,198
Total deductions	1,198
Change in net position	997
Net position, beginning of year	72,877
Net position, end of year	\$ 73,874

## TOWN OF HUACHUCA CITY, ARIZONA

### NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies:

The accounting policies of the Town of Huachuca City, Arizona (Town) conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB).

Reporting entity:

The Town is a municipal entity governed by an elected mayor and council. As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the Town and its component units, 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 and so data from these units are combined with data of the Town, the primary government.

Town of Huachuca City, Arizona Municipal Property Corporation - The Town of Huachuca City, Arizona, Arizona Municipal Property Corporation's (MPC) board of directors consists of three members which are appointed by the Town of Huachuca City, Arizona's Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The MPC debt service is reported within the governmental activities in the government-wide statements. As there was no activity during the year, separate financial statements are not prepared on a stand-alone basis.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the most part, the effect of internal activity has been removed from these statements. All internal balances in the statement of net position have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as due to/from other funds and eliminated in the total column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other items not included among program revenues are reported instead as general revenues.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

1. Summary of significant accounting policies (continued):

Government-wide and fund financial statements (continued):

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Receivables that will not be collected within the available period have been reported as deferred inflows of resources on the governmental fund financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenue arises when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

1. Summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation (continued):

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The Town reports the following major governmental funds:

General Fund - This fund is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

The Town reports the following major proprietary funds:

Water Fund - This fund accounts for the operations, maintenance and construction of the Town's water system and facilities.

Sewer Fund - This fund accounts for the operations of the Town's sewer system, including the acquisition and construction of facilities and infrastructure necessary to support the sewer system funded by the issuance of long-term debt and user fees.

Landfill Fund - This fund accounts for the operations of the Town's landfill, including the acquisition and construction of facilities and infrastructure necessary to support the landfill funded by user fees.

Sanitation Fund - This fund accounts for the operations of the Town's solid waste collections and disposals.

Additionally, the Town reports the following fund types:

Fiduciary Fund - The Fiduciary Fund is an Agency Fund which accounts for resources held by the Town on behalf of others and includes the Volunteer Firefighter's Relief and Pension Trust Fund. The Volunteer Firefighter's Relief and Pension Trust Fund accounts for the contributions to and earnings of the volunteer firefighter's pension trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

1. Summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers. Operating expenses for these funds include the cost of sales and services and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates:

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and investments:

For purposes of the statement of cash flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, restricted and unrestricted cash in bank, and highly liquid investments.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Investment income is composed of interest, dividends and net changes in the fair value of applicable investments.

Cash and investments, restricted:

The Arizona Department of Environmental Quality (ADEQ) requires certain funds be set aside to pay for future closure and post closure costs of the Town's landfill. ADEQ recently specified that approximately \$3,536,000 should be set aside for this purpose, of which approximately \$2,217,000 has been segregated in separate accounts.



TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Fair value measurements:

During the year, the District implemented Governmental Accounting Standards Board (GASB) Statements No. 72 *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. Fair value is defined as the price to sell an asset or transfer a liability between market participants in an orderly exchange in the principal or most advantageous market for that asset or liability. Mutual funds are valued at quoted market prices. The fair value for the commingled funds and qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Receivables and payables:

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables, are shown net of an allowance for uncollectibles.

Property tax:

Property taxes are levied and collected by the Cochise County Treasurer on behalf of the Town. Property taxes are levied on or before the third Monday in August that become due and payable in two equal installments. Taxes become delinquent after the first business day of both November and May.

The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2% over the previous year's maximum allowable primary levy, plus an increased dollar amount because of a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1% of the market value of their homes. If the combined primary property tax (for the Town, County, School District, etc.) exceeds 1% of the market value of the homes, the school districts will reduce their rate until the homeowners' aggregate rate is equal to or less than the allowable 1%. The State will then subsidize the school districts for the reduced revenue. This 1% limitation applies to primary property taxes only and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve.



TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Property tax (continued):

The primary assessed values are allowed to increase by no more than 10 percent a year. The dollar amount of the secondary property tax levy is "unlimited" and the actual full cash value of property is used in determining the tax rate.

Capital assets:

Capital assets, which include land; land improvements; buildings and improvements; machinery, vehicles and equipment; construction in progress; and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the Town are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	50
Building improvements	20
Infrastructure	75
Machinery, vehicles and equipment	8 - 15

Compensated absences:

The Town's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements.

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

1. Summary of significant accounting policies (continued):

Long-term obligations:

The amount capitalized under capital leases is the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. In the government-wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities. In the fund financial statements, the acquisition is reflected as an expenditure and other financing source.

Deferred outflows and inflows of resources:

The statement of net position includes 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 in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

Pensions:

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

Interfund activity:

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Fund balance:

In the fund financial statements, fund balance is divided into five classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are as follows:

Nonspendable - includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted - amounts with constraints placed on their use that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

1. Summary of significant accounting policies (continued):

Fund balance (continued):

Committed - includes amounts that can be used only for the specific purposes imposed by formal action of the Town Council. These committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit these amounts. The Town does not have a formal policy or procedures for the utilization of committed fund balance, accordingly, no committed fund balance amounts are reported.

Assigned - amounts intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. Fund balance may be assigned by either the highest level of decision making, or by a body or an official designated for that purpose. The Town does not have a formal policy for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The table below provides detail of the major components of the Town's fund balance classifications at year end.

	<u>General fund</u>	<u>Non-major governmental funds</u>
Fund balances:		
Restricted:		
Grants	\$ -	\$ 6,338
Public safety	-	30,479
Highways and streets	-	514,687
Unassigned	<u>(1,344,664)</u>	<u>(48,093)</u>
Total fund balances	<u>\$ (1,344,664)</u>	<u>\$ 503,411</u>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

2. Stewardship, compliance and accountability:

Individual deficit fund balances:

At year end, the following major and non-major governmental funds reported deficits in fund balance.

	Deficit
Major funds:	
General	\$ 1,344,664
Non-major governmental funds:	
Grant opportunity	48,093

The deficits arose because of operations during the year and prior years. Deficit balances are a result of accumulated expenditures that are expected to be reimbursed at their completion by the corresponding funding source.

3. Cash and investments:

The Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town's investments.

**Custodial Credit Risk - Deposits** - Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At June 30, 2016, the carrying amount of the Town's deposits was \$2,869,115 and the bank balance was \$2,928,201. Included in these deposits, the Town had \$1,162,065 of nonnegotiable certificates of deposit with maturities from one to three years.

At June 30, 2016, the Town's investments consisted of the following.

	Average maturities	Fair value
Municipal bonds	6 - 10 years	\$ 613,839
Negotiable certificates of deposit	1 -5 years	848,340
Equities		980,740
		\$ 2,442,919



**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

3. Cash and investments (continued):

Interest Rate Risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Town invests in equity securities, certificates of deposit, U.S. government securities, repurchase agreements, pooled investment funds established by the State Treasurer, bonds issued by the state, county, incorporated cities, towns, or school districts, or cash and cash equivalents with a local financial institution. The Town's investments in municipal bonds were rated Aaa by Moody's Investors Service and AA- by Standard and Poor's.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Town's investments are subject to custodial credit risk.

Concentration of Credit Risk - The Town does not have a formal policy with regard to concentration of credit risk. More than 5% of the Town's investments are in municipal bonds, certificates of deposits and equities. Municipal bonds, certificates of deposit and equities represent 25%, 35% and 40% of the Town's investments.

4. Fair value:

The District measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines establish a three-tier hierarchy of inputs to valuation techniques used to measure fair value, as follows:

Level 1 - Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 - Inputs, other than quoted market prices included within Level 1, are observable, either directly or indirectly.

Level 3 - Inputs are unobservable and significant to the fair value measurement.

Other investments at fair value - Investments for which fair value is measured at net asset value per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

4. Fair value (continued):

At June 30, 2016, the fair value of investments measured on a recurring basis is as follows:

	Fair value	Other investments at fair value	Level 1	Level 2	Level 3
Equities	\$ 980,740	\$ -	\$ 980,740	\$ -	\$ -
Fixed income securities:					
Municipal bonds	613,839	-	613,839	-	-
Certificates of deposit	848,340	-	848,340	-	-
	<u>\$ 2,442,919</u>	<u>\$ -</u>	<u>\$ 2,442,919</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of the Town's equities and fixed income securities are based on the closing price reported on the active market on which the individual securities are traded.

5. Capital assets:

A summary of capital asset activity for the current fiscal year follows:

Governmental activities	Beginning balance	Increase	Decrease	Ending balance
Capital assets, not being depreciated:				
Land	\$ 27,056	\$ -	\$ -	\$ 27,056
Total capital assets, not being depreciated	27,056	-	-	27,056
Capital assets, being depreciated:				
Land improvements	2,994,199	-	-	2,994,199
Buildings and improvements	1,590,502	-	-	1,590,502
Infrastructure	3,491,155	-	-	3,491,155
Machinery, vehicles and equipment	1,884,872	43,472	-	1,928,344
Total capital assets being depreciated	9,960,728	43,472	-	10,004,200
Less accumulated depreciation for:				
Land improvements	(1,044,295)	(113,460)	-	(1,157,755)
Buildings and improvements	(674,322)	(31,810)	-	(706,132)
Infrastructure	(1,275,462)	(42,597)	-	(1,318,059)
Machinery, vehicles and equipment	(1,337,000)	(108,236)	-	(1,445,236)
Total accumulated depreciation	(4,331,079)	(296,103)	-	(4,627,182)
Total capital assets, being depreciated, net	5,629,649	(252,631)	-	5,377,018
Governmental activities capital assets, net	<u>\$ 5,656,705</u>	<u>\$ (252,631)</u>	<u>\$ -</u>	<u>\$ 5,404,074</u>



**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

5. Capital assets (continued):

<u>Business-type activities</u>	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Capital assets, not being depreciated:				
Land	\$ 251,619	\$ -	\$ -	\$ 251,619
Total capital assets, not being depreciated	<u>251,619</u>	<u>-</u>	<u>-</u>	<u>251,619</u>
Capital assets, being depreciated:				
Buildings and improvements	378,157	130,564	-	508,721
Infrastructure	6,766,371	-	-	6,766,371
Machinery, vehicles and equipment	<u>1,992,679</u>	<u>28,572</u>	<u>-</u>	<u>2,021,251</u>
Total capital assets being depreciated	<u>9,137,207</u>	<u>159,136</u>	<u>-</u>	<u>9,296,343</u>
Less accumulated depreciation for:				
Land improvements	(4,968)	(1,878)	-	(6,846)
Buildings and improvements	(98,405)	(4,582)	-	(102,987)
Infrastructure	(2,812,641)	(90,537)	-	(2,903,178)
Machinery, vehicles and equipment	<u>(1,014,661)</u>	<u>(163,192)</u>	<u>-</u>	<u>(1,177,853)</u>
Total accumulated depreciation	<u>(3,930,675)</u>	<u>(260,189)</u>	<u>-</u>	<u>(4,190,864)</u>
Total capital assets, being depreciated, net	<u>5,206,532</u>	<u>(101,053)</u>	<u>-</u>	<u>5,105,479</u>
Business-type activities capital assets, net	<u>\$ 5,458,151</u>	<u>\$ (101,053)</u>	<u>\$ -</u>	<u>\$ 5,357,098</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 84,686
Public safety	76,046
Highways and streets	45,829
Culture and recreation	<u>89,542</u>
Total depreciation expense - governmental activities	<u>\$ 296,103</u>
Business-type activities:	
Water	\$ 49,867
Sewer	44,092
Sanitation	863
Landfill	<u>165,367</u>
Total depreciation expense - business-type activities	<u>\$ 260,189</u>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

6. Capital lease obligations:

The Town has entered into various long-term capital leases involving the acquisition of machinery, vehicles and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of their respective inception dates. These commitments recorded in governmental activities are expected to be funded by the Town's General Fund.

The assets acquired through capital leases are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>
Machinery, vehicles and equipment	\$ 355,898	\$ 822,525
Less accumulated depreciation	<u>134,528</u>	<u>329,011</u>
	<u>\$ 221,370</u>	<u>\$ 493,514</u>

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

Year ending <u>June 30,</u>	<u>Governmental activities</u>	<u>Business-type activities</u>
2017	\$ 60,663	\$ 124,788
2018	60,663	352,394
2019	29,196	-
2020	-	-
Total minimum lease payments	<u>150,522</u>	<u>477,182</u>
Less amount representing interest	<u>12,236</u>	<u>18,648</u>
Net present value of minimum lease payments	138,286	458,534
Less amount due within one year	<u>55,520</u>	<u>111,841</u>
	<u>\$ 82,766</u>	<u>\$ 346,693</u>

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

7. Landfill closure and post-closure costs:

State and federal laws and regulations require the Town to place a final cover on its landfill site 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 addition to long-term liabilities on the Statement of Net Position in each period based on the landfill capacity the Town used as of fiscal year end. The \$2,817,832 reported as landfill closure and postclosure care liability at year end, represents the cumulative amount reported to date based on prior closure and post closure costs recognized. As of June 30, 2016, the estimated landfill capacity used was 63.5%, and the estimated remaining life of the landfill is 24 years. The Town will recognize the remaining estimated cost of closure and postclosure care of \$1,263,820 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. Actual costs will likely vary due to inflation, changes in technology, or revisions of applicable laws and regulations. Resources from the Landfill Fund will be used to liquidate the landfill closure and postclosure payable.

8. Changes in long-term liabilities:

Long-term liability activity for the current fiscal year was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Capital lease obligations	\$ 178,350	\$ 21,601	\$ (61,665)	\$ 138,286	\$ 55,520
Compensated absences payable	32,158	56,348	(52,977)	35,529	35,529
Net pension liability	230,733	59,332	-	290,065	-
	<u>\$ 441,241</u>	<u>\$ 137,281</u>	<u>\$ (114,642)</u>	<u>\$ 463,880</u>	<u>\$ 91,049</u>
Business-type activities:					
Capital lease obligations	\$ 559,573	\$ -	\$ (101,039)	\$ 458,534	\$ 111,841
Compensated absences payable	15,004	7,123	(7,123)	15,004	15,004
Landfill closure and post-closure costs payable	2,801,595	16,237	-	2,817,832	-
	<u>\$ 3,376,172</u>	<u>\$ 23,360</u>	<u>\$ (108,162)</u>	<u>\$ 3,291,370</u>	<u>\$ 126,845</u>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

9. Interfund receivables, payables and transfers:

Due (to) from other funds:

At June 30, 2016, several governmental funds had negative cash balances. Negative cash was reduced by interfund borrowing with the Landfill Fund. Reimbursement from all sources is expected in the subsequent fiscal year.

Due to	General fund	Due from Non-major governmental funds	Total
Landfill Fund	\$ 1,257,312	\$ -	\$1,257,312

10. Contingent liabilities:

Federal and state grants and loans:

The Town has received a number of grants from both the federal and state governments. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

Lawsuits:

The Town is a defendant in several lawsuits as of June 30, 2016. It is the opinion of management and Town counsel that the amount of losses resulting from these litigations at June 30, 2016 would not be material to the financial position of the Town.

11. 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 Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

11. Risk management (continued):

The Town continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. Deferred compensation plan:

The Town's employees (other than volunteer firemen and police officers) are covered under a defined contribution pension plan (401(k) plan), which provides retirement benefits for all of the Town's full-time employees. The plan is administered by John Hancock. The provisions of the plan were established by a pension board of the Town's council, which may amend the plan's provisions as necessary.

Employees are required to complete a six-month probationary period and attain permanent status before a certificate in the pension fund is issued. Once a certificate is issued in an employee's name, 5% of the employee's gross wages per pay period for the previous five months of employment are deposited in the pension fund. Upon completion of one year's service, all funds deposited on behalf of employees are 100% vested. The Town did not make any contributions during the fiscal year.

Withdrawals from the pension fund must meet the following criteria in accordance with Equitable Life Insurance policy:

- a. Termination of employment, or
- b. Unforeseen emergencies, i.e., medical, dental, death, accident or other types of emergencies

Employees may deposit funds from their paychecks, up to predetermined amounts or one-third of their annual wages, whichever is less. Employees may be authorized to withdraw these deposited funds for the specified reasons noted above. A written request to do so must be submitted to the Pension Board for its determination. Equity Life Insurance requires that a balance of \$300 remain in an account prior to any withdrawals and in order to have an active certificate.

13. Firefighters' relief and pension fund:

The Volunteer Firefighters' Relief and Pension Fund (VFRPF) is a defined contribution plan to provide pensions to volunteer firefighters only. State statute requires that after a volunteer firefighter has 20 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPF, not to exceed \$150, as determined by the board of trustees. If an employee resigns before completing 20 years of service, he or she is entitled to a refund of his or her contributions only. He or she is not entitled to any part of the employer's contributions, the amounts received from the state or earnings on any of the contributions. Some monies were received from the State, however, no contributions were made by the employer or employees as funds were available to provide for future benefits.



**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS):

The Town's Police Officers are covered by the Public Safety Personnel Retirement System (PSPRS). This plan is a component unit of the State of Arizona.

At June 30, 2016, the Town reported on the Statement Net Position and Statement of Activities the following aggregate amounts related to PSPRS:

	Governmental activities
Net pension liability	\$ 290,065
Deferred outflows of resources	215,886
Deferred inflows of resources	-
Pension expense	43,128

The Town reported \$71,044 of pension contributions as expenditures in the governmental funds related to PSPRS.

Plan description - Town Police Officers who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

Benefits provided - The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit 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
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years



**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

	Initial membership date:	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
Benefit percent per year of service:		
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 service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit:		
Retired members	80% to 100% of retired member's pension benefit	
Active member	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50% of the member's compensation for up to 12 months.

Employees covered by benefit terms - At June 30, 2016, the following employees were covered by the agent pension plan benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>6</u>
	<u>6</u>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

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

For the year ended June 30, 2016, active PSPRS members were required to contribute 11.65% of the members' annual covered payroll and the Town was required to contribute 19.59%, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.14% of covered payroll.

The Town's contributions to the pension plan for the year ended June 30, 2015, were \$71,044, which included the required contributions for the health insurance premium benefit. During fiscal year 2016, the Town paid for the PSPRS pension and OPEB contributions from the General Fund.

Pension liability - At June 30, 2016, the Town reported net pension liability of \$290,065. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the Town recognized pension expense for PSPRS of \$4,642. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 128,484	\$ -
Changes in assumptions or other inputs	10,079	-
Net difference between projected and actual earnings on pension plan investments	5,677	-
Contributions subsequent to the measurement date	71,646	-
	\$ 215,886	\$ -

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

The \$71,646 reported as deferred outflows of resources related to PSPRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year ending <u>June 30,</u>	
2017	\$ 20,033
2018	20,033
2019	20,032
2020	22,643
2021	19,266
Thereafter	<u>42,233</u>
	<u>\$ 144,240</u>

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4% - 8%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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

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

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

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 real rate of return</u>
U.S. equity	16 %	6.23 %
Non-U.S. equity	14 %	8.25 %
Credit opportunities	13 %	7.08 %
Private equity	11 %	9.50 %
Real estate	10 %	4.48 %
GTAA	10 %	4.38 %
Real assets	8 %	4.77 %
Fixed income	7 %	2.92 %
Absolute return	5 %	4.11 %
Risk parity	4 %	5.13 %
Short-term investments	2 %	0.75 %
	<u>100 %</u>	

Discount rate - The discount rate of 7.85% was used to measure the total pension liability. The projection of cash flows used to determine the PSPRS 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's net pension liability to changes in the discount rate - The following table presents the Town's net pension liability calculated using the discount rate noted above, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.85%) or 1 percentage point higher (8.85%) than the current rate:

	<u>1% decrease (6.85%)</u>	<u>Current discount rate (7.85%)</u>	<u>1% increase (8.85%)</u>
Town's net pension liability	\$ 402,286	\$ 290,065	\$ 199,079

**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

Changes in the net pension liability -

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) - (b)
Balances at June 30, 2015	\$ 545,002	\$ 302,066	\$ 242,936
Changes for the year:			
Service cost	69,307	-	69,307
Interest on the total pension liability	45,503	-	45,503
Differences between expected and actual experience in the measurement of the pension liability	128,678	-	128,678
Contributions - employer	-	66,642	(66,642)
Contributions - employee	-	37,135	(37,135)
Net investment income	-	13,985	(13,985)
Administrative expense	-	(727)	727
Other changes	-	79,324	(79,324)
Net changes	<u>243,488</u>	<u>196,359</u>	<u>47,129</u>
Balances at June 30, 2016	<u>\$ 788,490</u>	<u>\$ 498,425</u>	<u>\$ 290,065</u>

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

Agent plan OPEB actuarial assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2016 were established by the June 30, 2014 actuarial valuations.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.



**TOWN OF HUACHUCA CITY, ARIZONA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

14. Public Safety Personnel Retirement System (PSPRS) (continued):

Projections of benefits are based on (1) the plan as the Town and plans' members understand it and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	22 years for unfunded 20 years for overfunded
Asset valuation method	7-year smoothed market value 80%/120% market
Investment rate of return	7.85%
Projected salary increases	4.0% - 8.0%
Wage growth	4.0%

Agent plan OPEB trend information - Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows:

Year ending June 30	Annual OPEB cost	Percentage of annual cost contributed	Net OPEB obligation
2015	\$ 4,013	100%	\$ -
2014	3,356	100%	-
2013	2,918	100%	-

Agent plan OPEB funded status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, follow.

	Health insurance
Actuarial value of assets (a)	\$ -
Actuarial accrued liability (b)	\$ 26,399
Unfunded actuarial accrued liability (b) - (a)	\$ 26,399
Funded ratio (a) / (b)	0 %
Covered payroll (c)	\$ 336,066
Unfunded actuarial accrued liability as a percentage of covered payroll ((b) - (a) / (c))	8 %



## **Required Supplementary Information**

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
- BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts <u>Original &amp; Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 75,837	\$ 58,930	\$ (16,907)
Sales taxes	458,000	311,220	(146,780)
Franchise taxes	14,100	13,615	(485)
Landfill land lease	530,000	530,000	-
Licenses and permits	16,103	16,716	613
Intergovernmental	354,010	34,301	(319,709)
Charges for services	44,380	55,113	10,733
Fines and forfeits	288,587	246,152	(42,435)
State shared revenues	313,320	309,105	(4,215)
Contributions and donations	26,350	5,943	(20,407)
Other	293,399	109,077	(184,322)
Total revenues	<u>2,414,086</u>	<u>1,690,172</u>	<u>(723,914)</u>
Expenditures:			
Current:			
General government	765,539	667,819	97,720
Public safety	1,297,985	1,137,262	160,723
Culture and recreation	278,152	246,801	31,351
Capital outlay	72,410	21,601	50,809
Debt service:			
Principal retirement	-	61,665	(61,665)
Interest and fiscal charges	-	6,431	(6,431)
Total expenditures	<u>2,414,086</u>	<u>2,141,579</u>	<u>272,507</u>
Excess (deficiency) of revenues over expenditures	-	(451,407)	(996,421)
Other financing sources:			
Proceeds from capital leases	-	21,601	(21,601)
Total other financing sources (uses)	-	21,601	(21,601)
Special item:			
Unsupported credit card expenses	-	(11,042)	(11,042)
Net change in fund balances	-	(440,848)	(1,029,064)
Fund balances, beginning of year	-	(903,816)	(903,816)
Fund balances, end of year	<u>\$ -</u>	<u>\$ (1,344,664)</u>	<u>\$ (1,932,880)</u>

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - AGENT RETIREMENT PLAN (PSPRS)

YEAR ENDED JUNE 30, 2016

(schedule to be built prospectively from 2014; 2013 - 2005 information not available)

Reporting date (Measurement date)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)	2007 (2006)
<b>Total pension liability</b>										
Service cost	\$ 69,307	\$ 51,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	45,503	35,530	-	-	-	-	-	-	-	-
Benefit changes	-	(1,914)	-	-	-	-	-	-	-	-
Difference between expected and actual experience	128,678	19,856	-	-	-	-	-	-	-	-
Assumption changes	-	13,167	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
<b>Net change in total pension liability</b>	<b>243,488</b>	<b>118,131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total pension liability, beginning	545,002	426,871	-	-	-	-	-	-	-	-
<b>Total pension liability, ending (a)</b>	<b>\$ 788,490</b>	<b>\$ 545,002</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 66,642	\$ 66,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - employee	37,135	33,116	-	-	-	-	-	-	-	-
Pension plan net investment income	13,985	31,663	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
Pension plan administrative expense	(727)	-	-	-	-	-	-	-	-	-
Other	79,324	(8,282)	-	-	-	-	-	-	-	-
<b>Net change in fiduciary net position</b>	<b>196,359</b>	<b>122,686</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Plan fiduciary net position, beginning	302,066	191,583	-	-	-	-	-	-	-	-
<b>Plan fiduciary net position, ending (b)</b>	<b>\$ 498,425</b>	<b>\$ 314,269</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net pension liability (asset), ending (a) - (b)</b>	<b>\$ 290,065</b>	<b>\$ 230,733</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>63.21 %</b>	<b>57.66 %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>
<b>Covered valuation payroll</b>	<b>\$ 336,066</b>	<b>\$ 325,470</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net pension liability as a percentage of covered valuation payroll</b>	<b>86.31 %</b>	<b>70.89 %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>

**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF PENSION CONTRIBUTIONS**

**YEAR ENDED JUNE 30, 2016**  
**(schedule to be built prospectively from 2014; 2013 - 2005 information not available)**

Reporting date (Measurement date)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)	2007 (2006)
<b>Public Safety Personnel Retirement System (PSPRS)</b>										
Actuarially determined contribution	\$ 66,642	\$ 66,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>66,642</u>	<u>66,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	336,066	325,470	-	-	-	-	-	-	-	-
Contributions as a percentage of covered employee payroll	19.83 %	20.34 %	- %	- %	- %	- %	- %	- %	- %	- %

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FUNDING PROGRESS - POST-RETIREMENT HEALTH INSURANCE SUBSIDY -  
AGENT RETIREMENT PLAN (PSPRS)

YEAR ENDED JUNE 30, 2016

Health Insurance Subsidy:

<u>Valuation Date June 30</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funding Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Liability as % of Covered Payroll</u>
2015	\$ 0	\$ 26,399	\$ 26,399	0 %	\$ 325,470	8.11 %
2014	0	22,034	22,034	0 %	234,594	9.39 %
2013	0	18,551	18,551	0 %	249,717	7.43 %



TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

1. Budgetary Basis of Accounting:

The Town prepares its annual budget on the modified accrual basis of accounting. Budgetary comparison schedules for the general fund and any major funds are included as required supplementary information to provide meaningful comparison of actual results to budget on a budget basis.

2. Pension plan schedules:

Actuarial 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 valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Remaining amortization period	23 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7 year smoothed market; 20% corridor
Wage growth	5%
Price inflation	3% - 4% approximate; no explicit price inflation assumption is used in this valuation.
Salary increase	5% - 9% including inflation
Investment rate of return	8%, net of investment and administrative expenses
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Assumed future permanent benefit increases	No explicit assumed permanent benefit increases assumption

## **Supplementary Information**

TOWN OF HUACHUCA CITY, ARIZONA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2016

	Camp Naco Preservation			Community Development Block Grant			Police Grants			Highway User Revenue			Grant Opportunity Fund			Library Help Grant			Total		
	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
	Revenues:																				
Intergovernmental	\$ 4,500	\$ -	\$ (4,500)	\$ -	\$ -	\$ -	\$ 135,000	\$ 48,045	\$ (86,955)	\$ 135,770	\$ 134,890	\$ (880)	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -	\$ -	\$ 475,270	\$ 182,935	\$ (292,335)
Total revenues	4,500	-	(4,500)	-	-	-	135,000	48,045	(86,955)	135,770	134,890	(880)	200,000	-	(200,000)	-	-	-	475,270	182,935	(292,335)
Expenditures:																					
Current:																					
General government	4,500	-	4,500	-	-	-	135,000	54,168	80,832	-	-	-	200,000	-	200,000	-	-	-	204,500	-	204,500
Public safety	-	-	-	-	-	-	-	-	-	135,770	107,955	27,815	-	-	-	-	-	-	135,000	54,168	80,832
Highway and streets	-	-	-	-	-	-	-	-	-	-	21,871	(21,871)	-	-	-	-	-	-	135,770	107,955	27,815
Culture and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,871	(21,871)
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	4,500	-	4,500	-	-	-	135,000	54,168	80,832	135,770	129,826	5,944	200,000	-	200,000	-	-	-	475,270	183,994	291,276
Excess (deficiency) of revenues over expenditures	-	-	-	-	-	-	-	(6,123)	(6,123)	-	5,064	5,064	-	-	-	-	-	-	-	(1,059)	(1,059)
Other financing uses:																					
Transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special item:																					
Undocumented credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	(6,123)	(6,123)	-	5,064	5,064	-	-	-	-	-	-	-	(1,059)	(1,059)
Fund balances, beginning of year	-	-	-	-	3,483	3,483	-	36,603	36,603	-	509,624	509,624	-	(48,092)	(48,092)	-	2,855	2,855	-	504,473	504,473
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -	\$ 3,483	\$ 3,483	\$ -	\$ 30,480	\$ 30,480	\$ -	\$ 514,688	\$ 514,688	\$ -	\$ (48,092)	\$ (48,092)	\$ -	\$ 2,855	\$ 2,855	\$ -	\$ 503,414	\$ 503,414

**Report on Internal Control  
and on Compliance**

**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**

Honorable Mayor and Members of the Town Council  
Town of Huachuca City, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Huachuca City, Arizona (the Town), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Huachuca City, Arizona's basic financial statements and have issued our report thereon dated April 27, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Huachuca City, Arizona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2016-001, 2016-002, 2016-003, 2016-004].

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. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. [2016-005, 2016-006, 2016-007, 2016-008].



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Town of Huachuca City, Arizona's Response to Findings**

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 Town'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.



Tucson, Arizona  
April 27, 2017



**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

**2016-001**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over credit card purchases.

*Condition / Context:*

- Per review of the credit card policy outlined in the Town Code, we noted credit cards are authorized for the certain users. However, during our testing of credit card transactions, we noted credit cards were issued to other Town employees.
- During our review of credit card transactions, we noted several instances of purchases made with Town credit cards that did not have sufficient supporting documentation.
- In addition to unsupported transactions, we noted purchases made with the Town credit cards that did not have adequate documentation on the receipts. According to the Town Code, "the purpose of the charge and the name of the individual involved must be clearly written on the receipt;" however, a several transactions reviewed did not contain this documentation.
- During our review of credit card transactions, we noted three instances where the Town credit card was used by an employee for non-business purposes.

*Effect:*

Insufficient oversight and record keeping over the credit card purchases can lead to unauthorized expenditures and inaccurate recognition and reporting of cash disbursements.

*Cause:*

Credit card policies and procedures adopted in the Town Code are not being adhered to.

*Recommendation:*

We recommend the Town adhere to the credit card policies and procedures adopted in the Town Code, including limiting credit cards to the approved authorized users and requiring adequate supporting documentation for all business purposes only. We recommend the Town enforce that every credit card transaction be supported with a proper itemized receipt and that receipts for all meals, fuel purchases, and grocery purchases include adequate details (e.g. purpose of the meal and everyone in attendance, town vehicle and mileage, event, etc.) to ensure that transactions are properly recorded to the appropriate department and account. Additionally, the Town should follow and enforce the policy for personal use of the Town's credit cards established in the Town Code. Further, credit cards should only be used by the authorized user on the card.

This is a repeat finding from the prior year.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2016**

*View of responsible officials and planned corrective actions:*

The Town is in the process of developing new credit card policies. Update corrective action on credit card policies is in final stages by the Town Council.

**2016-002**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over capital assets.

*Condition / Context:*

- We noted the Town is not adequately tracking capital asset additions, disposals and depreciation expense causing the capital asset detail to be materially incorrect. The Town's capital asset detail includes capital assets that are no longer owned by the Town and is missing the historical cost for capital assets that are used in current operations.

*Effect:*

Insufficient monitoring and record keeping surrounding capital assets can lead to inaccurate recognition and reporting of such assets and can make the assets more susceptible to theft.

*Cause:*

Limited staff size, limited available resources, and delegation of roles and responsibilities.

*Recommendation:*

We recommend performing a physical inventory of all capital assets and reconciling it to the capital asset detail. We also recommend maintaining depreciation schedules for all capital assets to ensure that depreciation expense is calculated accurately each year. Further, capital purchases and disposals should be coded correctly in the system, according to the modified accrual basis of accounting for governmental funds and according to the full accrual basis of accounting for enterprise funds, at the time of purchase or disposal to minimize errors and to provide accurate monthly information to management, Mayor and Council.

This is a repeat finding from the prior year.

*View of responsible officials and planned corrective actions:*

The Town has purchased a bar code scanner in order to inventory and track the Town's capital assets. However, the Town is still in the process of reconciling that listing to the depreciation schedule. If approved by the Town Council, a physical inventory of the Town's capital assets will be done prior to June 30, 2017.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2016**

**2016-003**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over the payroll process.

*Condition / Context:*

- In our review of employee payroll transactions, we noted one instance of a rate change for that was not appropriately signed, and another instance that was improperly completed.
- During our review, we noted that multiple individuals have the ability to make changes to pay rates and withholding rates in the payroll system, which leads to insufficient segregation of duties.
- In our review of employee payroll transactions, we noted certain exempt employees do not prepare time sheets and there is no formal documentation of approved use of paid-time-off and sick time.
- We further noted there is no independent review of payroll by the Finance Director prior to or after processing.
- During our testing, we noted the certain employees received two instances of Miscellaneous Pay during the year. The first instance was documented with support and was mis-classified on the payroll report. The second instance was not accompanied by any support.

*Effect:*

Insufficient internal controls over the payroll processes could result in inaccurate recognition and reporting of payroll expenditures.

*Cause:*

Limited staff size, limited available resources, and delegation of roles and responsibilities.

*Recommendation:*

We recommend the Town update its payroll procedures requiring documentation of approved wage rates in all personnel files, limiting access to changing pay rates in the system, implementing a level of review by the Town Clerk and/or Finance Director, designating alternative employees to approve time sheets when necessary so all time sheets can be approved timely. In addition, we recommend all employees prepare time sheets in order to formally document use of paid-time-off and sick time. We also recommend the Town maintain support for all payroll transactions, and the support should show timely and appropriate approvals for any non-recurring pay transactions.

This is a repeat finding from the prior year.

*View of responsible officials and planned corrective actions:*

The Finance Clerk's access to change pay rates has been restricted and all personnel files have been updated. The Town Clerk is reviewing all timesheets and payroll registers. Salaries and benefits expenses are recorded based on allocations that were predetermined for each employee.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

**2016-004**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control to ensure accurate financial reporting.

*Condition / Context:*

- The Town does not have a policy for review and documentation of approval of adjusting journal entries posted to the general ledger during the fiscal year and for year-end closing.
- Bank reconciliations contained errors as certain deposit transactions were recorded twice.
- Significant balance sheet accounts were not reconciled on a timely basis.
- Significant adjustments were not prepared timely as part of the year-end closing.
- Transactions within the business-type funds are being recorded on the cash basis of accounting. These funds should be maintained on the full accrual basis of accounting. Incorrect recording of these transactions can cause significant misstatements in capital assets and long-term liability accounts.
- Monthly financial reports were not prepared on a timely basis.
- The Finance Director did not regularly present monthly financials at the Town Council meetings; therefore, significant variations from budget were not discussed and addressed timely.

*Effect:*

Insufficient oversight procedures resulted in misstatement of the interim financial statements.

*Cause:*

Limited staff size, limited available resources, and delegation of roles and responsibilities.

*Recommendation:*

The Town should strengthen and enforce its policies and procedures over the review of adjusting journal entries. Bank reconciliations should be prepared and reviewed, and any unreconciled variances should be investigated as part of the month-end close. Deposits and wire transfers should be recorded separately in the accounting software so amounts are easily identifiable. Policies and procedures surrounding month-end and year-end close, including reconciliation and review of all significant accounts and recording of transfers between funds, should be put in place to ensure that the Mayor and Council are receiving current, accurate information.

The Town should utilize and customize reports from their accounting system so that reports can be generated efficiently and directly from this software. Governmental and business-type activities should be presented separately. Further, to ensure the Major and Council are aware of the key financial information, the monthly financial reports should be presented by the Finance Director at the Council meetings.

This is a repeat finding from the prior year.



## TOWN OF HUACHUCA CITY, ARIZONA

### SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2016

*View of responsible officials and planned corrective actions:*

The Finance Director will make arrangements to present the financial information to the Council. The plan is to present quarterly. The first 2 quarters of the fiscal year were presented in February 2017. The quarter ending March 31, 2017 will be presented in May 2017, and the quarter ending June 30, 2017 will be presented in August 2017.

#### 2016-005

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over the cash receipts process.

*Condition / Context:*

- In our review of cash receipts, we noted when checks are scanned remotely to the bank, the copies of the checks are shredded after one month. There is a list of checks deposited, which only includes the amount of the checks. There is no information, such as check number, customer, purpose, etc. retained in the Town's records. Therefore, certain items coded to the incorrect general ledger accounts cannot be investigated to determine after the fact if the coding was correct.
- In our review of cash receipts, we also noted several instances where receipts selected for testing did not have evidence of the Town Clerk's review on the deposit slip. Review of the deposit slip is necessary to ensure that all of the cash receipts were deposited.
- We noted instances of lack of controls around the cash receipts process at the library, including custody of keys, daily close outs, reconciliation of cash to daily tapes, handling of cash shorts, custody of cash on hand, and timely depositing and recording in the general ledger.

*Effect:*

Insufficient segregation of duties surrounding the cash receipt process can lead to inaccurate recognition and reporting of cash receipts.

*Cause:*

Limited staff size, limited available resources, and delegation of roles and responsibilities.

*Recommendation:*

We recommend the Town Clerk continue to review deposits for accuracy and completeness. We further recommend the Town strengthen policies for all library cash handling procedures.

This is a repeat finding from the prior year.

## TOWN OF HUACHUCA CITY, ARIZONA

### SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2016

*View of responsible officials and planned corrective actions:*

The Town has a limited staff size and has segregated duties as much as possible given its size. Whenever the Town Clerk was not available to perform a review of the deposits, another employee performed this task to ensure the accuracy and completeness of deposits. New personnel at the library were not aware of the policies and procedures for cash receipts and disbursements. The proper procedures for cash receipts and disbursements have been communicated to the library and will be followed moving forward.

#### 2016-006

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over the cash disbursements process.

*Condition / Context:*

- Purchase orders were not prepared and approved consistently prior to purchases being made.
- During our review of cash disbursement transactions, we noted several transactions were recorded to an incorrect general ledger account.
- Council approval of disbursements is not adequately documented.

*Effect:*

Insufficient segregation of duties surrounding the cash disbursements process can lead to inaccurate recognition and reporting of cash disbursements.

*Cause:*

Limited staff size, limited available resources, and delegation of roles and responsibilities.

*Recommendation:*

We recommend the Town include review procedures over the cash disbursements process, so that all expenses recorded can be reviewed for proper coding to general ledger accounts. We also recommend Council approve the listing of disbursements and retain a copy with the minutes. Further, we recommend that purchase orders be prepared and approved prior to purchases being made.

This is a repeat finding from the prior year.

*View of responsible officials and planned corrective actions:*

Officials from the Town have responded to this comment in previous reports and continue to work on making improvements.



**TOWN OF HUACHUCA CITY, ARIZONA**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**

**YEAR ENDED JUNE 30, 2016**

**2016-007**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over the investment of public monies by the Town.

*Condition / Context:*

- During our testing of investments, we noted the Town holds equity securities, which is not an approved investment type in the Procurement and Investment Policies adopted in the Town Code.

*Effect:*

Investments made outside the Town's investment policy could expose the Town to additional risks.

*Cause:*

Investment policies and procedures adopted in the Town Code are not being adhered to.

*Recommendation:*

We recommend the Town adhere to the investment policies and procedures adopted in the Town Code, including investing the Town's funds in the approved investment types.

This is a repeat finding from the prior year.

*View of responsible officials and planned corrective actions:*

The Town plans to transfer these equity securities to an investment type approved in the Town Code.

**2016-008**

*Criteria:*

The Town is responsible for establishing and maintaining a system of internal control and procedures over the Information Technology.

*Condition / Context:*

- During our review of the Information Technology processes of the Town, we noted backups are being performed but they are failing every other day. We also noted backups are stored on-site.
- We also noted the Town does not enforce password expiration policy.
- A business continuity plan has not been created to plan for continuing business activities in the event of significant problems or loss of employees within the IT department.

*Effect:*

Inadequate policies and procedures surrounding Information Technology could result in being hacked and the loss or interruption of important financial data.

**TOWN OF HUACHUCA CITY, ARIZONA**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2016**

*Cause:*

Limited staff size and limited available resources.

*Recommendation:*

We recommend the Town look into why the backups are failing. As a general rule, we recommend the Town store backups offsite periodically or on the cloud and develop a business continuity plan to prevent business interruptions. We also recommend the District enforce password expirations.

*View of responsible officials and planned corrective actions:*

We concur with the finding and the Town Council will address it.