

TOWN OF HUACHUCA CITY, ARIZONA

YEAR ENDED JUNE 30, 2017

TOWN OF HUACHUCA CITY, ARIZONA

YEAR ENDED JUNE 30, 2017

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BEACHFLEISCHMAN

Independent Auditors' Report

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

Report on the Financial Statements

We were engaged to audit 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, 2017, 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 conducting an 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. Because of the matter described in the Basis for Disclaimer of Opinions paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinions.

Basis for Disclaimer of Opinions

The Town did not maintain sufficient internal controls and adequate records for cash and investments, receipts, disbursements, payroll, capital assets and posted adjustments to produce reliable financial information. Accordingly, we were unable to perform procedures sufficient to achieve the audit objectives for assets, liabilities, revenue, and expenses.

Disclaimer of Opinions

Because of the significance of the matter described in the Basis of Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our opinions. Accordingly, we do not express an opinion on the 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, 2017, and the changes in the financial position thereof for the year then ended.

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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the lack of sufficient internal controls. We do not express an opinion or provide any assurance on the information.

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. We were unable to apply the auditing procedures applied in the audit of the basic financial statements and certain additional procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the lack of sufficient internal controls. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2018, 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.



Tucson, Arizona
April 12, 2018

Management's Discussion and Analysis

**TOWN OF HUACHUCA CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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, 2017.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide significant key financial highlights for 2016-2017 as follows.

- The Town's total net position of governmental activities decreased \$842,417 to \$3,472,410 and business-type activities decreased \$469,216 to \$7,843,062 representing 41% and 59% respectively, of the total net position of \$11,315,472.
- General revenues from governmental activities accounted for \$879,572 in revenue, or 47% of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$723,420 or 39% of total governmental activities revenues. The Town had \$1,567,677 of program revenues related to business-type activities, a decrease of \$38,124 from the prior year.
- The Town had \$2.69 million in expenses related to governmental activities, an increase of 9.6% from the prior fiscal year. The Town had \$2.04 million in expenses related to business-type activities, a decrease of 2.3% from the prior fiscal year.
- Among major funds, the General Fund had \$1.65 million in revenues, which primarily consisted of taxes and state shared revenues. The total expenditures of the General Fund were \$2.59 million. The General Fund's fund balance decreased from \$(1,344,664) to (\$1,929,687) due to a continued trend of expenses exceeding revenues for the fund.
- Total net position of the enterprise funds decreased \$469,216. Operating expenses of \$2 million exceeded operating revenues of \$1.6 million.

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 \$11.3 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, 2017 and June 30, 2016.

	2017 Governmental Activities	2016 Governmental Activities	2017 Business-type Activities	2016 Business-type Activities	2017 Total	2016 Total
Current and other assets	\$ (1,225,855)	\$ (681,741)	\$6,019,595	\$6,316,121	\$4,793,740	\$5,634,380
Capital assets, net	5,583,041	5,404,074	5,096,909	5,357,098	10,679,950	10,761,172
Total assets	4,357,186	4,722,333	11,116,504	11,673,219	15,473,690	16,395,552
Total Deferred outflows	260,332	215,886	-	-	260,332	215,886
Current liabilities	338,556	250,561	440,210	196,416	778,766	446,977
Long-term liabilities	792,680	372,831	2,833,232	3,164,525	3,625,912	3,537,356
Total liabilities	1,131,236	623,392	3,273,442	3,360,941	4,404,678	3,984,333
Total Deferred inflows	13,872	-	-	-	13,872	-
Net investment in capital assets	5,133,108	5,265,788	4,749,073	4,898,564	9,882,181	10,164,352
Restricted	575,554	551,504	-	718,834	575,554	1,270,338
Unrestricted	(2,236,252)	(1,502,465)	3,093,989	2,694,880	857,737	1,192,415
Total net position	<u>\$ 3,472,410</u>	<u>\$ 4,314,827</u>	<u>\$ 7,843,062</u>	<u>\$ 8,312,278</u>	<u>\$11,315,472</u>	<u>\$12,627,105</u>

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 \$3.4 million. The total cost of all programs and services was \$4.7 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	2017	2016	2017	2016	2017	2016
	Governmental	Governmental	Business-type	Business-type	2017	2016
	Activities	Activities	Activities	Activities	Total	Total
Program revenues:						
Charges for services	\$ 723,420	\$ 847,981	\$ 1,567,677	\$ 1,605,801	\$ 2,291,097	\$ 2,453,782
Operating grants and contributions	258,007	223,176			258,007	223,176
General revenues:						
Property taxes	93,013	58,930			93,013	58,930
Sales taxes	303,312	311,220			303,312	311,220
Franchise taxes	14,624	13,615			14,624	13,615
State shared revenues	301,372	309,105			301,372	309,105
Investment income	137,320			2,564	137,320	2,564
Miscellaneous	29,931	109,077			29,931	109,077
Total revenues	1,860,999	1,873,104	1,567,677	1,608,365	3,428,676	3,481,469
Expenses:						
General government	709,172	970,353			709,172	970,353
Public safety	1,508,217	1,124,426			1,508,217	1,124,426
Highways and streets	136,084	111,326			136,084	111,326
Culture and recreation	335,821	246,801			335,821	246,801
Water			255,474	251,056	255,474	251,056
Sewer			158,368	165,578	158,368	165,578
Landfill			1,542,326	1,562,181	1,542,326	1,562,181
Sanitation			80,725	106,331	80,725	106,331
Total expenses	2,689,294	2,452,906	2,036,893	2,085,146	4,726,187	4,538,052
Transfers	-	-	-	-	-	-
Special item	(14,122)	(11,042)		(1,069)	(14,122)	(12,111)
Change in net position	(842,417)	(590,844)	(469,216)	(477,850)	(1,311,633)	(1,068,694)
Net position, beginning, as restated	4,314,827	4,905,671	8,312,278	8,790,128	12,627,105	13,695,799
Net position, ending	\$ 3,472,410	\$ 4,314,827	\$7,843,062	\$8,312,278	\$ 11,315,472	\$ 12,627,105

- Program revenues decreased \$89,730 for governmental activities and decreased \$38,124 for business-type activities. General revenues increased \$77,625 for governmental activities. The main reasons for the change in revenue for governmental activities are increase in realized and unrealized gains on investment offsetting decreases in sales taxes and property taxes. For the business-type activities, decreases in overall tonnage for the landfill is the main reason for the change in revenue.

- Overall expenses increased \$188,135, with the majority of the increases in the governmental 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.

	2017		2016	
	Total Expenses	Net (Expenses)/ Revenue	Total Expenses	Net (Expenses)/ Revenue
Governmental Activities				
General government	\$ 709,172	\$ (139,939)	\$ 970,353	\$ (417,694)
Public safety	1,508,217	(1,238,012)	1,124,426	(741,143)
Highways and streets	136,084	3,722	111,326	23,560
Culture and recreation	335,821	(333,638)	246,801	(246,472)
Total	\$ 2,689,294	\$ (1,707,867)	\$ 2,452,906	\$ (1,381,749)
Business-type Activities				
Water	\$ 255,474	\$ (94,864)	\$ 251,056	\$ (97,740)
Sewer	158,368	(51,620)	165,578	(56,356)
Landfill	1,542,326	(371,541)	1,562,181	(351,237)
Sanitation	80,725	48,806	106,331	25,988
Total	\$ 2,036,893	\$ (469,219)	\$ 2,085,146	\$ (479,345)

- The cost of all governmental activities this year was \$2.69 million, which represents an increase of \$236,388 from the prior year.
- The cost of all business-type activities this year was \$2.04 million, a decrease of \$48,253 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 \$604,684.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the Town had a net investment of \$10.7 million in capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. This amount represents a net increase prior to depreciation of \$475,069 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, 2017 and June 30, 2016.

	2017 Governmental Activities	2016 Governmental Activities	2017 Business-type Activities	2016 Business-type Activities
Non-depreciable assets	\$ 27,056	\$ 27,056	\$ 251,619	\$ 251,619
Depreciable assets	10,479,269	10,004,200	9,296,343	9,296,343
Less: Accumulated depreciation	(4,923,284)	(4,627,182)	(4,451,053)	(4,190,864)
Total	\$ 5,583,041	\$ 5,404,074	\$ 5,096,909	\$ 5,357,098

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

Debt Administration. At year end, the Town had \$797,769 in capital lease obligations outstanding, with \$433,607 due within one year. The Town is currently in negotiations to extend the term of the lease maturing 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 (\$1,403,136), a decrease of \$561,883 from the prior year.

The General Fund is the principal operating fund of the Town. The decrease in fund balance of \$585,023 for the current fiscal year was due to decreases in revenue from fines and forfeits and grants revenue, as well as increased general government and public safety expenditures.

Proprietary funds. Net position of the enterprise funds in total at the end of the year amounted to \$7.8 million, a decrease of \$469,216 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 negative variance of \$246,180 in general government expenditures was a result of higher than expected costs for general government, public safety and capital outlays. Revenues were also lower than expected, by \$694,940, 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 2017 - 2018 totals \$6,358,416, an increase of \$2,338,446 or 58.7% greater than fiscal year 2016 - 2017.

General Fund

The budget for the General Fund increased \$2,122,415 in fiscal year 2017 - 2018, an increase of approximately 99.94% 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 2017 - 2018 are consistent with the budgeted amounts for fiscal year 2016 - 2017.

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, 2017

	Governmental activities	Business-type activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 519,801	\$ 2,123,476	\$ 2,643,277
Accounts receivable, net	12,741	157,459	170,200
Taxes receivable, net	39,742	-	39,742
Prepaid expenses	32,992	-	32,992
Due (to) from other funds	(1,831,131)	1,831,131	-
Total current assets	<u>(1,225,855)</u>	<u>4,112,066</u>	<u>2,886,211</u>
Noncurrent assets:			
Restricted cash and investments	-	1,907,529	1,907,529
Capital assets, non-depreciable	27,056	251,619	278,675
Capital assets, depreciable, net	5,555,985	4,845,290	10,401,275
Total noncurrent assets	<u>5,583,041</u>	<u>7,004,438</u>	<u>12,587,479</u>
Total assets	<u>4,357,186</u>	<u>11,116,504</u>	<u>15,473,690</u>
Deferred outflows of resources:			
Deferred outflows related to pensions	260,332	-	260,332
Total deferred outflows of resources	<u>260,332</u>	<u>-</u>	<u>260,332</u>
Liabilities:			
Current liabilities:			
Accounts payable	83,026	38,863	121,889
Accrued payroll and related benefits	61,042	19,440	80,482
Compensated absences payable	24,839	12,287	37,126
Unearned revenue	33,213	-	33,213
Customer deposits	-	21,784	21,784
Claims and judgment payable	50,665	-	50,665
Current portion of capital lease obligations	85,771	347,836	433,607
Total current liabilities	<u>338,556</u>	<u>440,210</u>	<u>778,766</u>
Noncurrent liabilities:			
Capital lease obligations, net of current portion	364,162	-	364,162
Landfill closure and post-closure payable	-	2,833,232	2,833,232
Net pension liability	428,518	-	428,518
Total noncurrent liabilities	<u>792,680</u>	<u>2,833,232</u>	<u>3,625,912</u>
Total liabilities	<u>1,131,236</u>	<u>3,273,442</u>	<u>4,404,678</u>
Deferred inflows of resources:			
Deferred inflows of resources related to pensions	13,872	-	13,872
Total deferred inflows of resources	<u>13,872</u>	<u>-</u>	<u>13,872</u>
Net position:			
Net investment in capital assets	5,133,108	4,749,073	9,882,181
Restricted	575,554	-	575,554
Unrestricted	(2,236,252)	3,093,989	857,737
Total net position	<u>\$ 3,472,410</u>	<u>\$ 7,843,062</u>	<u>\$ 11,315,472</u>

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program revenues	
		Charges for services	Operating grants and contributions
Primary government:			
Governmental activities:			
General government	\$ 709,172	\$ 549,466	\$ 19,767
Public safety	1,508,217	171,771	98,434
Highways and streets	136,084	-	139,806
Culture and recreation	335,821	2,183	-
Total governmental activities	2,689,294	723,420	258,007
Business-type activities:			
Water	255,474	160,613	-
Sewer	158,368	106,748	-
Landfill	1,542,326	1,170,785	-
Sanitation	80,725	129,531	-
Total business-type activities	2,036,893	1,567,677	-
Total primary government	\$ 4,726,187	\$ 2,291,097	\$ 258,007

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

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
\$ -	\$ (139,939)	\$ -	\$ (139,939)
-	(1,238,012)	-	(1,238,012)
-	3,722	-	3,722
-	(333,638)	-	(333,638)
-	(1,707,867)	-	(1,707,867)
-	-	(94,861)	(94,861)
-	-	(51,620)	(51,620)
-	-	(371,541)	(371,541)
-	-	48,806	48,806
-	-	(469,216)	(469,216)
\$ -	(1,707,867)	(469,216)	(2,177,083)
	93,013	-	93,013
	303,312	-	303,312
	14,624	-	14,624
	301,372	-	301,372
	137,320	-	137,320
	29,931	-	29,931
	(14,122)	-	(14,122)
	865,450	-	865,450
	(842,417)	(469,216)	(1,311,633)
	4,314,827	8,312,278	12,627,105
\$ -	\$ 3,472,410	\$ 7,843,062	\$ 11,315,472

TOWN OF HUACHUCA CITY, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General	Non-major governmental funds	Total governmental funds
Assets:			
Cash and investments	\$ -	\$ 519,801	\$ 519,801
Accounts receivable, net	12,741	-	12,741
Taxes receivable, net	26,683	13,059	39,742
Prepaid expenses	32,992	-	32,992
Total assets	\$ 72,416	\$ 532,860	\$ 605,276
 Liabilities:			
Accounts payable	\$ 80,435	\$ 2,591	\$ 83,026
Accrued payroll and related benefits	57,324	3,718	61,042
Due to other funds	1,831,131	-	1,831,131
Unearned revenue	33,213	-	33,213
Total liabilities	2,002,103	6,309	2,008,412
 Fund balances:			
Nonspendable	32,992	-	32,992
Restricted	-	575,554	575,554
Unassigned	(1,962,679)	(49,003)	(2,011,682)
Total fund balances	(1,929,687)	526,551	(1,403,136)
Total liabilities and fund balances	\$ 72,416	\$ 532,860	\$ 605,276

TOWN OF HUACHUCA CITY, ARIZONA

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total fund balances - governmental funds	\$ (1,403,136)
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.	5,583,041
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences payable	(24,839)
Claims and judgment payable	(50,665)
Capital lease obligations	(449,933)
Net pension liability	(428,518)
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	260,332
Deferred inflows of resources related to pensions	<u>(13,872)</u>
Net position of governmental activities	<u><u>\$ 3,472,410</u></u>

TOWN OF HUACHUCA CITY, ARIZONA

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

YEAR ENDED JUNE 30, 2017

	General	Non-major governmental funds	Total governmental funds
Revenues:			
Property taxes	\$ 93,013	\$ -	\$ 93,013
Sales taxes	303,312	-	303,312
Franchise taxes	14,624	-	14,624
Landfill land lease	530,000	-	530,000
Licenses and permits	19,466	-	19,466
Intergovernmental	38,539	210,809	249,348
Charges for services	63,705	-	63,705
Fines and forfeits	110,250	-	110,250
State shared revenues	301,372	-	301,372
Contributions and donations	8,659	-	8,659
Investment income	137,320	-	137,320
Other	29,931	-	29,931
Total revenues	<u>1,650,191</u>	<u>210,809</u>	<u>1,861,000</u>
Expenditures:			
Current:			
General government	559,224	12,019	571,243
Public safety	1,198,922	74,705	1,273,627
Highway and streets	-	100,945	100,945
Culture and recreation	246,280	-	246,280
Capital outlay	518,103	-	518,103
Debt service:			
Principal retirement	53,451	-	53,451
Interest and fiscal charges	10,210	-	10,210
Total expenditures	<u>2,586,190</u>	<u>187,669</u>	<u>2,773,859</u>
Deficiency of revenues over expenditures	(935,999)	23,140	(912,859)
Other financing sources:			
Proceeds from capital leases	365,098	-	365,098
Total other financing sources	<u>365,098</u>	<u>-</u>	<u>365,098</u>
Special item:			
Undocumented credit card expenses	(14,122)	-	(14,122)
Net change in fund balances	(585,023)	23,140	(561,883)
Fund balances (deficits), beginning of year	<u>(1,344,664)</u>	<u>503,411</u>	<u>(841,253)</u>
Fund balances (deficits), end of year	<u>\$ (1,929,687)</u>	<u>\$ 526,551</u>	<u>\$ (1,403,136)</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, 2017

Net changes in fund balances - total governmental funds \$ (561,883)

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	475,069
Depreciation expense	(296,102)

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	64,356
Pension expense	(172,235)

Certain 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:

Decrease in compensated absences	10,690
Increase in claims and judgment payable	(50,665)

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	(365,098)
Principal paid	53,451

Change in net position of governmental activities	\$ (842,417)
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TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2017

	<u>Water</u>	<u>Sewer</u>
Assets:		
Current assets:		
Cash and investments	\$ -	\$ 287,310
Accounts receivable, net	5,697	11,025
Due (to) from other funds	(167,610)	-
Total current assets	<u>(161,913)</u>	<u>298,335</u>
Noncurrent assets:		
Restricted cash and investments	-	-
Capital assets, non-depreciable	1,012	1,969
Capital assets, depreciable, net	1,972,143	1,897,585
Total noncurrent assets	<u>1,973,155</u>	<u>1,899,554</u>
Total assets	<u>1,811,242</u>	<u>2,197,889</u>
Liabilities:		
Current liabilities:		
Accounts payable	12,928	49
Accrued payroll and related benefits	2,443	2,372
Compensated absences payable	1,158	1,062
Customer deposits	16,353	4,631
Current portion of capital lease obligations	-	-
Total current liabilities	<u>32,882</u>	<u>8,114</u>
Noncurrent liabilities:		
Landfill closure and post-closure payable	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>32,882</u>	<u>8,114</u>
Net position:		
Net investment in capital assets	1,973,155	1,899,554
Restricted	-	-
Unrestricted	<u>(194,795)</u>	<u>290,221</u>
Total net position	<u>\$ 1,778,360</u>	<u>\$ 2,189,775</u>

Enterprise Funds

Landfill	Sanitation	Total
\$ 1,346,821	\$ 489,345	\$ 2,123,476
130,635	10,102	157,459
1,998,741	-	1,831,131
<u>3,476,197</u>	<u>499,447</u>	<u>4,112,066</u>
1,907,529	-	1,907,529
248,638	-	251,619
974,699	863	4,845,290
<u>3,130,866</u>	<u>863</u>	<u>7,004,438</u>
<u>6,607,063</u>	<u>500,310</u>	<u>11,116,504</u>
25,429	457	38,863
12,746	1,879	19,440
8,540	1,527	12,287
800	-	21,784
347,836	-	347,836
<u>395,351</u>	<u>3,863</u>	<u>440,210</u>
<u>2,833,232</u>	<u>-</u>	<u>2,833,232</u>
<u>2,833,232</u>	<u>-</u>	<u>2,833,232</u>
<u>3,228,583</u>	<u>3,863</u>	<u>3,273,442</u>
875,501	863	4,749,073
-	-	-
<u>2,502,979</u>	<u>495,584</u>	<u>3,093,989</u>
<u>\$ 3,378,480</u>	<u>\$ 496,447</u>	<u>\$ 7,843,062</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, 2017

	Water	Sewer
Operating revenues:		
Charges for services	\$ 160,613	\$ 106,748
Total operating revenues	<u>160,613</u>	<u>106,748</u>
Operating expenses:		
Cost of sales and services	205,607	114,276
Change in landfill closure and post closure	-	-
Depreciation	49,867	44,092
Total operating expenses	<u>255,474</u>	<u>158,368</u>
Operating income (loss)	<u>(94,861)</u>	<u>(51,620)</u>
Nonoperating expenses:		
Interest expense	-	-
Total nonoperating expenses	<u>-</u>	<u>-</u>
Changes in net position	<u>(94,861)</u>	<u>(51,620)</u>
Total net position, beginning of year	<u>1,873,221</u>	<u>2,241,395</u>
Total net position, end of year	<u>\$ 1,778,360</u>	<u>\$ 2,189,775</u>

Enterprise Funds

Landfill	Sanitation	Total
\$ 1,170,785	\$ 129,531	\$ 1,567,677
<u>1,170,785</u>	<u>129,531</u>	<u>1,567,677</u>
1,351,462	79,862	1,751,207
15,400	-	15,400
165,367	863	260,189
<u>1,532,229</u>	<u>80,725</u>	<u>2,026,796</u>
<u>(361,444)</u>	<u>48,806</u>	<u>(459,119)</u>
(10,097)	-	(10,097)
<u>(10,097)</u>	<u>-</u>	<u>(10,097)</u>
<u>(371,541)</u>	<u>48,806</u>	<u>(469,216)</u>
<u>3,750,021</u>	<u>447,641</u>	<u>8,312,278</u>
<u>\$ 3,378,480</u>	<u>\$ 496,447</u>	<u>\$ 7,843,062</u>

TOWN OF HUACHUCA CITY, ARIZONA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2017

	Water	Sewer
Cash flows from operating activities:		
Cash received from customers	\$ 158,572	\$ 109,192
Cash payments to suppliers for goods and services	(119,035)	(40,714)
Cash payments to employees for services	(86,493)	(75,131)
Other operating cash payments	-	-
Net cash provided by (used in) operating activities	<u>(46,956)</u>	<u>(6,653)</u>
Cash flows from noncapital and related financing activities:		
Advances (to) from other funds	<u>46,956</u>	-
Net cash provided by (used in) noncapital financing activities	<u>46,956</u>	-
Cash flows from capital and related financing activities:		
Principal paid on capital lease obligations	-	-
Interest paid on capital lease obligations	-	-
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-	(6,653)
Cash and cash equivalents, beginning	-	293,963
Cash and cash equivalents, ending	<u>\$ -</u>	<u>\$ 287,310</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (94,861)	\$ (51,620)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	49,867	44,092
Changes in operating assets and liabilities:		
Accounts receivable	(1,204)	1,503
Accounts payable	1,349	(571)
Compensated absences payable	(1,270)	(998)
Customer deposits	(837)	941
Landfill closure and postclosure liability	-	-
Total adjustments	<u>47,905</u>	<u>44,967</u>
Net cash provided by (used in) operating activities	<u>\$ (46,956)</u>	<u>\$ (6,653)</u>

Enterprise Funds

Landfill	Sanitation	Total
\$ 1,257,337	\$ 130,063	\$ 1,655,164
(847,254)	(32,501)	(1,039,504)
(491,486)	(50,898)	(704,008)
-	-	-
(81,403)	46,664	(88,348)
(620,775)	-	(573,819)
(620,775)	-	(573,819)
(110,698)	-	(110,698)
(10,097)	-	(10,097)
(120,795)	-	(120,795)
(822,973)	46,664	(782,962)
4,077,323	442,681	4,813,967
\$ 3,254,350	\$ 489,345	\$ 4,031,005
\$ (361,444)	\$ 48,806	\$ (459,119)
165,367	863	260,189
86,552	532	87,383
13,627	(3,993)	10,412
(905)	456	(2,717)
-	-	104
15,400	-	15,400
280,041	(2,142)	370,771
\$ (81,403)	\$ 46,664	\$ (88,348)

TOWN OF HUACHUCA CITY, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	<u>Pension Trust</u>
Assets:	
Cash and investments	<u>\$ 72,676</u>
Total assets	<u>72,676</u>
Net position:	
Held in trust	<u><u>\$ 72,676</u></u>

TOWN OF HUACHUCA CITY, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

	Pension Trust
Additions:	
Investment income	\$ -
Total additions	-
Deductions:	
Distributions	1,198
Total deductions	1,198
Change in net position	(1,198)
Net position, beginning of year	73,874
Net position, end of year	\$ 72,676

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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. The Town has \$1,907,529 set aside for this purpose at year-end.

Fair value measurements:

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.

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

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. 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.

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

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, 2017

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, 2017

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.

	General fund	Non-major governmental funds
Fund balances:		
Nonspendable	\$ 32,992	\$ -
Restricted:		
Grants	-	6,338
Public safety	-	15,669
Highways and streets	-	553,547
Unassigned	(1,962,679)	(49,003)
Total fund balances	\$ (1,929,687)	\$ 526,551

TOWN OF HUACHUCA CITY, ARIZONA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

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	\$ 1,929,687
Non-major governmental funds:	
Grant opportunity	49,003

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, 2017, the carrying amount of the Town's deposits was \$2,232,199 and the bank balance was \$2,245,437. 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, 2017, the Town's investments consisted of the following.

	Average maturities	Fair value
Municipal bonds	6 - 10 years	\$ 675,734
Negotiable certificates of deposit	1 - 5 years	499,709
Equities		1,142,972
		\$ 2,318,415

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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 29%, 22% and 49% 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, 2017

4. Fair value (continued):

At June 30, 2017, 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	\$ 1,142,972	\$ -	\$ 1,142,972	\$ -	\$ -
Fixed income securities:					
Municipal bonds	675,734	-	675,734	-	-
Certificates of deposit	499,709	-	499,709	-	-
	<u>\$ 2,318,415</u>	<u>\$ -</u>	<u>\$ 2,318,415</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	39,471	-	1,629,973
Infrastructure	3,491,155	-	-	3,491,155
Machinery, vehicles and equipment	1,928,344	435,598	-	2,363,942
Total capital assets being depreciated	10,004,200	475,069	-	10,479,269
Less accumulated depreciation for:				
Land improvements	(1,157,755)	(113,460)	-	(1,271,215)
Buildings and improvements	(706,132)	(31,810)	-	(737,942)
Infrastructure	(1,318,059)	(42,597)	-	(1,360,656)
Machinery, vehicles and equipment	(1,445,236)	(108,235)	-	(1,553,471)
Total accumulated depreciation	(4,627,182)	(296,102)	-	(4,923,284)
Total capital assets, being depreciated, net	5,377,018	178,967	-	5,555,985
Governmental activities capital assets, net	<u>\$ 5,404,074</u>	<u>\$ 178,967</u>	<u>\$ -</u>	<u>\$ 5,583,041</u>

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

5. Capital assets (continued):

Business-type activities	Beginning balance	Increase	Decrease	Ending balance
Capital assets, not being depreciated:				
Land	\$ 251,619	\$ -	\$ -	\$ 251,619
Total capital assets, not being depreciated	251,619	-	-	251,619
Capital assets, being depreciated:				
Buildings and improvements	508,721	-	-	508,721
Infrastructure	6,766,371	-	-	6,766,371
Machinery, vehicles and equipment	2,021,251	-	-	2,021,251
Total capital assets being depreciated	9,296,343	-	-	9,296,343
Less accumulated depreciation for:				
Land improvements	(6,846)	(1,878)	-	(8,724)
Buildings and improvements	(102,987)	(4,582)	-	(107,569)
Infrastructure	(2,903,178)	(90,537)	-	(2,993,715)
Machinery, vehicles and equipment	(1,177,853)	(163,192)	-	(1,341,045)
Total accumulated depreciation	(4,190,864)	(260,189)	-	(4,451,053)
Total capital assets, being depreciated, net	5,105,479	(260,189)	-	4,845,290
Business-type activities capital assets, net	\$ 5,357,098	\$ (260,189)	\$ -	\$ 5,096,909

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	89,541
Total depreciation expense - governmental activities	\$ 296,102
Business-type activities:	
Water	\$ 49,867
Sewer	44,092
Sanitation	863
Landfill	165,367
Total depreciation expense - business-type activities	\$ 260,189

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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:

	Governmental activities	Business-type activities
Machinery, vehicles and equipment	\$ 720,996	\$ 822,525
Less accumulated depreciation	206,627	411,263
	\$ 514,369	\$ 411,262

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>	Governmental activities	Business-type activities
2018	\$ 100,663	\$ 352,394
2019	73,081	-
2020	43,884	-
2021	43,884	-
2022	43,884	-
2023 - 2027	219,420	-
Total minimum lease payments	524,816	352,394
Less amount representing interest	74,883	4,558
Net present value of minimum lease payments	449,933	347,836
Less amount due within one year	85,771	347,836
	\$ 364,162	\$ -

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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 \$2,833,232 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, 2017, the estimated landfill capacity used was 64.7%, and the estimated remaining life of the landfill is 23 years. The Town will recognize the remaining estimated cost of closure and postclosure care of \$1,267,957 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.

The Town has entered into a Trust Agreement with ADEQ, which required the Town to deposit approximately \$1.9 million in September 2017 into a Trust account as a means of providing financial assurance that funds will be available when needed for closure and post closure of the landfill. The Trust Agreement requires the Town to make annual deposits starting December 2017 until the full estimated closure and postclosure costs are held in the Trust account.

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	\$ 138,286	\$ 365,098	\$ (53,451)	\$ 449,933	\$ 85,771
Compensated absences payable	35,529	-	(10,690)	24,839	24,839
Net pension liability	290,065	138,453	-	428,518	-
	<u>\$ 463,880</u>	<u>\$ 503,551</u>	<u>\$ (64,141)</u>	<u>\$ 903,290</u>	<u>\$ 110,610</u>
Business-type activities:					
Capital lease obligations	\$ 458,534	\$ -	\$ (110,698)	\$ 347,836	\$ 347,836
Compensated absences payable	15,004	-	(2,717)	12,287	12,287
Landfill closure and post-closure costs payable	2,817,832	15,400	-	2,833,232	-
	<u>\$ 3,291,370</u>	<u>\$ 15,400</u>	<u>\$ (113,415)</u>	<u>\$ 3,193,355</u>	<u>\$ 360,123</u>

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

9. Interfund receivables, payables and transfers:

Due (to) from other funds:

At June 30, 2017, 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. At June 30, 2017, \$1,831,131 was due to the landfill fund from the general fund.

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, 2017. It is the opinion of management and Town counsel that the amount of losses resulting from these litigations at June 30, 2017 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.

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.

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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.

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, 2017

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, 2017, the Town reported on the Statement Net Position and Statement of Activities the following aggregate amounts related to PSPRS:

	Governmental activities
Net pension liability	\$ 428,518
Deferred outflows of resources	260,332
Deferred inflows of resources	13,872
Pension expense	172,235

The Town reported \$64,356 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 nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. 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.

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, 2017

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

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
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, 2017, 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	6
	6

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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, 2017, active PSPRS members with an initial membership date on or before July 19, 2011 were required to contribute 11.65% for the period July 2016 through March 2017, and 7.65% for the period April 2017 through June 2017. PSPRS members with an initial membership date after July 19, 2011 were required to contribute 11.65% throughout the entire year. The District was required to contribute 20.9%. The health insurance premium portion of the contribution rate was actuarially set at 0.96% of covered payroll.

The Town's contributions to the pension plan for the year ended June 30, 2016, were \$64,356, which included the required contributions for the health insurance premium benefit. During fiscal year 2017, the Town paid for the PSPRS pension and OPEB contributions from the General Fund.

Pension liability - At June 30, 2017, the Town reported net pension liability of \$428,518. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2016, reflects the following changes of benefit terms and actuarial assumptions:

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments changed the basis for cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS and CORP plans.

The net pension liability measured as of June 30, 2017 will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the District's net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the Town recognized pension expense for PSPRS of \$172,235. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 110,762	\$ 13,872
Changes in assumptions or other inputs	47,317	-
Net difference between projected and actual earnings on pension plan investments	37,897	-
Contributions subsequent to the measurement date	64,356	-
	\$ 260,332	\$ 13,872

The \$64,356 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, 2018. 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>	
2018	\$ 31,743
2019	31,742
2020	34,353
2021	30,976
2022	22,730
Thereafter	30,560
	\$ 182,104

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4% - 8%
Inflation	4%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50% 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.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
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 %
	100 %	

Discount rate - The discount rate of 7.50% was used to measure the total pension liability, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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.

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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

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 (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% decrease (6.50%)	Current discount rate (7.50%)	1% increase (8.50%)
Town's net pension liability	\$ 598,029	\$ 428,518	\$ 288,956

Changes in the net pension liability -

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) - (b)
Balances at June 30, 2016	\$ 788,490	\$ 498,425	\$ 290,065
Changes for the year:			
Service cost	76,816	-	76,816
Interest on the total pension liability	64,911	-	64,911
Changes of benefit terms	111,340	-	111,340
Differences between expected and actual experience in the measurement of the pension liability	(15,802)	-	(15,802)
Changes of assumptions or other inputs	44,176	-	44,176
Contributions - employer	-	65,465	(65,465)
Contributions - employee	-	41,048	(41,048)
Net investment income	-	3,376	(3,376)
Administrative expense	-	(886)	886
Other changes	-	33,985	(33,985)
Net changes	281,441	142,988	138,453
Balances at June 30, 2017	\$ 1,069,931	\$ 641,413	\$ 428,518

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

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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

Agent plan OPEB actuarial assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2017 were established by the June 30, 2015 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.

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 2017 contribution requirements are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	21 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
2016	\$ 4,101	100%	\$ -
2015	3,489	100%	-
2014	4,013	100%	-

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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

Agent plan OPEB funded status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, follow.

	Health insurance
Actuarial value of assets (a)	\$ 23,037
Actuarial accrued liability (b)	\$ 46,575
Unfunded actuarial accrued liability (b) - (a)	\$ 23,538
Funded ratio (a) / (b)	49 %
Covered payroll (c)	\$ 354,318
Unfunded actuarial accrued liability as a percentage of covered payroll ((b) - (a) / (c))	7 %

The actuarial methods and assumptions used for the PSPRS health insurance premium benefit plan and for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 years for unfunded 20 years for overfunded
Asset valuation method	7-year smoothed market value 80%/120% market
Investment rate of return	7.50%
Projected salary increases	4% - 8%
Wage growth	4%

Required Supplementary Information

TOWN OF HUACHUCA CITY, ARIZONA

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

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts <u>Original & Final</u>	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 75,837	\$ 93,013	\$ 17,176
Sales taxes	438,084	303,312	(134,772)
Franchise taxes	40,000	14,624	(25,376)
Landfill land lease	530,000	530,000	-
Licenses and permits	16,103	19,466	3,363
Intergovernmental	354,000	38,539	(315,461)
Charges for services	45,400	63,705	18,305
Fines and forfeits	201,227	110,250	(90,977)
State shared revenues	313,320	301,372	(11,948)
Contributions and donations	31,250	8,659	(22,591)
Investment income	132,199	137,320	5,121
Other	162,590	29,931	(132,659)
Total revenues	<u>2,340,010</u>	<u>1,650,191</u>	<u>(689,819)</u>
Expenditures:			
Current:			
General government	629,967	559,224	70,743
Public safety	1,385,005	1,198,922	186,083
Culture and recreation	271,538	246,280	25,258
Capital outlay	53,500	518,103	(464,603)
Debt service:			
Principal retirement	-	53,451	(53,451)
Interest and fiscal charges	-	10,210	(10,210)
Total expenditures	<u>2,340,010</u>	<u>2,586,190</u>	<u>(246,180)</u>
Deficiency of revenues over expenditures	-	(935,999)	(935,999)
Other financing sources:			
Proceeds from capital leases	-	365,098	365,098
Total other financing sources	-	365,098	365,098
Special item:			
Unsupported credit card expenses	-	(14,122)	(14,122)
Net change in fund balance	<u>-</u>	<u>(585,023)</u>	<u>(585,023)</u>
Fund balance, beginning of year	<u>-</u>	<u>(1,344,664)</u>	<u>(1,344,664)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ (1,929,687)</u>	<u>\$ (1,929,687)</u>

TOWN OF HUACHUCA CITY, ARIZONA

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

YEAR ENDED JUNE 30, 2017

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

Reporting date (Measurement date)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)
Total pension liability										
Service cost	\$ 76,816	\$ 69,307	\$ 51,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	64,911	45,503	35,530	-	-	-	-	-	-	-
Benefit changes	111,340	-	(1,914)	-	-	-	-	-	-	-
Difference between expected and actual experience	(15,802)	128,678	19,856	-	-	-	-	-	-	-
Assumption changes	44,176	-	13,167	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
Net change in total pension liability	281,441	243,488	118,131	-	-	-	-	-	-	-
Total pension liability, beginning	788,490	545,002	426,871	-	-	-	-	-	-	-
Total pension liability, ending (a)	\$ 1,069,931	\$ 788,490	\$ 545,002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position										
Contributions - employer	\$ 65,465	\$ 66,642	\$ 66,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - employee	41,048	37,135	33,116	-	-	-	-	-	-	-
Pension plan net investment income	3,376	13,985	31,663	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
Pension plan administrative expense	(886)	(727)	-	-	-	-	-	-	-	-
Other	33,985	79,324	(8,282)	-	-	-	-	-	-	-
Net change in fiduciary net position	142,988	196,359	122,686	-	-	-	-	-	-	-
Plan fiduciary net position, beginning	498,425	302,066	191,583	-	-	-	-	-	-	-
Plan fiduciary net position, ending (b)	\$ 641,413	\$ 498,425	\$ 314,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability (asset), ending (a) - (b)	\$ 428,518	\$ 290,065	\$ 230,733	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position as a percentage of total pension liability	59.95 %	63.21 %	57.66 %	- %	- %	- %	- %	- %	- %	- %
Covered valuation payroll	\$ 354,318	\$ 336,066	\$ 325,470	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered valuation payroll	120.94 %	86.31 %	70.89 %	- %	- %	- %	- %	- %	- %	- %

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF PENSION CONTRIBUTIONS

YEAR ENDED JUNE 30, 2017

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

Reporting date (Measurement date)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)
Public Safety Personnel Retirement System (PSPRS)										
Actuarially determined contribution	\$ 65,465	\$ 66,642	\$ 66,189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>65,465</u>	<u>66,642</u>	<u>66,189</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	354,318	336,066	325,470	-	-	-	-	-	-	-
Contributions as a percentage of covered employee payroll	18.48 %	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, 2017

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>
2016	\$ 23,037	\$ 46,575	\$ 23,538	50 %	\$ 354,318	6.64 %
2015	17,473	36,814	19,341	48 %	336,066	5.76 %
2014	0	26,399	26,399	0 %	325,470	8.11 %

TOWN OF HUACHUCA CITY, ARIZONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2017

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 cost method	Entry age normal
Remaining amortization period as of the 2015 actuarial valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Salary increase	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5% – 8.5% to 4.0% – 8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0% – 9.0% to 4.5% – 8.5%.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females).

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, 2017

	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	\$ 59,895	\$ (75,105)	\$ 135,770	\$ 139,806	\$ 4,036	\$ 238,000	\$ 11,108	\$ (226,892)	\$ -	\$ -	\$ -	\$ 513,270	\$ 210,809	\$ (302,461)
Total revenues	4,500	-	(4,500)	-	-	-	135,000	59,895	(75,105)	135,770	139,806	4,036	238,000	11,108	(226,892)	-	-	-	513,270	210,809	(302,461)
Expenditures:																					
Current:																					
General government	4,500	-	4,500	-	-	-	-	-	-	-	-	-	238,000	12,019	225,981	-	-	-	242,500	12,019	230,481
Public safety	-	-	-	-	-	-	135,000	74,705	60,295	-	-	-	-	-	-	-	-	-	135,000	74,705	60,295
Highway and streets	-	-	-	-	-	-	-	-	-	135,770	100,945	34,825	-	-	-	-	-	-	135,770	100,945	34,825
Culture and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	4,500	-	4,500	-	-	-	135,000	74,705	60,295	135,770	100,945	34,825	238,000	12,019	225,981	-	-	-	513,270	187,669	325,601
Excess (deficiency) of revenues over expenditures	-	-	-	-	-	-	-	(14,810)	(14,810)	-	38,861	38,861	-	(911)	(911)	-	-	-	-	23,140	23,140
Other financing uses:																					
Transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special item:																					
Undocumented credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	(14,810)	(14,810)	-	38,861	38,861	-	(911)	(911)	-	-	-	-	23,140	23,140
Fund balances, beginning of year	-	-	-	-	3,483	3,483	-	30,479	30,479	-	514,686	514,686	-	(48,092)	(48,092)	-	2,855	2,855	-	503,411	503,411
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -	\$ 3,483	\$ 3,483	\$ -	\$ 15,669	\$ 15,669	\$ -	\$ 553,547	\$ 553,547	\$ -	\$ (49,003)	\$ (49,003)	\$ -	\$ 2,855	\$ 2,855	\$ -	\$ 526,551	\$ 526,551

**Report on Internal Control
and on Compliance**



BEACHFLEISCHMAN

**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 were engaged to 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, 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, 2017, 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 12, 2018, which includes a disclaimer of opinions because of lack of internal controls and/or adequate records.

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 following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006.

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 following deficiencies described in the accompany schedule of findings and responses to be significant deficiencies: 2017-007, 2017-008, 2017-009.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses in 2017-001, 2017-002, 2017-003, 2017-004, 2017-006, and 2017-007. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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 12, 2018

TOWN OF HUACHUCA CITY, ARIZONA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

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

2017-001

Criteria:

The Town is responsible for establishing and maintaining internal controls. Best practices identified by the Government Finance Officers Association recommends that local governments adopt the Committee of Sponsoring Organization's (COSO) Internal Control - Integrated Framework (2013) as a conceptual basis for designing, implementing, operating and evaluating internal control. By implementing the Framework it provides reasonable assurance that the reporting units are achieving their operational, reporting, and compliance objectives. The Town should have a comprehensive framework, based on COSO, which includes the five essential components; 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring.

Condition / Context:

Control Environment:

One of the five essential components identified in the COSO Framework is control environment, which contains five overriding principles. The following areas are principles that had associated deficiencies:

- The Town has established a code of conduct, however, based on our discussions with Town personnel, the code of conduct is signed off on once and required ethics training is not established.
- Management and those charged with governance have the responsibility to provide oversight. Previously reported findings have not been addressed adequately; and oversight has not been performed.
- Employees did not appear to have received adequate training on the recording of transactions. Significant balance sheet accounts were not reconciled when the books were provided to be audited, and monthly financial reports are not prepared timely for review.
- Based on our inquiries with Town personnel, internal control responsibilities are not discussed routinely and deviations and the cause of deviations are not evaluated to determine corrective actions.

Risk Assessment:

Currently, there is no a formal process for identifying fraud risks, that includes the various types of frauds that can occur, the components of the fraud triangle (incentive / pressure, opportunity, and attitude / rationalization), or other risk factors that are present.

Control Activities:

Governments should be able to select and develop policies and procedures and deploy control activities. However, based upon our review of the Town Code, we noted that Title 3 Revenue and Finance addresses three areas of financial reporting: 1) Procurement and Investments, 2) Credit Card Policy, and 3) Library Fees. The policies that have been developed do not address all of the Town's activities and those that have been developed are not consistently followed.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

Information and Communication:

Governments should be able to identify and generate relevant, quality information to support the functioning of internal control. Currently, there is no mechanism available to capture relevant information related to established control activities. Such information is not available to determine whether internal controls are functioning and aiding in the achievement of objectives.

Monitoring:

The last component of the COSO Framework is to select, develop and perform an evaluation to ascertain the components of the COSO Framework are present and functioning. As the evaluation is performed, management should communicate deficiencies in a timely manner and address the deficiencies with a corrective action plan, including timing to resolve the deficiency. We noted no process in place for monitoring of deficiencies.

Effect:

The Town is susceptible to errors, fraudulent activity, and misappropriation with lack of an adequate internal control framework.

Cause:

Limited staff size, limited available resources, lack of training, and lack of oversight.

Recommendation:

We recommend that a comprehensive framework, based on COSO is established, which includes the five essential components; 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring. The Town should ensure that each component of the framework is functioning in a manner consistent with all relevant principles and that various components complement one another and operate together effectively.

Recommendation for Control Environment:

We recommend that a proactive program related to code of conduct be established. This can include annual affirmation that the code has been reviewed and understood. We recommend that a program be established to ensure the on-going evaluation of adherence to internal control and compliance with Town Codes. This can be accomplished by instituting a report that indicates the number of deviations of established policies and Town Codes to facilitate prompt corrective actions are taken or whether additional training is required. We recommend that the Mayor and Council require the outsourced Finance Director position to present month-end financial reports and development of a reporting package to ensure that balance sheet accounts are reconciled timely and any deviations from budget are discussed and addressed.

Recommendation for Risk Assessment:

We recommend that a fraud risk assessment program be established to identify the various risks at each governmental component and then deploy specific policies and procedures to ensure that risks have been mitigated to a reasonable level.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

Recommendation for Control Activities:

We recommend the Town deploy policies and procedures including but not limited to the following:

- Cash receipts control and management policy.
- Capital asset policies, including capital improvement planning, budgeting, and capital asset maintenance.
- Leasing activities, including interfund leasing arrangements.

Recommendation for Information and Communication:

We recommend the Town communicate relevant information internally and externally to the appropriate parties. Currently, there is no formal process to communicate information regarding the Town's internal control environment. Internal stakeholders need to be aware of the applicable policies and their roles in carrying out their internal control responsibilities. Additionally, as there have been numerous repeat findings, the internal communication / oversight between management and those charged with governance should be re-assessed to ensure that all parties understand the implications of findings and which positions are ultimately responsible for deploying the corrective action.

Recommendation for Monitoring:

We recommend that management's plan to develop and deploy appropriate controls includes a process to evaluate their effectiveness. Additionally, an overall policy addressing how deficiencies will be communicated and corrected should be developed.

View of responsible officials and planned corrective actions:

The Town will begin annual employee meetings where Town financial status, employee manual updates and ethics training is updated. Attendance will be mandatory and employees must sign off on attending. The Town contracted finance director will be making monthly reports to the Town Council and all Council packets include the payment report. Employees will receive regular training on finance report. The Town recognizes our employees as our greatest investment and wishes to keep our employees as current as possible. Deviations from existing policy will be addressed and handled by the Town Manager. Whenever possible, the Town policies should be followed as closely as possible.

2017-002

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 certain users. However, during our testing of credit card transactions, we noted credit cards were issued to other non-authorized Town employees.
- During our review of credit card transactions, we noted several instances of purchases made with Town

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

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, several transactions reviewed did not contain this documentation.
- During our review of credit card transactions, we noted purchases made with the Town credit cards typically did not have pre-approval documented. According to the Town Code, "The assigned credit cards may be used for ordering supplies, including online purchases, under \$1,000 for town purposes; purchases above that amount must be pre-approved by the town clerk/administrator or mayor." We reviewed five transactions over \$1,000, three of which did not have pre-approval and the other two transactions had same-day approval.

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 limiting use for Town 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 fund 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, and transactions over \$1,000 should have written pre-approval from the Town Clerk/Administrator or Mayor.

This is a repeat finding from the prior year.

View of responsible officials and planned corrective actions:

Since January 2, 2018 all Town credit cards except 2 are now in the possession of the Finance Clerk. The Mayor has one Town credit card, as does the Town Manager. All credit card purchases require a completed purchase order, and a credit card authorization sheet to obtain the credit card from the Finance Clerk. All purchase orders must be signed off on by the Town Manager or the Finance Clerk for approval.

All credit card purchases must have a receipt submitted or it is the responsibility of the employee to reimburse the town for the expenses.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

The Town is also looking to convert to a fuel track card system with the City of Sierra Vista for gasoline purchasing thru an IGA. Once in place, gasoline would be purchased thru the City of Sierra Vista fuel system. This will save the Town money on fuel and increase accountability, as the system requires numbered vehicles and employee ID numbers. Once established most of the fuel credit cards will be terminated, with only a few active fuel cards kept by the Town's Finance Clerk for travel or emergency purposes.

2017-003

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.
- We noted a current year addition financed through a capital lease, with a cost of approximately \$395,000, was not recorded anywhere in the accounting system.

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 and Mayor and Council.

This is a repeat finding from the prior year.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

View of responsible officials and planned corrective actions:

The Town is now tracking all capital assets. Since January 2, 2018 the Town has sold at surplus over 20 former Town and police impound vehicles. Additional surplus items are currently being listed and disposed of. A spreadsheet of all surplus items is currently being maintained with item number, serial number, sale price included. The fuel tracking system will also help maintain records of motor vehicles.

While staff has not yet begun to calculate depreciation for Town capital assets, we will begin soon.

2017-004

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 ten employee payroll transactions, we noted one employee was underpaid. This employee had received a raise based on the documentation in the personnel file, but she was not paid at the increased rate.
- In our review of employee payroll transactions, we noted time sheets were not provided to support the pay of two employees.
- 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.
- In our review of ten personnel files, we noted nine did not contain all the required documentation indicated in the Town Code.
- 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.
- We further noted there is no independent review of payroll by the Finance Director prior to or after processing.
- There is no formal onboarding process for new employees, and based on inquiry with Town personnel, we noted some new employees worked prior to having completed any paperwork.

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.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

Recommendation:

We recommend that procedures be implemented to ensure that personnel files include all documents identified in the Town Code. This process should start during the on-boarding of new employees. All new employees should have a complete personnel file. Any subsequent pay adjustments should be documented, approved, and entered into the payroll system. Procedures should limit access to changing pay rates in the system, implement a level of review by the Finance Director, and designate 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.

This is a repeat finding from the prior year.

View of responsible officials and planned corrective actions:

Staff personnel documents are maintained in the Town Manager's office. The Town Manager is responsible for salary increases/decreases and these are documented in the employee files. The Town hopes to institute a 2% performance raise in the 2018-19 fiscal year. These raises, if given, will be performance based rather than a cost of living raise.

Timesheets are submitted and checked bi-weekly by the Town Manager and the Finance Clerk. All time sheets are kept on file for future reference. Timesheets must be submitted at 10am the Monday of payroll week for payment. All employees, including salaried employees, submit time sheets and they are signed off on by the Department Head or Town Manager. The Finance Clerk has review over the Town Manager's timesheet.

All new Town employees are required to meet with the Finance Clerk before being schedule to start work. They meet with the Finance clerk to complete all necessary paperwork and are allowed to start work upon successful receipt of drug test and background check.

2017-005

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 do not have documentation of review. Further, the year-end bank reconciliation contained an outstanding check that should not have been listed as a reconciling item.
- Certain bank statements and support for certificates of deposit at year-end could not be provided to us by management.
- Significant balance sheet accounts were not reconciled on a timely basis.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

- Significant adjustments were not prepared timely as part of the year-end closing.
- Monthly financial reports were not prepared on a timely basis.
- The Contracted Finance Director did not present monthly financials at the Town Council meetings; therefore, significant variations from budget were not discussed and addressed timely.
- 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, based on the set up of the general ledger system. Incorrect recording of these transactions can cause significant misstatements in capital assets and long-term liability accounts.

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. 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 Mayor 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.

View of responsible officials and planned corrective actions:

The Town contracts with Steven L. Haymore CPA, P.C., as an outside finance director. Monthly, Steven L. Haymore CPA, P.C. or his staff prepare bank reconciliations. All significant balance sheet accounts will start to be reconciled monthly, and the subsidiary ledgers will also be reconciled monthly. The Town Clerk includes a bi-weekly payment report in the Council agenda packet. Council has the opportunity at all Council meetings to go over and approve the payment report. Haymore CPA will begin doing monthly finance reports at Town Council meetings.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

2017-006

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 one individual is predominately responsible for receiving checks and cash, maintaining the check log, preparing the deposits, and posting payments in system.
- The cash drawer at the front desk is not locked during the day and checks are not restrictively endorsed.
- In our review of cash receipts, we noted there is a list of checks remotely 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. Further, the list of checks is accessible to multiple people in the cash receipts process.
- 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.
- We also noted instances of lack of controls around the cash receipts process at the landfill and there is no reconciliation of the amounts deposited to the cash register tape and/or receipts given to customers at the landfill.
- The landfill has a policy of providing free loads to customers with proof of a paid Town water bill; however, nothing is retained by the landfill as evidence to support the transaction, which will be weighed but have no revenue associated with it.

Effect:

Insufficient segregation of duties surrounding the cash receipt process can lead to theft and 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 segregate duties whenever possible. This individual posting the payments in the system should not have custody of the cash and checks, keep the cash receipts log, or prepare the deposit slips. After the deposit is prepared, the total from the cash receipts log should be compared to the deposit total. Any discrepancies should be followed up on timely. We recommend the log include the date, check number, payer, amount and purpose. In addition, deposits should be regularly reconciled to the log and bank deposit slips to ensure the completeness of the deposits recorded in the general ledger, this reconciliation should be evidenced by initials. We

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

also recommend the cash drawer at the front desk be locked at all times and only be accessible by certain employees and all checks be restrictively endorsed. We further recommend the Town strengthen policies for all library cash handling procedures. Documentation of these reconciliations and of their review should be obtained.

Since each landfill shift typically has only one employee handling cash receipts at a time, we recommend a security camera be placed at the landfill near the register. We also recommend the Town utilize the cash register report (or copies of the receipts provided to customers) when reconciling the daily deposits. We also recommend the landfill retain copies of the water bills from customers used to obtain free loads, and these should be reviewed when reconciling the daily deposits to the cash received and the weight.

This is a repeat finding from the prior year.

View of responsible officials and planned corrective actions:

All payments for utilities, dump truck rental, field use, etc. are paid at the front desk. A deposit is made on a daily basis thru the business week. Deposits are first counted by the receptionist per department then recounted by the Town Clerk. Other Town department heads bring the receptionist the totals per department. These totals then go to one master deposit, which is counted by the receptionist and then recounted by the Town Clerk. The Town Clerk makes the deposits at the bank on a daily basis in non-reusable envelopes. The landfill scale shack staff will run a daily cash operator reconciliation report. This report will show cash, checks and water bill coupons.

2017-007

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.
- 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.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

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:

All purchases are required to have requisition/purchase order forms. The Town Manager reviews and signs off on all purchase orders. If applicable, receiving slips and invoices are attached to the purchase orders before payment will be processed. When invoices are received, they are entered in the accounting software by the Finance Clerk. Check runs are done bi-weekly. The Finance Clerk determines what to pay based on the due dates of the outstanding payables. Checks are created and attached to the purchase order and invoice. Checks are given to the Town Manager to sign, and an email is sent to the other authorized signers in case they would prefer to come in and sign the checks. As of February 2018, authorized signers are Mayor Ken Taylor, Vice Mayor Donna Johnson and Town Manager Matthew Williams.

All disbursements must have Council approval, and the approved listing of disbursements is now maintained with the Council minutes.

2017-008

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.
- The Mayor and Council are not receiving investment reports timely in accordance with the Town Code.
- The Town was not able to provide support for certain certificates of deposit at year-end.

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.

TOWN OF HUACHUCA CITY, ARIZONA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2017

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 and keeping adequate records and providing annual reports to Mayor and Council.

This is a repeat finding from the prior year.

View of responsible officials and planned corrective actions:

The Town has documentation of bank statements on all current existing investment accounts, checking accounts, saving accounts. Town management will be moving the savings accounts from equity securities into more secure formats as required in the Town code over the next few months. Town Council will be presented quarterly savings account statements as they are provided by our bankers.

2017-009

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 and backups are stored on-site.
- We also noted the Town does not enforce its 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.

Cause:

Limited staff size and limited available resources.

Recommendation:

We recommend the Town look into why the backups are failing and implement procedures to resolve the situation. 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:

Town computer passwords are now automatically changed every 90 days and have multiple requirements for passwords. Multiple Town staff members have access to Town accounts in the event of a staff member being lost due to accident or position attrition.