

**TOWN OF PIMA, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report

June 30, 2013

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## **INDEPENDENT AUDITORS' REPORT**

To the Town Council  
Town of Pima, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pima, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Pima, Arizona, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**


### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 28-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the Town of Pima, 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 Pima, Arizona's internal control over financial reporting and compliance.



December 2, 2013

**TOWN OF PIMA, ARIZONA**  
**Statement of Net Position**  
**June 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 502,572	\$ -	\$ 502,572
Accounts receivable - net	-	18,837	18,837
Taxes receivable	19,600	-	19,600
Due from other governments	38,864	-	38,864
Interfund balances	118,438	(118,438)	-
Capital assets, not being depreciated	324,800	112,200	437,000
Capital assets, being depreciated, net	2,669,811	145,070	2,814,881
<b>Total assets</b>	<b>3,674,085</b>	<b>157,669</b>	<b>3,831,754</b>
<b>LIABILITIES</b>			
Accounts payable	58,903	8,759	67,662
Accrued expenses	14,388	1,348	15,736
Interest payable	513	-	513
Deferred revenue	9,107	17,879	26,986
Compensated absences			
Due within 1 year	15,455	3,829	19,284
Due in more than 1 year	5,151	1,276	6,427
Capital leases payable			
Due within 1 year	19,989	-	19,989
Due in more than 1 year	19,770	-	19,770
<b>Total liabilities</b>	<b>143,276</b>	<b>33,091</b>	<b>176,367</b>
<b>NET POSITION</b>			
Net investment			
in capital assets	2,954,852	257,270	3,212,122
Restricted for:			
Public safety	396	-	396
Highways and streets	34,523	-	34,523
Court enhancement	18,868	-	18,868
Unrestricted	522,170	(132,692)	389,478
<b>Total net position</b>	<b>\$ 3,530,809</b>	<b>\$ 124,578</b>	<b>\$ 3,655,387</b>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2013**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities							
Public safety	\$ 514,518	\$ 13,558	\$ 73,901	\$ 17,518	\$ (409,541)	\$ -	\$ (409,541)
General government	264,857	36,606	-	-	(228,251)	-	(228,251)
Highways and streets	578,336	-	166,420	321,065	(90,851)	-	(90,851)
Parks and recreation	211,989	19,452	810	-	(191,727)	-	(191,727)
<b>Total governmental activities</b>	<u>1,569,700</u>	<u>69,616</u>	<u>241,131</u>	<u>338,583</u>	<u>(920,370)</u>	<u>-</u>	<u>(920,370)</u>
Business-type activities							
Sewer	162,576	162,530	-	-	-	(46)	(46)
<b>Total business-type activities</b>	<u>162,576</u>	<u>162,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46)</u>	<u>(46)</u>
<b>Total primary government</b>	<u>\$ 1,732,276</u>	<u>\$ 232,146</u>	<u>\$ 241,131</u>	<u>\$ 338,583</u>	<u>(920,370)</u>	<u>(46)</u>	<u>(920,416)</u>
<b>General revenue:</b>							
Taxes:							
Property tax, levied for general purposes					12,999	-	12,999
Sales tax					254,047	-	254,047
Franchise tax					52,078	-	52,078
State sales tax revenue sharing					195,380	-	195,380
Auto lieu tax revenue sharing					116,991	-	116,991
State urban revenue sharing					243,827	-	243,827
Interest income					1,335	-	1,335
Gain (Loss) on disposal of capital assets					3,551	-	3,551
Miscellaneous					24,241	-	24,241
Total general revenue					<u>904,449</u>	<u>-</u>	<u>904,449</u>
Change in net assets					(15,921)	(46)	(15,967)
Net position, July 1, 2012					<u>3,546,730</u>	<u>124,624</u>	<u>3,671,354</u>
Net position, June 30, 2013					<u>\$ 3,530,809</u>	<u>\$ 124,578</u>	<u>\$ 3,655,387</u>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 470,340	\$ 31,836	\$ 396	\$ 502,572
Taxes receivable	19,600	-	-	19,600
Due from other governments	21,961	16,198	705	38,864
Due from other funds	118,438	-	-	118,438
<b>Total assets</b>	<b>\$ 630,339</b>	<b>\$ 48,034</b>	<b>\$ 1,101</b>	<b>\$ 679,474</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 46,298	\$ 12,605	\$ -	\$ 58,903
Accrued expenses	13,482	906	-	14,388
Deferred revenue	9,107	-	705	9,812
<b>Total liabilities</b>	<b>68,887</b>	<b>13,511</b>	<b>705</b>	<b>83,103</b>
<b>Fund balances</b>				
Restricted for:				
Public safety	-	-	396	396
Highways and streets	-	34,523	-	34,523
Court enhancement	18,868	-	-	18,868
Unassigned	542,584	-	-	542,584
<b>Total fund balances</b>	<b>561,452</b>	<b>34,523</b>	<b>396</b>	<b>596,371</b>
<b>Total liabilities and fund balances</b>	<b>\$ 630,339</b>	<b>\$ 48,034</b>	<b>\$ 1,101</b>	<b>\$ 679,474</b>

*See accompanying notes to financial statements.*



**TOWN OF PIMA, ARIZONA**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**June 30, 2013**

Fund balances--total governmental funds		\$ 596,371
<p style="margin-left: 40px;">Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p style="margin-left: 40px;">Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p>		
		2,994,611
<p style="margin-left: 40px;">Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.</p>		
		705
<p style="margin-left: 40px;">Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.</p>		
Interest payable	(513)	
Compensated absences	(20,606)	
Capital leases payable	(39,759)	
	(60,878)	(60,878)
Net position of governmental activities		\$ 3,530,809

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2013**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Revenue</b>				
Intergovernmental	\$ 581,220	\$ 166,420	\$ 380,794	\$ 1,128,434
Taxes	319,125	-	-	319,125
Charges for services	42,270	-	-	42,270
Fees, fines, and forfeits	13,558	-	-	13,558
Miscellaneous	23,129	1,112	15,498	39,739
Licenses and permits	13,788	-	-	13,788
Interest	1,335	-	-	1,335
<b>Total revenue</b>	<b>994,425</b>	<b>167,532</b>	<b>396,292</b>	<b>1,558,249</b>
<b>Expenditures</b>				
Current				
Public safety	411,968	-	35,268	447,236
General government	242,314	-	-	242,314
Parks and recreation	205,023	-	-	205,023
Highways and streets	14,116	145,272	326,018	485,406
Debt service				
Principal	44,879	-	-	44,879
Interest	3,556	-	-	3,556
Capital outlay	26,194	-	40,508	66,702
<b>Total expenditures</b>	<b>948,050</b>	<b>145,272</b>	<b>401,794</b>	<b>1,495,116</b>
Excess (deficiency) of revenue over (under) expenditures	46,375	22,260	(5,502)	63,133
<b>Other financing sources (uses)</b>				
Capital lease acquisitions	26,194	-	-	26,194
Sale of assets	-	3,551	-	3,551
Transfers in (out)	-	(4,953)	4,953	-
<b>Total other financing sources (uses)</b>	<b>26,194</b>	<b>(1,402)</b>	<b>4,953</b>	<b>29,745</b>
<b>Net change in fund balances</b>	<b>72,569</b>	<b>20,858</b>	<b>(549)</b>	<b>92,878</b>
Fund balances, July 1, 2012	488,883	13,665	945	503,493
<b>Fund balances, June 30, 2013</b>	<b>\$ 561,452</b>	<b>\$ 34,523</b>	<b>\$ 396</b>	<b>\$ 596,371</b>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Reconciliation of the Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**Year Ended June 30, 2013**

Net change in fund balances--total governmental funds		\$ 92,878
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	66,702	
Depreciation expense	(185,038)	
		(118,336)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(8,021)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Debt principal repaid	44,879	
Capital leases incurred	(26,194)	
		18,685
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Decrease in interest payable	1,434	
Decrease in compensated absences	(2,561)	
		(1,127)
<b>Change in net position of governmental activities</b>		<b>\$ (15,921)</b>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business-type Activities Enterprise Fund
	Sewer Fund
<b>ASSETS</b>	
Current assets	
Accounts receivable-net	\$ 18,837
<b>Total current assets</b>	<b>18,837</b>
Noncurrent assets	
Capital assets, net of accumulated depreciation, where applicable:	
Land	112,200
Equipment and infrastructure, net	145,070
<b>Total noncurrent assets</b>	<b>257,270</b>
<b>Total assets</b>	<b>276,107</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	8,759
Accrued expenses	1,348
Deferred revenue	17,879
Due to other funds	118,438
Compensated absences-current portion	3,829
<b>Total current liabilities</b>	<b>150,253</b>
<b>Noncurrent liabilities</b>	
Compensated absences-net of current portion	1,276
<b>Total noncurrent liabilities</b>	<b>1,276</b>
<b>Total liabilities</b>	<b>151,529</b>
<b>NET POSITION</b>	
Net investment in capital assets	257,270
Unrestricted	(132,692)
<b>Total net position</b>	<b>\$ 124,578</b>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Revenue, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities
	<u>Enterprise Fund</u>
	Sewer <u>Fund</u>
<b>Operating revenue</b>	
Charges for services	\$ 162,530
<b>Total operating revenue</b>	<u>162,530</u>
<b>Operating expenses</b>	
Personnel	82,019
Supplies	25,195
Repairs and maintenance	21,095
Depreciation	14,974
Other	7,969
Utilities	6,197
Testing services	5,127
<b>Total operating expenses</b>	<u>162,576</u>
<b>Change in net position</b>	(46)
Net position, July 1, 2012	<u>124,624</u>
Net position, June 30, 2013	<u><u>\$ 124,578</u></u>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities <u>Enterprise Fund</u>
	<u>Sewer Fund</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 160,737
Payments to suppliers and providers of goods and services	(90,304)
Payments to employees	(52,330)
<b>Net cash provided (used) by operating activities</b>	<u>18,103</u>
<b>Cash flows from noncapital financing activities:</b>	
Repayment of interfund loan	(18,103)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(18,103)</u>
<b>Net increase (decrease) in cash</b>	-
Cash, July 1, 2012	<u>-</u>
<b>Cash, June 30, 2013</b>	<u><u>\$ -</u></u>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**  
*(Continued)*

	Business-type Activities <u>Enterprise Fund</u>
	<u>Sewer Fund</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>	
Operating loss	\$ (46)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	14,974
(Increase) decrease in:	
Account receivable	(1,736)
Increase (decrease) in:	
Accounts payable	6,795
Accrued expenses	53
Deferred revenue	(57)
Compensated absences	(1,880)
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ 18,103</u></u>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2013**

	Investment Trust Fund
<b>ASSETS</b>	
Cash	\$ 61,039
Due from Town	159
<b>Total assets</b>	<b>61,198</b>
<b>NET POSITION</b>	
Held in trust for investment trust participants	\$ 61,198

*See accompanying notes to financial statements.*



**TOWN OF PIMA, ARIZONA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Year Ended June 30, 2013**

	Investment Trust Fund
<b>Additions</b>	
Contributions	\$ 5,557
Investment income	
Interest and dividends	11
Unrealized gain	4,411
<b>Total additions</b>	<b>9,979</b>
<b>Distributions</b>	
Distributions to participants	4,681
<b>Total distributions</b>	<b>4,681</b>
Change in net position	5,298
Net position, July 1, 2012	55,900
Net position, June 30, 2013	<b>\$ 61,198</b>

*See accompanying notes to financial statements.*

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

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

**A. Reporting Entity**

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government). The City has no component units.

**B. Basis of Presentation**

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

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

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

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

*Fund financial statements*—provide information about the Town’s funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

The ***General Fund*** is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and from State of Arizona Local Transportation Assistance Fund which are legally restricted to expenditures for specified purposes.

The ***Grants Fund*** accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor.

The Town reports the following major enterprise fund:

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

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

The Town reports the following fund types:

The ***Investment Trust Fund*** accounts for pension funds for various firefighters. The Town acts as a trustee for such funds and does not have title to the assets or liabilities accounted for in this fund.

**C. Basis of Accounting**

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

**D. Cash and Investments**

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning 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.

**E. Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts receivable in the Sewer Fund are estimated by the Town. The amount recorded as uncollectible at June 30, 2013 totaled \$8,914.

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

**F. Property Tax Calendar**

Property taxes are levied on or before the third Monday in August and are payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

The Town levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property assessed attaches on the first day of January preceding assessment and levy.

**G. Capital Assets**

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life (years)</u>
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-line	40
Infrastructure	5,000	Straight-line	40-50
Plant and equipment-sewer	5,000	Straight-line	5-20
Equipment-sewer	5,000	Straight-line	5-20
Furniture and Fixtures	5,000	Straight-line	5-20
Equipment	5,000	Straight-line	5-15
Vehicles	5,000	Straight-line	5-10

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

**H. Investment Income**

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

**I. Compensated Absences**

Compensated absences consist of vacation leave earned by employees based on services already rendered.

Employees may accumulate up to 192 hours of vacation hours. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 120 hours of sick leave hours but any sick hours in excess of the maximum amount that are unused at year-end are forfeited. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

**J. Fund Balance Reporting**

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process.

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

The Town’s policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town’s policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

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

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town’s allowable deposits or investments and which address the specific types of risk to which the Town is exposed such as interest rate risk, credit risk, and custodial credit risk.

*Deposits*—At June 30, 2013, the carrying amount of the Town’s total nonpooled cash in bank was \$400,478, and the bank balance was \$405,569. The entire bank balance was covered by federal depository insurance.

*Investments*—At June 30, 2013, the investments consisted of the following.

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 102,094	\$ 102,094

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

Amount due from other governments at June 30, 2013, included \$16,198 in state-shared revenue from Highway User Revenue Fund (HURF) taxes, \$17,011 in state-shared revenue from sales taxes, \$4,950 in state-shared revenue from auto lieu taxes, and \$705 from granting agencies.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 324,800	\$ -	\$ -	\$ 324,800
<b>Total capital assets not       being depreciated</b>	<u>324,800</u>	<u>-</u>	<u>-</u>	<u>324,800</u>
Capital assets being depreciated:				
Equipment	869,005	34,304	-	903,309
Buildings	896,025	-	-	896,025
Vehicles	519,253	32,398	(11,500)	540,151
Furniture and fixtures	38,523	-	-	38,523
Streets and sidewalks	3,048,789	-	-	3,048,789
Bridges	27,592	-	-	27,592
<b>Total</b>	<u>5,399,187</u>	<u>66,702</u>	<u>(11,500)</u>	<u>5,454,389</u>
Less accumulated depreciation for:				
Equipment	(696,875)	(34,695)	-	(731,570)
Buildings	(315,331)	(22,400)	-	(337,731)
Vehicles	(243,637)	(50,623)	11,500	(282,760)
Furniture and fixtures	(37,172)	(549)	-	(37,721)
Streets and sidewalks	(1,303,673)	(76,219)	-	(1,379,892)
Bridges	(14,352)	(552)	-	(14,904)
<b>Total</b>	<u>(2,611,040)</u>	<u>(185,038)</u>	<u>11,500</u>	<u>(2,784,578)</u>
<b>Total capital assets being depreciated, net</b>	<u>2,788,147</u>	<u>(118,336)</u>	<u>-</u>	<u>2,669,811</u>
Governmental activities capital assets, net	<u>\$ 3,112,947</u>	<u>\$ (118,336)</u>	<u>\$ -</u>	<u>\$ 2,994,611</u>



**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance <u>July 1, 2012</u>	Increases	Decreases	Balance <u>June 30, 2013</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 112,200	\$ -	\$ -	\$ 112,200
<b>Total capital assets not       being depreciated</b>	<u>112,200</u>	<u>-</u>	<u>-</u>	<u>112,200</u>
Capital assets being depreciated:				
Sewer collection system	2,844,535	-	-	2,844,535
Machinery and equipment	140,283	-	-	140,283
<b>Total</b>	<u>2,984,818</u>	<u>-</u>	<u>-</u>	<u>2,984,818</u>
Less accumulated depreciation for:				
Sewer collection system	(2,687,597)	(13,016)	-	(2,700,613)
Machinery and equipment	(137,177)	(1,958)	-	(139,135)
<b>Total</b>	<u>(2,824,774)</u>	<u>(14,974)</u>	<u>-</u>	<u>(2,839,748)</u>
<b>Total capital assets being depreciated, net</b>	<u>160,044</u>	<u>(14,974)</u>	<u>-</u>	<u>145,070</u>
Business-type activities capital assets, net	<u>\$ 272,244</u>	<u>\$ (14,974)</u>	<u>\$ -</u>	<u>\$ 257,270</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 21,903
Public safety	64,519
Highways and streets	92,290
Parks and recreation	<u>6,326</u>
<b>Total governmental activities depreciation expense</b>	<u>\$ 185,038</u>
Business-type activities:	
Sewer	<u>\$ 14,974</u>
<b>Total business-type activities depreciation expense</b>	<u>\$ 14,974</u>

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 18,045	\$ 12,200	\$ 9,639	\$ 20,606	\$ 15,455
Capital leases payable	<u>58,443</u>	<u>26,194</u>	<u>44,879</u>	<u>39,758</u>	<u>19,989</u>
Governmental activities long-term liabilities	<u>\$ 76,488</u>	<u>\$ 38,394</u>	<u>\$ 54,518</u>	<u>\$ 60,364</u>	<u>\$ 35,444</u>
Business-type activities					
Compensated absences payable	<u>\$ 6,985</u>	<u>\$ 591</u>	<u>\$ 2,471</u>	<u>\$ 5,105</u>	<u>\$ 3,829</u>
Business-type activities long-term liabilities	<u>\$ 6,985</u>	<u>\$ 591</u>	<u>\$ 2,471</u>	<u>\$ 5,105</u>	<u>\$ 3,829</u>

Capital leases – The Town has acquired vehicles and equipment under the provisions of long-term lease agreements classified as a capital lease for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Police vehicles	\$ 55,553
Road Broom	26,194
Less: accumulated depreciation	<u>(20,372)</u>
Carrying value	<u>\$ 61,375</u>

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2013:

Year Ending June 30	Governmental Activities
2014	\$ 21,456
2015	7,112
2016	7,112
2017	7,112
Total minimum lease payments	42,790
Less amount representing interest	(3,032)
Present value of net minimum lease payments	\$ 39,758

Interest expense – Total interest expense of \$2,121 for governmental activities has been included on the government-wide financial statements as direct functional expenses of public safety.

***NOTE 6 – RISK MANAGEMENT***

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

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***NOTE 7 – RETIREMENT PLANS***

Plan Descriptions—The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS  
3300 N. Central Ave.  
Phoenix, AZ 85012-0250  
(602) 240-2000

PSPRS  
3010 E. Camelback Rd., Ste. 200  
Phoenix, AZ 85016  
(602) 255-5575

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

*Cost-sharing plans*—For the year ended June 30, 2013, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.90 percent (10.66 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2013, 2012, and 2010, were \$21,031 \$22,067, and \$20,876, respectively, which were equal to the required contributions for the year.

*Agent plans*—For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 12.86 percent.

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 7 – RETIREMENT PLANS – Continued**

Annual Pension Cost—The Town’s pension cost for the agent plan for the year ended June 30, 2013, and related information follows:

	PSPRS
Contribution rates:	
Town	12.86%
Plan members	9.55%
Annual pension cost	\$16,631
Contributions made	\$16,631
Actuarial valuation date	06/30/13
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.50%-8.50%
Includes inflation at	4.50%
Cost-of-living adjustments	None
Amortization method	Level percent-of-pay closed
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market

Trend Information—Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2013	\$ 16,631	100 %	\$ -
	2012	13,190	100	-
	2011	13,942	100	-

**TOWN OF PIMA, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***NOTE 8 – INTERFUND BALANCES AND ACTIVITY***

Interfund receivables and payables – The balance due by the Sewer Fund to the General Fund was \$118,438 at June 30, 2013. The purpose of the interfund balance was to help the Sewer Fund pay for operating expenses.

Interfund transfers –The Town had transferred \$4,953 from the HURF/LTAF Fund to the Grants Fund for excess expenditures over allowable grant reimbursements.

**TOWN OF PIMA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 585,272	\$ 585,272	\$ 581,220	\$ (4,052)
Taxes	235,000	235,000	319,125	84,125
Charges for services	40,700	40,700	42,270	1,570
Fees, fines, and forfeits	38,396	38,396	13,558	(24,838)
Miscellaneous	25,000	25,000	23,129	(1,871)
Licenses and permits	13,700	13,700	13,788	88
Interest	4,500	4,500	1,335	(3,165)
<b>Total revenue</b>	<u>942,568</u>	<u>942,568</u>	<u>994,425</u>	<u>51,857</u>
<b>Expenditures</b>				
Current				
Public safety	517,086	517,086	411,968	105,118
General government	260,721	260,721	242,314	18,407
Parks and recreation	225,607	225,607	205,023	20,584
Highways and streets	30,000	30,000	14,116	15,884
Debt service				
Principal	-	-	44,879	(44,879)
Interest	-	-	3,556	(3,556)
Capital outlay	-	-	26,194	(26,194)
<b>Total expenditures</b>	<u>1,033,414</u>	<u>1,033,414</u>	<u>948,050</u>	<u>85,364</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(90,846)</u>	<u>(90,846)</u>	<u>46,375</u>	<u>137,221</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisition	-	-	26,194	26,194
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>26,194</u>	<u>26,194</u>
<b>Net change in fund balances</b>	<u>(90,846)</u>	<u>(90,846)</u>	<u>72,569</u>	<u>163,415</u>
Fund balances, July 1, 2012	<u>488,883</u>	<u>488,883</u>	<u>488,883</u>	<u>-</u>
<b>Fund balances, June 30, 2013</b>	<u>\$ 398,037</u>	<u>\$ 398,037</u>	<u>\$ 561,452</u>	<u>\$ 163,415</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PIMA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF/LTAF Fund**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 170,463	\$ 170,463	\$ 166,420	\$ (4,043)
Miscellaneous	5,000	5,000	1,112	(3,888)
<b>Total revenue</b>	<u>175,463</u>	<u>175,463</u>	<u>167,532</u>	<u>(7,931)</u>
<b>Expenditures</b>				
Current				
Highways and streets	180,463	180,463	145,272	35,191
<b>Total expenditures</b>	<u>180,463</u>	<u>180,463</u>	<u>145,272</u>	<u>35,191</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>22,260</u>	<u>27,260</u>
<b>Other financing sources (uses)</b>				
Sale of assets	5,000	5,000	3,551	(1,449)
Transfers in (out)	-	-	(4,953)	(4,953)
<b>Total other financing         sources (uses)</b>	<u>5,000</u>	<u>5,000</u>	<u>(1,402)</u>	<u>(6,402)</u>
<b>Net change in fund balances</b>	-	-	20,858	20,858
Fund balances, July 1, 2012	-	-	13,665	13,665
<b>Fund balances, June 30, 2013</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,523</u>	<u>\$ 34,523</u>

*See accompanying notes to budgetary comparison schedule.*



**TOWN OF PIMA, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 1,192,029	\$ 1,192,029	\$ 380,794	\$ (811,235)
Miscellaneous	-	-	15,498	15,498
<b>Total revenue</b>	<u>1,192,029</u>	<u>1,192,029</u>	<u>396,292</u>	<u>(795,737)</u>
<b>Expenditures</b>				
Current				
Public safety	853,075	853,075	35,268	817,807
Parks and recreation	23,754	23,754	-	23,754
Highways and streets	321,065	321,065	326,018	(4,953)
Capital outlay	-	-	40,508	(40,508)
<b>Total expenditures</b>	<u>1,197,894</u>	<u>1,197,894</u>	<u>401,794</u>	<u>796,100</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(5,865)</u>	<u>(5,865)</u>	<u>(5,502)</u>	<u>363</u>
<b>Other financing sources (uses)</b>				
Transfers in (out)	-	-	4,953	4,953
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>4,953</u>	<u>4,953</u>
<b>Net change in fund balances</b>	<u>(5,865)</u>	<u>(5,865)</u>	<u>(549)</u>	<u>5,316</u>
Fund balances, July 1, 2012	<u>945</u>	<u>945</u>	<u>945</u>	<u>-</u>
<b>Fund balances, June 30, 2013</b>	<u><u>\$ (4,920)</u></u>	<u><u>\$ (4,920)</u></u>	<u><u>\$ 396</u></u>	<u><u>\$ 5,316</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF PIMA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2013**

***NOTE 1 – BUDGETING AND BUDGETARY CONTROL***

Arizona Revised Statutes (A.R.S.) requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Council's approval.

***NOTE 2 – BUDGETARY BASIS OF ACCOUNTING***

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

**TOWN OF PIMA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Agent Retirement Plan Funding Progress**  
**June 30, 2013**

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ 400,828	\$ 128,434	\$ 272,394	312.1 %	\$ 129,320	- %
6/30/2012	354,628	127,031	227,597	279.2	161,926	-
6/30/2011	299,469	108,746	190,723	275.4	200,089	-



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**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Town Council  
Town of Pima, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pima, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Pima, Arizona's basic financial statements, and have issued our report thereon dated December 2, 2013.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency with reference number **07-04** described in the accompanying schedule of findings and responses to be a material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Other than the deficiency mentioned in the above paragraph, during our audit we did not identify any other deficiencies in internal control that we consider to be material weaknesses. However, other material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 2, 2013

**TOWN OF PIMA, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2013**

**Financial Statement Findings**

Audit findings and responses are as follows:

***Item: 07-04***

*Subject:* Segregation of duties.

*Criteria/Specific Requirements:* Management should separate important duties related to recording cash in the accounting records of the Town, reconciling accounting records to external documents such as bank statements, and custody of cash.

*Condition:* Not unlike other governments of similar size and structure, the Town's size and structure limit the options available to the Town for segregation of duties.

*Effect:* A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

*Cause:* Due to the size of the Town, management is limited in the options available to them to segregate important duties.

*Recommendation:* Management should segregate employee duties so that one person does not prepare and record checks and reconcile cash to the bank statements and cancelled checks and also review completed bank reconciliations. Management should have someone other than the person who prepared and recorded checks in the accounting software distribute signed checks to the payees.

*Response:* Management agrees with this finding and will implement procedures to properly segregate responsibilities related to recording cash in the accounting records of the Town, reconciling accounting records to external documents such as bank statements, and custody of cash, to the extent possible.



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**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE USES OF HIGHWAY USER  
REVENUE FUND MONIES IN ACCORDANCE  
WITH ARS TITLE 28, CHAPTER 18, ARTICLE 2**

To the Town Council  
Town of Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Pima as of and for the year ended June 30, 2013, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 2, 2013.

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads 'Colby &amp; Powell'.

December 2, 2013