

TOWN OF PIMA, ARIZONA

Annual Financial Statements
and Independent Auditors' Report

June 30, 2012

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1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Pima, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pima, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pima, Arizona's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the Town of Pima, Arizona, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, 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* and should be considered in assessing the results of our audit.

The Town of Pima has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to

supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 28 through 31 and Schedule of Agent Retirement Plan Funding Progress on page 32 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.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

October 31, 2012

TOWN OF PIMA, ARIZONA
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 362,329	\$ -	\$ 362,329
Accounts receivable - net	-	17,101	17,101
Taxes receivable	23,948	-	23,948
Due from other governments	50,535	-	50,535
Interfund balances	136,541	(136,541)	-
Capital assets, not being depreciated	324,800	112,200	437,000
Capital assets, being depreciated, net	2,788,147	160,044	2,948,191
	<u>3,686,300</u>	<u>152,804</u>	<u>3,839,104</u>
Total assets			
LIABILITIES			
Accounts payable	36,059	1,965	38,024
Accrued expenses	16,750	1,295	18,045
Interest payable	1,947	-	1,947
Deferred revenue	8,325	17,936	26,261
Compensated absences			
Due within 1 year	13,534	5,239	18,773
Due in more than 1 year	4,511	1,746	6,257
Capital leases payable			
Due within 1 year	44,879	-	44,879
Due in more than 1 year	13,565	-	13,565
	<u>139,570</u>	<u>28,181</u>	<u>167,751</u>
Total liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	3,054,503	272,244	3,326,747
Restricted for:			
Public safety	946	-	946
Highways and streets	13,665	-	13,665
Court enhancement	18,153	-	18,153
Unrestricted	459,463	(147,621)	311,842
	<u>459,463</u>	<u>(147,621)</u>	<u>311,842</u>
Total net assets	<u>\$ 3,546,730</u>	<u>\$ 124,623</u>	<u>\$ 3,671,353</u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Activities
Year Ended June 30, 2012

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	
Primary government:							
Governmental activities							
Public safety	\$ 537,909	\$ 19,652	\$ 128,792	\$ 11,396	\$ (378,069)	\$ -	\$ (378,069)
General government	268,914	32,133	-	-	(236,781)	-	(236,781)
Highways and streets	243,074	-	149,926	1,228	(91,920)	-	(91,920)
Parks and recreation	241,232	17,976	2,656	-	(220,600)	-	(220,600)
Total governmental activities	<u>1,291,129</u>	<u>69,761</u>	<u>281,374</u>	<u>12,624</u>	<u>(927,370)</u>	<u>-</u>	<u>(927,370)</u>
Business-type activities							
Sewer	183,591	152,331	-	-	-	(31,260)	(31,260)
Total business-type activities	<u>183,591</u>	<u>152,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,260)</u>	<u>(31,260)</u>
Total primary government	<u>\$ 1,474,720</u>	<u>\$ 222,092</u>	<u>\$ 281,374</u>	<u>\$ 12,624</u>	<u>(927,370)</u>	<u>(31,260)</u>	<u>(958,630)</u>
General revenue:							
Taxes:							
Property tax, levied for general purposes					12,687	-	12,687
Sales tax					188,656	-	188,656
Franchise tax					50,264	-	50,264
State sales tax revenue sharing					186,521	-	186,521
Auto lieu tax revenue sharing					111,869	-	111,869
State urban revenue sharing					239,044	-	239,044
Interest income					374	-	374
Gain (Loss) on disposal of capital assets					10,615	(4,333)	6,282
Miscellaneous					13,745	-	13,745
Total general revenue					<u>813,775</u>	<u>(4,333)</u>	<u>809,442</u>
Change in net assets					(113,595)	(35,593)	(149,188)
Net assets, July 1, 2011					3,660,325	160,216	3,820,541
Net assets, June 30, 2012					<u>\$ 3,546,730</u>	<u>\$ 124,623</u>	<u>\$ 3,671,353</u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash	\$ 357,777	\$ 4,552	\$ -	\$ 362,329
Taxes receivable	23,948	-	-	23,948
Due from other governments	20,451	15,628	14,456	50,535
Due from other funds	139,530	-	-	139,530
Total assets	\$ 541,706	\$ 20,180	\$ 14,456	\$ 576,342
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 28,668	\$ 5,663	\$ 1,728	\$ 36,059
Accrued expenses	15,830	852	68	16,750
Deferred revenue	8,325	-	8,725	17,050
Due to other funds	-	-	2,989	2,989
Total liabilities	52,823	6,515	13,510	72,848
Fund balances				
Restricted for:				
Public safety	-	-	946	946
Highways and streets	-	13,665	-	13,665
Court enhancement	18,153	-	-	18,153
Unassigned	470,730	-	-	470,730
Total fund balances	488,883	13,665	946	503,494
Total liabilities and fund balances	\$ 541,706	\$ 20,180	\$ 14,456	\$ 576,342

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2012

Fund balances--total governmental funds		\$ 503,494
<p style="margin-left: 40px;">Amounts reported for governmental activities in the Statement of Net Assets 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>		
		3,112,947
<p style="margin-left: 40px;">Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.</p>		
		8,725
<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	(1,947)	
Compensated absences	(18,045)	
Capital leases payable	(58,444)	
	(78,436)	(78,436)
Net assets of governmental activities		\$ 3,546,730

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, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenue				
Intergovernmental	\$ 619,904	\$ 149,926	\$ 51,432	\$ 821,262
Taxes	251,607	-	-	251,607
Charges for services	41,548	-	-	41,548
Fees, fines, and forfeits	19,652	-	-	19,652
Miscellaneous	13,438	307	1,445	15,190
Licenses and permits	8,561	-	-	8,561
Interest	374	-	-	374
Total revenue	955,084	150,233	52,877	1,158,194
Expenditures				
Current				
Public safety	415,688	-	53,144	468,832
General government	246,860	-	-	246,860
Parks and recreation	235,483	-	-	235,483
Highways and streets	6,776	144,081	1,228	152,085
Debt service				
Principal	102,289	-	-	102,289
Interest	7,990	-	-	7,990
Capital outlay	-	4,500	-	4,500
Total expenditures	1,015,086	148,581	54,372	1,218,039
Excess (deficiency) of revenue over (under) expenditures	(60,002)	1,652	(1,495)	(59,845)
Other financing sources (uses)				
Sale of assets	-	12,013	-	12,013
Transfers in (out)	(1,583)	-	1,583	-
Total other financing sources (uses)	(1,583)	12,013	1,583	12,013
Net change in fund balances	(61,585)	13,665	88	(47,832)
Fund balances, July 1, 2011	550,468	-	858	551,326
Fund balances, June 30, 2012	\$ 488,883	\$ 13,665	\$ 946	\$ 503,494

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, 2012

Net change in fund balances--total governmental funds		\$ (47,832)
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	4,500	
Depreciation expense	(184,788)	
		(180,288)
In the Statement of Activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differ from the change in fund balance by the book value of the capital assets sold.		
		(1,398)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
		8,725
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		102,289
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	2,276	
Decrease in compensated absences	2,633	
		4,909
Change in net assets of governmental activities		\$ (113,595)

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities Enterprise Fund
	Sewer Fund
ASSETS	
Current assets	
Accounts receivable-net	\$ 17,101
Total current assets	17,101
Noncurrent assets	
Capital assets, net of accumulated depreciation, where applicable:	
Land	112,200
Equipment and infrastructure, net	160,044
Total noncurrent assets	272,244
Total assets	289,345
LIABILITIES	
Current liabilities	
Accounts payable	1,965
Accrued expenses	1,295
Deferred revenue	17,936
Due to other funds	136,541
Compensated absences-current portion	5,239
Total current liabilities	162,976
Noncurrent liabilities	
Compensated absences-net of current portion	1,746
Total noncurrent liabilities	1,746
Total liabilities	164,722
NET ASSETS	
Invested in capital assets, net of related debt	272,244
Unrestricted	(147,621)
Total net assets	\$ 124,623

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities <u>Enterprise Fund</u>
	<u>Sewer Fund</u>
Operating revenue	
Charges for services	\$ 152,331
Total operating revenue	<u>152,331</u>
Operating expenses	
Personnel	76,334
Depreciation	38,230
Other	17,044
Repairs and maintenance	26,361
Supplies	12,854
Utilities	8,027
Testing services	4,741
Total operating expenses	<u>183,591</u>
Operating loss	(31,260)
Nonoperating expense	
Loss on disposition of assets	<u>(4,333)</u>
Change in net assets	(35,593)
Net assets, July 1, 2011	<u>160,216</u>
Net assets, June 30, 2012	<u><u>\$ 124,623</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities <u>Enterprise Fund</u> Sewer <u>Fund</u>
Cash flows from operating activities:	
Receipts from customers	\$ 148,440
Payments to suppliers and providers of goods and services	(94,511)
Payments to employees	<u>(47,581)</u>
Net cash provided (used) by operating activities	<u>6,348</u>
Cash flows from noncapital financing activities:	
Borrowings from interfund loan	<u>26,306</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(32,654)</u>
Net increase (decrease) in cash	-
Cash, July 1, 2011	<u>-</u>
Cash , June 30, 2012	<u><u>\$ -</u></u>

Noncash investing, capital, and noncapital financing activities: The Town disposed of capital assets with an original cost of \$5,023 and accumulated depreciation of \$690 as of June 30, 2012.

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012
(Continued)

	Business-type Activities <u>Enterprise Fund</u> Sewer <u>Fund</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:	
Operating loss	\$ (31,260)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	38,230
(Increase) decrease in:	
Account receivable	(2,075)
Increase (decrease) in:	
Accounts payable	(562)
Accrued expenses	410
Deferred revenue	(1,816)
Compensated absences	3,421
Net cash provided (used) by operating activities	<u><u>\$ 6,348</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Investment Trust Fund
ASSETS	
Cash	\$ 4,178
Investments, at fair value	49,109
Due from Town	2,613
Total assets	55,900
NET ASSETS	
Held in trust for investment trust participants	\$ 55,900

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012

	Investment Trust Fund
Additions	
Contributions	\$ 3,181
Investment income	
Interest and dividends	1,387
Unrealized loss	(3,267)
Total additions	1,301
Distributions	
Bank fees	16
Change in net assets	1,285
Net assets, July 1, 2011	54,615
Net assets, June 30, 2012	\$ 55,900

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

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).

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 assets 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, 2012

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, 2012

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.

The Town's business-type activities and enterprise funds follow FASB Statements and Interpretations issued before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2012 totaled \$8,914.

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, 2012

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, 2012

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, 2012, the carrying amount of the Town’s total nonpooled cash in bank was \$258,954, and the bank balance was \$277,221. Of the bank balance, \$250,000 was covered by federal depository insurance; the remainder was covered by collateral held by the pledging financial institution’s trust department or agent in the Town’s name.

Investments—At June 30, 2012, the investments consisted of the following.

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 100,993	\$ 100,993

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, 2012

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amount due from other governments at June 30, 2012, included \$15,628 in state-shared revenue from Highway User Revenue Fund (HURF) taxes, \$15,840 in state-shared revenue from sales taxes, \$4,611 in state-shared revenue from auto lieu taxes, and \$14,456 from granting agencies.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 324,800	\$ -	\$ -	\$ 324,800
Total capital assets not being depreciated	<u>324,800</u>	<u>-</u>	<u>-</u>	<u>324,800</u>
Capital assets being depreciated:				
Equipment	864,505	4,500	-	869,005
Buildings	896,025	-	-	896,025
Vehicles	541,448	-	(22,195)	519,253
Furniture and fixtures	38,523	-	-	38,523
Streets and sidewalks	3,048,789	-	-	3,048,789
Bridges	27,592	-	-	27,592
Total	<u>5,416,882</u>	<u>4,500</u>	<u>(22,195)</u>	<u>5,399,187</u>
Less accumulated depreciation for:				
Equipment	(661,846)	(35,029)	-	(696,875)
Buildings	(292,931)	(22,400)	-	(315,331)
Vehicles	(214,395)	(50,039)	20,797	(243,637)
Furniture and fixtures	(36,623)	(549)	-	(37,172)
Streets and sidewalks	(1,227,454)	(76,219)	-	(1,303,673)
Bridges	(13,800)	(552)	-	(14,352)
Total	<u>(2,447,049)</u>	<u>(184,788)</u>	<u>20,797</u>	<u>(2,611,040)</u>
Total capital assets being depreciated, net	<u>2,969,833</u>	<u>(180,288)</u>	<u>(1,398)</u>	<u>2,788,147</u>
Governmental activities capital assets, net	<u>\$ 3,294,633</u>	<u>\$ (180,288)</u>	<u>\$ (1,398)</u>	<u>\$ 3,112,947</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS – Continued

	Balance <u>July 1, 2011</u>	Increases	Decreases	Balance <u>June 30, 2012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 112,200	\$ -	\$ -	\$ 112,200
Total capital assets not being depreciated	<u>112,200</u>	<u>-</u>	<u>-</u>	<u>112,200</u>
Capital assets being depreciated:				
Sewer collection system	2,816,904	32,654	(5,023)	2,844,535
Machinery and equipment	140,283	-	-	140,283
Total	<u>2,957,187</u>	<u>32,654</u>	<u>(5,023)</u>	<u>2,984,818</u>
Less accumulated depreciation for:				
Sewer collection system	(2,652,018)	(36,269)	690	(2,687,597)
Machinery and equipment	(135,216)	(1,961)	-	(137,177)
Total	<u>(2,787,234)</u>	<u>(38,230)</u>	<u>690</u>	<u>(2,824,774)</u>
Total capital assets being depreciated, net	<u>169,953</u>	<u>(5,576)</u>	<u>(4,333)</u>	<u>160,044</u>
Business-type activities capital assets, net	<u>\$ 282,153</u>	<u>\$ (5,576)</u>	<u>\$ (4,333)</u>	<u>\$ 272,244</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 22,712
Public safety	64,490
Highways and streets	91,178
Parks and recreation	<u>6,408</u>
Total governmental activities depreciation expense	<u>\$ 184,788</u>
Business-type activities:	
Sewer	<u>\$ 38,230</u>
Total business-type activities depreciation expense	<u>\$ 38,230</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 20,678	\$ 11,043	\$ 13,676	\$ 18,045	\$ 13,534
Capital leases payable	<u>160,733</u>	<u>-</u>	<u>102,289</u>	<u>58,444</u>	<u>44,879</u>
Governmental activities long-term liabilities	<u>\$ 181,411</u>	<u>\$ 11,043</u>	<u>\$ 115,965</u>	<u>\$ 76,489</u>	<u>\$ 58,413</u>
Business-type activities					
Compensated absences payable	<u>\$ 3,564</u>	<u>\$ 3,767</u>	<u>\$ 346</u>	<u>\$ 6,985</u>	<u>\$ 5,239</u>
Business-type activities long-term liabilities	<u>\$ 3,564</u>	<u>\$ 3,767</u>	<u>\$ 346</u>	<u>\$ 6,985</u>	<u>\$ 5,239</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
Fire truck	243,120
Less: accumulated depreciation	<u>(134,350)</u>
Carrying value	<u>\$ 164,323</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012:

Year Ending June 30	Governmental Activities
2013	\$ 48,435
2014	14,344
	62,779
Total minimum lease payments	(4,335)
	\$ 58,444
Less amount representing interest	
Present value of net minimum lease payments	

Interest expense – Total interest expense of \$5,714 for governmental activities has been included on the government-wide financial statements as direct functional expenses of public safety for \$5,245 and highways and streets for \$469.

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, 2012

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, 2012, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 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, 2012, 2011, and 2010, were \$22,067, \$20,876, and \$19,071, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 7.75 percent.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

Annual Pension Cost—At the time of the issue of these financial statements, information for the year ended June 30, 2012 was unavailable. However, the Town’s pension cost for the agent plan for the year ended June 30, 2011, and related information follows:

	PSPRS
Contribution rates:	
Town	7.75%
Plan members	8.65%
Annual pension cost	\$13,190
Contributions made	\$13,190
Actuarial valuation date	06/30/11
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.00%-8.00%
Includes inflation at	5.00%
Cost-of-living adjustments	None
Amortization method	Level percent-of-pay closed
Remaining amortization period	25 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	2012	\$ 13,190	100 %	\$ -
	2011	13,942	100	-
	2010	10,049	100	-

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – Interfund balances at June 30, 2012, were as follows:

	Payable to
Payable from	General Fund
Grants Fund	\$ 2,989
Sewer Fund	136,541
	\$ 139,530

The purpose of the interfund balances between the General Fund and the Grants Fund shown above were to help the Grants Fund pay for expenditures expected to be reimbursed in future periods from grants with the State of Arizona. The purpose of the interfund balances between the General Fund and the Sewer Fund were to help the Sewer Fund pay for operating expenses.

Interfund transfers –The Town had transferred \$1,583 from the General Fund to the Grants Fund for excess public safety expenditures over allowable grant reimbursements.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 520,941	\$ 520,941	\$ 619,904	\$ 98,963
Taxes	292,540	292,540	251,607	(40,933)
Charges for services	48,700	48,700	41,548	(7,152)
Fees, fines, and forfeits	40,325	40,325	19,652	(20,673)
Miscellaneous	50,000	50,000	13,438	(36,562)
Licenses and permits	13,400	13,400	8,561	(4,839)
Interest	4,500	4,500	374	(4,126)
Total revenue	<u>970,406</u>	<u>970,406</u>	<u>955,084</u>	<u>(15,322)</u>
Expenditures				
Current				
Public safety	533,722	533,722	415,688	118,034
General government	272,250	272,250	246,860	25,390
Parks and recreation	266,450	266,450	235,483	30,967
Highways and streets	30,000	30,000	6,776	23,224
Debt service				
Principal	-	-	102,289	(102,289)
Interest	-	-	7,990	(7,990)
Capital outlay	19,441	19,441	-	19,441
Total expenditures	<u>1,121,863</u>	<u>1,121,863</u>	<u>1,015,086</u>	<u>106,777</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(151,457)</u>	<u>(151,457)</u>	<u>(60,002)</u>	<u>91,455</u>
Other financing sources (uses)				
Transfers in (out)	-	-	(1,583)	(1,583)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,583)</u>	<u>(1,583)</u>
Net change in fund balances	(151,457)	(151,457)	(61,585)	89,872
Fund balances, July 1, 2011	<u>550,468</u>	<u>550,468</u>	<u>550,468</u>	<u>-</u>
Fund balances, June 30, 2012	<u><u>\$ 399,011</u></u>	<u><u>\$ 399,011</u></u>	<u><u>\$ 488,883</u></u>	<u><u>\$ 89,872</u></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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 152,137	\$ 152,137	\$ 149,926	\$ (2,211)
Miscellaneous	10,000	10,000	307	(9,693)
Total revenue	<u>162,137</u>	<u>162,137</u>	<u>150,233</u>	<u>(11,904)</u>
Expenditures				
Current				
Highways and streets	167,137	167,137	144,081	23,056
Capital outlay	-	-	4,500	(4,500)
Total expenditures	<u>167,137</u>	<u>167,137</u>	<u>148,581</u>	<u>18,556</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>1,652</u>	<u>6,652</u>
Other financing sources (uses)				
Sale of assets	5,000	5,000	12,013	7,013
Total other financing sources (uses)	<u>5,000</u>	<u>5,000</u>	<u>12,013</u>	<u>7,013</u>
Net change in fund balances	-	-	13,665	13,665
Fund balances, July 1, 2011	-	-	-	-
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,665</u>	<u>\$ 13,665</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 1,195,497	\$ 1,195,497	\$ 51,432	\$ (1,144,065)
Miscellaneous	-	-	1,445	1,445
Total revenue	<u>1,195,497</u>	<u>1,195,497</u>	<u>52,877</u>	<u>(1,142,620)</u>
Expenditures				
Current				
Public safety	850,082	850,082	53,144	796,938
Parks and recreation	23,122	23,122	-	23,122
Highways and streets	322,293	322,293	1,228	321,065
Total expenditures	<u>1,195,497</u>	<u>1,195,497</u>	<u>54,372</u>	<u>1,141,125</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(1,495)</u>	<u>(1,495)</u>
Other financing sources (uses)				
Transfers in (out)	-	-	1,583	1,583
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,583</u>	<u>1,583</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>88</u>	<u>88</u>
Fund balances, July 1, 2011	<u>858</u>	<u>858</u>	<u>858</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ 858</u>	<u>\$ 858</u>	<u>\$ 946</u>	<u>\$ 88</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

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, 2012

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)
06/30/11	\$ 299,469	\$ 108,746	\$ 190,723	275.4 %	\$ 200,089	- %
06/30/10	268,060	97,712	170,348	274.3	215,444	-
06/30/09	265,148	103,207	161,941	256.9	193,301	-



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**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 the financial statements of the Town of Pima, Arizona, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. 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.

Internal Control Over Financial Reporting

Management of the Town of Pima, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Pima, Arizona's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Pima, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with reference numbers **07-04** to **07-05** described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pima, Arizona's financial statements are free of 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.

The Town of Pima, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Pima, Arizona's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 31, 2012

TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2012

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.

Item: 07-05

Subject: Review of utility billing adjustments.

Criteria/Specific Requirements: The billing adjustment function should be segregated from the cash receipting and billing functions. If it can not be segregated, someone apart from such functions should review billing adjustments on a regular basis.

Condition: Billing adjustments are done by the same employee who collects cash and prepares bills for utility services.

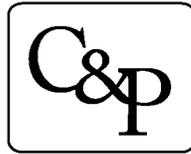
TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2012

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 designate a responsible employee to review utility billing adjustments on a monthly basis.

Response: Management agrees with this finding and will assign a separate employee apart from the cash receipting function and the billing function to review billing adjustments.



COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**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, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 31, 2012.

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 & Powell".

October 31, 2012