

TOWN OF PIMA, ARIZONA

Annual Financial Statements
and Independent Auditors' Report

June 30, 2015

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Town of Pima, Arizona 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 44 to 47, the Schedule of the Town's Proportionate Share of the Net Pension Liability Cost-Sharing Pension Plan on page 48, the Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 49, the Schedule of Town Pension Contributions on page 50, and the Schedule of Agent OPEB Plans' Funding Progress on page 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

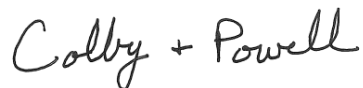
responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016, 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 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.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to 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.



February 26, 2016

TOWN OF PIMA, ARIZONA
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 832,093	\$ -	\$ 832,093
Accounts receivable - net	-	37,623	37,623
Taxes receivable	19,337	-	19,337
Due from other governments	48,631	-	48,631
Interfund balances	152,877	(152,877)	-
Net pension asset	274,853	-	274,853
Capital assets, not being depreciated	324,800	112,200	437,000
Capital assets, being depreciated, net	2,308,103	121,661	2,429,764
Total assets	3,960,694	118,607	4,079,301
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	51,554	7,044	58,598
LIABILITIES			
Accounts payable	45,413	3,949	49,362
Accrued expenses	37,679	1,884	39,563
Deferred revenue	-	6,638	6,638
Noncurrent liabilities			
Due within 1 year	25,449	4,855	30,304
Due in more than 1 year	237,088	55,480	292,568
Total liabilities	345,629	72,806	418,435
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pensions	94,675	13,872	108,547
NET POSITION			
Net investment in capital assets	2,626,059	233,861	2,859,920
Restricted for:			
Highways and streets	143,869	-	143,869
Court enhancement	13,574	-	13,574
Unrestricted	788,442	(194,888)	593,554
Total net position	\$ 3,571,944	\$ 38,973	\$ 3,610,917

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Activities
Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
Public safety	\$ 580,045	\$ 58,061	\$ 14,531	\$ -	\$ (507,453)	\$ -	\$ (507,453)
General government	271,455	31,778	-	-	(239,677)	-	(239,677)
Highways and streets	199,218	-	171,257	-	(27,961)	-	(27,961)
Parks and recreation	229,052	16,026	158	-	(212,868)	-	(212,868)
Interest on long-term debt	525	-	-	-	(525)	-	(525)
Total governmental activities	<u>1,280,295</u>	<u>105,865</u>	<u>185,946</u>	<u>-</u>	<u>(988,484)</u>	<u>-</u>	<u>(988,484)</u>
Business-type activities							
Sewer	177,844	170,462	-	-	-	(7,382)	(7,382)
Total business-type activities	<u>177,844</u>	<u>170,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,382)</u>	<u>(7,382)</u>
Total primary government	<u>\$ 1,458,139</u>	<u>\$ 276,327</u>	<u>\$ 185,946</u>	<u>\$ -</u>	<u>(988,484)</u>	<u>(7,382)</u>	<u>(995,866)</u>
General revenue:							
Taxes:							
Property tax, levied for general purposes					11,132	-	11,132
Sales tax					330,461	-	330,461
Franchise tax					52,005	-	52,005
State sales tax revenue sharing					218,145	-	218,145
Auto lieu tax revenue sharing					126,518	-	126,518
State urban revenue sharing					288,961	-	288,961
Interest income					587	-	587
Miscellaneous					155	-	155
Total general revenue					<u>1,027,964</u>	<u>-</u>	<u>1,027,964</u>
Change in net position					39,480	(7,382)	32,098
Net position, beginning of year, as restated					<u>3,532,464</u>	<u>46,355</u>	<u>3,578,819</u>
Net position, end of year					<u>\$ 3,571,944</u>	<u>\$ 38,973</u>	<u>\$ 3,610,917</u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash	\$ 692,919	\$ 139,174	\$ -	\$ 832,093
Taxes receivable	19,337	-	-	19,337
Due from other governments	24,714	15,660	8,257	48,631
Due from other funds	160,934	-	-	160,934
Total assets	\$ 897,904	\$ 154,834	\$ 8,257	\$ 1,060,995
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 35,867	\$ 9,546	\$ -	\$ 45,413
Accrued expenses	34,660	1,419	1,600	37,679
Due to other funds	-	-	8,057	8,057
Total liabilities	70,527	10,965	9,657	91,149
Fund balances				
Nonspendable	160,934	-	-	160,934
Restricted for:				
Highways and streets	-	143,869	-	143,869
Court enhancement	13,574	-	-	13,574
Unassigned	652,869	-	(1,400)	651,469
Total fund balances	827,377	143,869	(1,400)	969,846
Total liabilities and fund balances	\$ 897,904	\$ 154,834	\$ 8,257	\$ 1,060,995

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, 2015

Fund balances-total governmental funds	\$ 969,846
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	2,632,903
Net pension assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.	274,853
Long-term liabilities, such as net pension liabilities and bonds payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(262,537)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>(43,121)</u>
Net position of governmental activities	<u><u>\$ 3,571,944</u></u>

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, 2015

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenue				
Intergovernmental	\$ 640,283	\$ 171,257	\$ 7,236	\$ 818,776
Taxes	393,598	-	-	393,598
Fees, fines, and forfeits	58,061	-	-	58,061
Charges for services	32,816	-	-	32,816
Licenses and permits	15,782	-	-	15,782
Interest	587	-	-	587
Miscellaneous	14	141	-	155
Total revenue	1,141,141	171,398	7,236	1,319,775
Expenditures				
Current				
Public safety	519,742	-	9,875	529,617
General government	253,513	-	-	253,513
Parks and recreation	228,480	-	-	228,480
Highways and streets	4,712	107,264	-	111,976
Debt service				
Principal	6,587	-	-	6,587
Interest	525	-	-	525
Total expenditures	1,013,559	107,264	9,875	1,130,698
Net change in fund balances	127,582	64,134	(2,639)	189,077
Fund balances, July 1, 2014	699,795	79,735	1,239	780,769
Fund balances, June 30, 2015	\$ 827,377	\$ 143,869	\$ (1,400)	\$ 969,846

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, 2015

Net change in fund balances-total governmental funds \$ 189,077

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.

Current year depreciation expense (177,720)

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

Town pension contributions	39,528	
PSPRS health insurance transfer	(18,217)	
Pension expense	<u>6,178</u>	
		27,489

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 6,587

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.

Increase in compensated absences payable (5,953)

Change in net position of governmental activities \$ 39,480

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities Enterprise Fund
	Sewer Fund
ASSETS	
Current assets	
Accounts receivable-net	\$ 37,623
Noncurrent assets	
Capital assets, net of accumulated depreciation, where applicable:	
Land	112,200
Equipment and infrastructure, net	121,661
Total noncurrent assets	233,861
Total assets	271,484
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	7,044
 LIABILITIES	
Current liabilities	
Accounts payable	3,949
Accrued expenses	1,884
Deferred revenue	6,638
Compensated absences-current portion	4,855
Due to other funds	152,877
Total current liabilities	170,203
Noncurrent liabilities	
Compensated absences-net of current portion	1,618
Net pension liability	53,862
Total noncurrent liabilities	55,480
Total liabilities	225,683
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	13,872
 NET POSITION	
Net investment in capital assets	233,861
Unrestricted	(194,888)
Total net position	\$ 38,973

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, 2015

	Business-type Activities
	<u>Enterprise Fund</u>
	Sewer <u>Fund</u>
Operating revenue	
Charges for services	\$ 170,462
Operating expenses	
Personnel	103,361
Repairs and maintenance	28,840
Supplies	14,840
Depreciation	10,246
Utilities	7,863
Other	7,517
Testing services	5,177
Total operating expenses	<u>177,844</u>
Operating loss	(7,382)
Total net position, beginning of year, as restated	<u>46,355</u>
Total net postion, end of year	<u><u>\$ 38,973</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities <u>Enterprise Fund</u>
	<u>Sewer Fund</u>
Cash flows from operating activities:	
Receipts from customers	\$ 148,427
Payments to suppliers and providers of goods and services	(108,407)
Payments to employees	<u>(56,830)</u>
Net cash used by operating activities	<u>(16,810)</u>
Cash flows from noncapital financing activities:	
Borrowings from interfund loan	<u>16,810</u>
Net increase (decrease) in cash	-
Cash, July 1, 2014	<u>-</u>
Cash, June 30, 2015	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015
(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	\$ (7,382)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	10,246
Pension expense	1,608
Employer pension contributions	(4,307)
(Increase) decrease in:	
Account receivable	(9,449)
Increase (decrease) in:	
Accounts payable	2,788
Accrued expenses	233
Deferred revenue	(12,586)
Compensated absences	2,039
Net cash used by operating activities	<u><u>\$ (16,810)</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Investment Trust Fund
ASSETS	
Cash	\$ 54,508
Due from Town	165
Total assets	54,673
NET POSITION	
Held in trust for investment trust participants	\$ 54,673

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2015

	Investment Trust Fund
Additions	
Contributions	\$ 383
Investment income	12
Total additions	395
Distributions	
Distributions to participants	7,584
Change in net position	(7,189)
Net position, July 1, 2014	61,862
Net position, June 30, 2015	\$ 54,673

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

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 Town 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, 2015

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, 2015

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, 2015 totaled \$8,914.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. 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.

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.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Impact of Recently Issued Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

M. Pensions

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

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015, the carrying amount of the Town’s total nonpooled cash in bank was \$729,488, and the bank balance was \$733,767. The entire bank balance was covered by federal depository insurance.

Investments—At June 30, 2015, the investments consisted of the following.

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 102,605	\$ 102,605

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, 2015

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amount due from other governments at June 30, 2015, included \$15,660 in state-shared revenue from Highway User Revenue Fund (HURF) taxes, \$19,001 in state-shared revenue from sales taxes, \$5,713 in state-shared revenue from auto lieu taxes, and \$8,257 in federal-shared revenue from Homeland Security.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
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	903,309	-	-	903,309
Buildings	896,025	-	-	896,025
Vehicles	540,151	-	-	540,151
Furniture and fixtures	38,523	-	-	38,523
Streets and sidewalks	3,048,789	-	-	3,048,789
Bridges	27,592	-	-	27,592
Total	<u>5,454,389</u>	<u>-</u>	<u>-</u>	<u>5,454,389</u>
Less accumulated depreciation for:				
Equipment	(764,185)	(27,451)	-	(791,636)
Buildings	(360,131)	(22,400)	-	(382,531)
Vehicles	(334,413)	(50,845)	-	(385,258)
Furniture and fixtures	(38,270)	(253)	-	(38,523)
Streets and sidewalks	(1,456,111)	(76,219)	-	(1,532,330)
Bridges	(15,456)	(552)	-	(16,008)
Total	<u>(2,968,566)</u>	<u>(177,720)</u>	<u>-</u>	<u>(3,146,286)</u>
Total capital assets being depreciated, net	<u>2,485,823</u>	<u>(177,720)</u>	<u>-</u>	<u>2,308,103</u>
Governmental activities capital assets, net	<u>\$ 2,810,623</u>	<u>\$ (177,720)</u>	<u>\$ -</u>	<u>\$ 2,632,903</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS – Continued

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 112,200	\$ -	\$ -	\$ 112,200
Total capital assets not being depreciated	112,200	-	-	112,200
Capital assets being depreciated:				
Sewer collection system	2,844,535	-	-	2,844,535
Machinery and equipment	140,283	-	-	140,283
Total	2,984,818	-	-	2,984,818
Less accumulated depreciation for:				
Sewer collection system	(2,712,628)	(10,246)	-	(2,722,874)
Machinery and equipment	(140,283)	-	-	(140,283)
Total	(2,852,911)	(10,246)	-	(2,863,157)
Total capital assets being depreciated, net	131,907	(10,246)	-	121,661
Business-type activities capital assets, net	\$ 244,107	\$ (10,246)	\$ -	\$ 233,861

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 21,583
Public safety	63,795
Highways and streets	87,466
Parks and recreation	4,876
 Total governmental activities depreciation expense	 \$ 177,720
 Business-type activities:	
Sewer	\$ 10,246
 Total business-type activities depreciation expense	 \$ 10,246

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 18,854	\$ 18,914	\$ 12,961	\$ 24,807	\$ 18,605
Capital leases payable	13,431	-	6,587	6,844	6,844
Net pension liability	286,776	-	55,890	230,886	-
Governmental activities long-term liabilities	<u>\$ 319,061</u>	<u>\$ 18,914</u>	<u>\$ 75,438</u>	<u>\$ 262,537</u>	<u>\$ 25,449</u>
Business-type activities					
Compensated absences payable	\$ 4,434	\$ 4,104	\$ 2,065	\$ 6,473	\$ 4,855
Net pension liability	66,900	-	13,038	53,862	-
Business-type activities long-term liabilities	<u>\$ 71,334</u>	<u>\$ 4,104</u>	<u>\$ 15,103</u>	<u>\$ 60,335</u>	<u>\$ 4,855</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
Road Broom	\$ 26,194
Less: accumulated depreciation	<u>(4,656)</u>
Carrying value	<u>\$ 21,538</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015:

Year Ending June 30	Governmental Activities
2016	7,112
Total minimum lease payments	7,112
Less amount representing interest	(267)
Present value of net minimum lease payments	\$ 6,844

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, 2015

NOTE 7 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net position as previously reported at June 30, 2014	\$ 3,559,107	\$ 109,744
Prior period adjustments- implementation of GASB 68:		
Net pension asset (measurement date as of June 30, 2013)	230,084	-
Net pension liability (measurement date as of June 30, 2013)	(286,776)	(66,900)
Deferred outflows-Town contributions made during fiscal year 2014	30,049	3,511
Total prior period adjustment	<u>(26,643)</u>	<u>(63,389)</u>
Net position, as restated, July 1, 2014	<u>\$ 3,532,464</u>	<u>\$ 46,355</u>
	<u>Sewer Fund</u>	
Net position as previously reported at June 30, 2014	\$ 109,744	
Net pension liability (measurement date as of June 30, 2013)	(66,900)	
Deferred outflows-Town contributions made during fiscal year 2014	3,511	
Total prior period adjustment	<u>(63,389)</u>	
Net position, as restated, July 1, 2014	<u>\$ 46,355</u>	

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2015, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net pension assets	\$ 274,853	\$ -	\$ 274,853
Net pension liabilities	230,886	53,862	284,748
Deferred outflows of resources	51,554	7,044	58,598
Deferred inflows of resources	94,675	13,872	108,547
Pension expense	(6,178)	1,608	(4,570)

The Town reported \$39,528 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS - Continued

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30,

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

2015, were \$22,767. The Town’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS		<u>Health Benefit Supplement Fund</u>	<u>Long-term Disability Fund</u>
	Year ended June 30,		
	2015	\$ 1,190	\$ 238
	2014	1,066	426
	2013	1,132	472

During fiscal year 2015, the Town paid for ASRS pension and OPEB contributions as follows: 81.08 percent from the General Fund, and 18.92 percent from the Sewer Fund.

Pension Liability – At June 30, 2015, the Town reported a liability of \$284,748 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Town’s proportion of the net pension liability was based on the Town’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2014. The Town’s proportion measured as of June 30, 2014, was .001924 percent, which was an decrease of .000203 from its proportion measured as of June 30, 2013.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$8,501. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 14,472	\$ -
Net difference between projected and actual earnings on pension plan investments	-	49,794
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	23,545
Town contributions subsequent to the measurement date	<u>22,767</u>	<u>-</u>
 Total	 <u>\$ 37,239</u>	 <u>\$ 73,339</u>

The \$22,767 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	
2016	\$ (16,393)
2017	(16,393)
2018	(13,632)
2019	(12,449)
2020	-
Thereafter	-

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS	
Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Town's proportionate share of the net pension liability	\$ 359,907	\$ 284,748	\$ 243,971

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System

Plan Descriptions – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

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

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

PSPRS	<u>PSPRS Police</u>
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>2</u>
Total	<u><u>4</u></u>

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

PSPRS	<u>PSPRS Police</u>
Active Members - Pension	11.05%
Town-	
Pension	11.76%
Health insurance premium benefit	0.98%

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

Pension	<u>PSPRS Police</u>
Contributions Made	\$ 21,068
Health Insurance Premium Benefit	
Annual OPEB cost	1,756
Contributions made	1,756

During fiscal year 2015, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2015, the Town reported the following net pension liability (asset):

	<u>Net Pension Liability (Asset)</u>
PSPRS Police	\$ (274,853)

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions:

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed Income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS Police
Discount rates	7.85%

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

PSPRS Police	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at June 30, 2014	\$ 128,434	\$ 358,518	\$ (230,084)
Changes for the year			
Service Cost	26,988	-	26,988
Interest on the total pension liability	10,130	-	10,130
Changes of benefit terms	(663)	-	(663)
Differences between expected and actual experience in the measurement of the pension liability	(25,017)	-	(25,017)
Changes of assumptions or other inputs	374	-	374
Contributions-employer	-	14,998	(14,998)
Contributions-employee	-	12,990	(12,990)
Net investment income	-	46,810	(46,810)
Benefit payments, including refunds			
Administrative expense of employee contributions	(25,773)	(25,773)	-
Other changes	-	(18,217)	18,217
Net changes	(13,961)	30,808	(44,769)
Balances at June 30, 2015	\$ 114,473	\$ 389,326	\$ (274,853)

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities calculated using the discount rates noted above, as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

PSPRS	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability (asset)	\$ (256,857)	\$ (274,853)	\$ (289,896)

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2015, the Town recognized the following pension expense:

	<u>Pension Expense</u>
PSPRS Police	\$ (13,071)

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 19,469
Changes of assumptions or other inputs	291	-
Net difference between projected and actual earnings on pension plan investments	-	15,739
Town contributions subsequent to the measurement date	21,068	-
Total	<u>\$ 21,359</u>	<u>\$ 35,208</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	PSPRS Police
2016	\$ (9,400)
2017	(9,400)
2018	(9,400)
2019	(6,717)
2020	-
Thereafter	-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plans as understood by the Town and plans’ members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans’ members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.5%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed
PSPRS Police		
2015	\$ 1,756	100%
2014	1,232	100%
2013	1,654	100%

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>
Actuarial value of assets (a)	\$ 24,503
Actuarial accrued liability (b)	\$ 6,306
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (18,197)
Funded ratio (a)/(b)	388.57%
Annual covered payroll (c)	\$ 179,148
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)	0.00%

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The actuarial methods and assumptions for the most recent valuation date are as follows:

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – The balance due by the Sewer Fund to the General Fund was \$152,877 at June 30, 2015. The purpose of the interfund balance was to help the Sewer Fund pay for operating expenses.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 650,122	\$ 650,122	\$ 640,283	\$ (9,839)
Taxes	370,000	370,000	393,598	23,598
Fees, fines, and forfeits	52,450	52,450	58,061	5,611
Charges for services	25,844	25,844	32,816	6,972
Licenses and permits	16,000	16,000	15,782	(218)
Interest	14,500	14,500	587	(13,913)
Miscellaneous	750	750	14	(736)
Total revenue	1,129,666	1,129,666	1,141,141	11,475
Expenditures				
Current				
Public safety	513,797	513,797	519,742	(5,945)
General government	301,450	301,450	253,513	47,937
Parks and recreation	263,850	263,850	228,480	35,370
Highways and streets	33,994	33,994	4,712	29,282
Debt service				
Principal	-	-	6,587	(6,587)
Interest	-	-	525	(525)
Total expenditures	1,113,091	1,113,091	1,013,559	99,532
Net change in fund balances	16,575	16,575	127,582	111,007
Fund balances, July 1, 2014	699,795	699,795	699,795	-
Fund balances, June 30, 2015	\$ 716,370	\$ 716,370	\$ 827,377	\$ 111,007

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 179,965	\$ 179,965	\$ 171,257	\$ (8,708)
Licenses and permits	2,500	2,500	-	(2,500)
Miscellaneous	-	-	141	141
Total revenue	<u>182,465</u>	<u>182,465</u>	<u>171,398</u>	<u>(11,067)</u>
Expenditures				
Current				
Highways and streets	198,000	198,000	107,264	90,736
Excess (deficiency) of revenue over (under) expenditures	<u>(15,535)</u>	<u>(15,535)</u>	<u>64,134</u>	<u>79,669</u>
Other financing sources (uses)				
Sale of assets	1,000	1,000	-	(1,000)
Net change in fund balances	<u>(14,535)</u>	<u>(14,535)</u>	<u>64,134</u>	<u>78,669</u>
Fund balances, July 1, 2014	-	-	79,735	79,735
Fund balances, June 30, 2015	<u>\$ (14,535)</u>	<u>\$ (14,535)</u>	<u>\$ 143,869</u>	<u>\$ 158,404</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 980,138	\$ 980,138	\$ 7,236	\$ (972,902)
Expenditures				
Current				
Public safety	954,642	954,642	9,875	944,767
Parks and recreation	23,280	23,280	-	23,280
Total expenditures	<u>977,922</u>	<u>977,922</u>	<u>9,875</u>	<u>968,047</u>
Net change in fund balances	2,216	2,216	(2,639)	(4,855)
Fund balances, July 1, 2014	<u>1,239</u>	<u>1,239</u>	<u>1,239</u>	<u>-</u>
Fund balances, June 30, 2015	<u><u>\$ 3,455</u></u>	<u><u>\$ 3,455</u></u>	<u><u>\$ (1,400)</u></u>	<u><u>\$ (4,855)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2015

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 the Town's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014
	(2014)	through
	2006	
Town's proportion of the net pension liability	0.001924%	Information
Town's proportionate share of the net pension liability	\$ 284,748	not available
Town's covered-employee payroll	\$ 198,319	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	143.58%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

PSPRS Police

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014 through 2006
	(2014)	
Total pension liability		Information not available
Service cost	\$ 26,988	
Interest on the total pension liability	10,130	
Changes of benefit terms	(663)	
Differences between expected and actual experience in the measurement of the pension liability	(25,017)	
Changes of assumptions or other inputs	374	
Benefit payments, including refunds of employee contributions	(25,773)	
Net change in total pension liability	(13,961)	
Total pension liability - beginning	128,434	
Total pension liability - ending (a)	<u>\$ 114,473</u>	
Plan fiduciary net position		
Contributions - employer	\$ 14,998	
Contributions - employee	12,990	
Net investment income	46,810	
Benefit payments, including refunds of employee contributions	(25,773)	
Administrative expense	-	
Other changes	(18,217)	
Net change in plan fiduciary net position	30,808	
Plan fiduciary net position - beginning	358,518	
Plan fiduciary net position - ending (b)	<u>\$ 389,326</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ (274,853)</u>	
Plan fiduciary net position as a percentage of the total pension liability	340.10%	
Covered-employee payroll	\$ 93,758	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-293.15%	

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Schedule of Town's Pension Contributions
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year		2013 through 2006
	2015	2014	
Statutorily required contribution	\$ 22,767	\$ 18,562	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(22,767)</u>	<u>(18,562)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 209,256	\$ 173,477	
Town's contributions as a percentage of covered-employee payroll	10.88%	10.70%	

PSPRS Police

	Reporting Fiscal Year		2013 through 2006
	2015	2014	
Actuarially determined contribution	\$ 21,068	\$ 14,988	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(21,068)</u>	<u>(14,998)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 179,148	\$ 93,758	
Town's contributions as a percentage of covered-employee payroll	11.76%	15.99%	

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2015

NOTE 1 - ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%
Wage growth	In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF PIMA, ARIZONA
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

Health Insurance Premium Benefit - PSPRS Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/15	\$ 24,503	\$ 6,306	\$ (18,197)	388.57%	\$ 179,148	0.00 %
06/30/14	21,821	4,618	(17,203)	472.52%	93,758	0.00 %
06/30/13	-	5,535	5,535	0.00%	129,320	4.28 %

TOWN OF PIMA, ARIZONA
Notes to Schedule of Agent OPEB Plans' funding Progress
June 30, 2015

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014 the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.



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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, 2015, 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 February 26, 2016.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

consider to be material weaknesses. We consider the all of the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

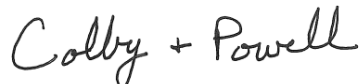
As part of obtaining reasonable assurance about whether the Town of Pima, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

The Town of Pima, Arizona's Response to Findings

The Town of Pima, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Pima, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



February 26, 2016

TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2015

Financial Statement Findings

Audit findings and responses are as follows:

Item: 07-04

Subject: Segregation of duties – Cash

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.

TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2015

Item: 14-01

Subject: Segregation of duties – Billing Adjustments

Criteria/Specific Requirements: The billing adjustment function should be segregated from the cash receipting and billing functions. If it cannot 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.

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.