

TOWN OF PIMA, ARIZONA

Annual Financial Statements
and Independent Auditors' Report

June 30, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 3, 2017, 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.

Colby + Powell

February 3, 2017

TOWN OF PIMA, ARIZONA
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 840,281	\$ -	\$ 840,281
Accounts receivable - net	-	48,552	48,552
Taxes receivable	20,831	-	20,831
Due from other governments	49,238	-	49,238
Interfund balances	183,033	(183,033)	-
Net pension asset	292,241	-	292,241
Capital assets, not being depreciated	324,800	112,200	437,000
Capital assets, being depreciated, net	2,153,154	111,415	2,264,569
Total assets	3,863,578	89,134	3,952,712
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	85,675	9,725	95,400
LIABILITIES			
Accounts payable	36,637	2,846	39,483
Accrued expenses	12,524	-	12,524
Deferred revenue	-	6,638	6,638
Noncurrent liabilities			
Due within 1 year	26,350	6,146	32,496
Due in more than 1 year	275,332	62,750	338,082
Total liabilities	350,843	78,380	429,223
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pensions	58,262	7,644	65,906
NET POSITION			
Net investment in capital assets	2,468,762	223,615	2,692,377
Restricted for:			
Highways and streets	202,273	-	202,273
Court enhancement	13,574	-	13,574
Unrestricted	855,539	(210,780)	644,759
Total net position	\$ 3,540,148	\$ 12,835	\$ 3,552,983

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Activities
Year Ended June 30, 2016

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	\$ 609,192	\$ 23,147	\$ 6,500	\$ -	\$ (579,545)	\$ -	\$ (579,545)
General government	241,586	29,844	-	-	(211,742)	-	(211,742)
Highways and streets	270,115	-	171,960	-	(98,155)	-	(98,155)
Parks and recreation	233,972	5,021	-	-	(228,951)	-	(228,951)
Interest on long-term debt	401	-	-	-	(401)	-	(401)
Total governmental activities	<u>1,355,266</u>	<u>58,012</u>	<u>178,460</u>	<u>-</u>	<u>(1,118,794)</u>	<u>-</u>	<u>(1,118,794)</u>
Business-type activities							
Sewer	223,704	197,566	-	-	-	(26,138)	(26,138)
Total business-type activities	<u>223,704</u>	<u>197,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,138)</u>	<u>(26,138)</u>
Total primary government	<u>\$ 1,578,970</u>	<u>\$ 255,578</u>	<u>\$ 178,460</u>	<u>\$ -</u>	<u>(1,118,794)</u>	<u>(26,138)</u>	<u>(1,144,932)</u>
General revenue:							
Taxes:							
Property tax, levied for general purposes					11,030	-	11,030
Sales tax					379,877	-	379,877
Franchise tax					53,295	-	53,295
State sales tax revenue sharing					226,143	-	226,143
Auto lieu tax revenue sharing					127,201	-	127,201
State urban revenue sharing					287,394	-	287,394
Interest income					1,573	-	1,573
Miscellaneous					485	-	485
Total general revenue					<u>1,086,998</u>	<u>-</u>	<u>1,086,998</u>
Change in net position					(31,796)	(26,138)	(57,934)
Net position, beginning of year					3,571,944	38,973	3,610,917
Net position, end of year					<u>\$ 3,540,148</u>	<u>\$ 12,835</u>	<u>\$ 3,552,983</u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash	\$ 647,412	\$ 192,869	\$ -	\$ 840,281
Taxes receivable	20,831	-	-	20,831
Due from other governments	24,907	16,074	8,257	49,238
Due from other funds	261,298	-	-	261,298
Total assets	\$ 954,448	\$ 208,943	\$ 8,257	\$ 1,171,648
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 20,698	\$ 6,670	\$ 9,269	\$ 36,637
Accrued expenses	12,524	-	-	12,524
Due to other funds	-	-	78,265	78,265
Total liabilities	33,222	6,670	87,534	127,426
Fund balances				
Nonspendable	261,298	-	-	261,298
Restricted for:				
Highways and streets	-	202,273	-	202,273
Court enhancement	13,574	-	-	13,574
Unassigned	646,354	-	(79,277)	567,077
Total fund balances	921,226	202,273	(79,277)	1,044,222
Total liabilities and fund balances	\$ 954,448	\$ 208,943	\$ 8,257	\$ 1,171,648

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, 2016

Fund balances-total governmental funds	\$ 1,044,222
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.	2,477,954
Net pension assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.	292,241
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.	(301,682)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>27,413</u>
Net position of governmental activities	<u><u>\$ 3,540,148</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, 2016

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenue				
Intergovernmental	\$ 647,238	\$ 171,960	\$ -	\$ 819,198
Taxes	444,201	-	-	444,201
Fees, fines, and forfeits	23,147	-	-	23,147
Charges for services	22,318	-	-	22,318
Licenses and permits	12,547	-	-	12,547
Interest	1,573	-	-	1,573
Miscellaneous	-	485	-	485
Total revenue	<u>1,151,024</u>	<u>172,445</u>	<u>-</u>	<u>1,323,469</u>
Expenditures				
Current				
Public safety	549,552	-	8,783	558,335
General government	242,705	-	-	242,705
Parks and recreation	253,562	-	-	253,562
Highways and streets	4,111	114,041	69,094	187,246
Debt service				
Principal	6,977	-	-	6,977
Interest	268	-	-	268
Capital outlay	9,192	-	-	9,192
Total expenditures	<u>1,066,367</u>	<u>114,041</u>	<u>77,877</u>	<u>1,258,285</u>
Excess (deficiency) of revenue over (under) expenditures	<u>84,657</u>	<u>58,404</u>	<u>(77,877)</u>	<u>65,184</u>
Other financing sources (uses)				
Capital lease acquisitions	9,192	-	-	9,192
Total other financing sources (uses)	<u>9,192</u>	<u>-</u>	<u>-</u>	<u>9,192</u>
Net change in fund balances	93,849	58,404	(77,877)	74,376
Fund balances, July 1, 2015	<u>827,377</u>	<u>143,869</u>	<u>(1,400)</u>	<u>969,846</u>
Fund balances, June 30, 2016	<u>\$ 921,226</u>	<u>\$ 202,273</u>	<u>\$ (79,277)</u>	<u>\$ 1,044,222</u>

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, 2016

Net change in fund balances-total governmental funds \$ 74,376

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 capital acquisitions	9,192	
Current year depreciation expense	<u>(164,141)</u>	(154,949)

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	46,534	
PSPRS health insurance transfer	(343)	
Pension expense	<u>12,405</u>	58,596

Debt proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the Statement of Net Position.

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces
long-term liabilities in the Statement of Net Position.

Debt principal repaid	6,844	
Capital leases incurred	<u>(9,192)</u>	(2,348)

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	<u>(7,471)</u>	
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Change in net position of governmental activities \$ (31,796)

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities <u>Enterprise Fund</u>
	<u>Sewer Fund</u>
ASSETS	
Current assets	
Accounts receivable-net	<u>\$ 48,552</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation, where applicable:	
Land	112,200
Equipment and infrastructure, net	<u>111,415</u>
Total noncurrent assets	<u>223,615</u>
Total assets	<u>272,167</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>9,725</u>
 LIABILITIES	
Current liabilities	
Accounts payable	2,846
Deferred revenue	6,638
Compensated absences-current portion	6,146
Due to other funds	<u>183,033</u>
Total current liabilities	<u>198,663</u>
Noncurrent liabilities	
Compensated absences-net of current portion	2,048
Net pension liability	<u>60,702</u>
Total noncurrent liabilities	<u>62,750</u>
Total liabilities	<u>261,413</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>7,644</u>
 NET POSITION	
Net investment in capital assets	223,615
Unrestricted	<u>(210,780)</u>
Total net position	<u><u>\$ 12,835</u></u>

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, 2016

	Business-type Activities
	<u>Enterprise Fund</u>
	Sewer <u>Fund</u>
Operating revenue	
Charges for services	\$ 197,566
Operating expenses	
Personnel	143,328
Repairs and maintenance	32,374
Supplies	11,852
Depreciation	10,246
Utilities	10,629
Other	10,838
Testing services	4,437
Total operating expenses	<u>223,704</u>
Operating loss	(26,138)
Total net position, beginning of year	<u>38,973</u>
Total net postion, end of year	<u><u>\$ 12,835</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities
	<u>Enterprise Fund</u>
	Sewer Fund
	<u> </u>
Cash flows from operating activities:	
Receipts from customers	\$ 186,637
Payments to suppliers and providers of goods and services	(139,684)
Payments to employees	<u> (77,109)</u>
Net cash used by operating activities	<u> (30,156)</u>
Cash flows from noncapital financing activities:	
Borrowings from interfund loan	<u> 30,156</u>
Net increase (decrease) in cash	-
Cash, July 1, 2015	<u> -</u>
Cash, June 30, 2016	<u><u> -</u></u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016
(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	\$ (26,138)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	10,246
Pension expense	630
Employer pension contributions	(2,699)
(Increase) decrease in:	
Account receivable	(10,929)
Increase (decrease) in:	
Accounts payable	(1,103)
Accrued expenses	(1,883)
Compensated absences	1,721
Net cash used by operating activities	<u>\$ (30,155)</u>

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Investment Trust Fund
ASSETS	
Cash	\$ 53,451
Due from Town	477
Total assets	53,928
NET POSITION	
Held in trust for investment trust participants	\$ 53,928

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2016

	Investment Trust Fund
Additions	
Contributions	\$ 665
Unrealized loss	(1,409)
Total additions	(744)
Change in net position	(744)
Net position, July 1, 2015	54,672
Net position, June 30, 2016	\$ 53,928

See accompanying notes to financial statements.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016

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, 2016

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, 2016 totaled \$8,914.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016

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, 2016

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Impact of Recently Issued Accounting Principles

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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, 2016

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, 2016, the carrying amount of the Town’s total nonpooled cash in bank was \$737,360, and the bank balance was \$754,021. The entire bank balance was covered by federal depository insurance.

Investments—At June 30, 2016, the investments consisted of the following.

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 102,921	\$ 102,921

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, 2016

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2016 consisted of \$18,866 in state-shared revenue from sales taxes, \$6,041 in state-shared revenue from auto lieu taxes, and \$12,838 in local sales taxes collected by the State of Arizona.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2016 consisted of \$16,074 in state-shared revenue from Highway User Revenue Fund (HURF) taxes.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
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	9,192	-	912,501
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>9,192</u>	<u>-</u>	<u>5,463,581</u>
Less accumulated depreciation for:				
Equipment	(791,636)	(16,992)	-	(808,628)
Buildings	(382,531)	(22,400)	-	(404,931)
Vehicles	(385,258)	(47,978)	-	(433,236)
Furniture and fixtures	(38,523)	-	-	(38,523)
Streets and sidewalks	(1,532,330)	(76,219)	-	(1,608,549)
Bridges	(16,008)	(552)	-	(16,560)
Total	<u>(3,146,286)</u>	<u>(164,141)</u>	<u>-</u>	<u>(3,310,427)</u>
Total capital assets being depreciated, net	<u>2,308,103</u>	<u>(154,949)</u>	<u>-</u>	<u>2,153,154</u>
Governmental activities capital assets, net	<u>\$ 2,632,903</u>	<u>\$ (154,949)</u>	<u>\$ -</u>	<u>\$ 2,477,954</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 4 – CAPITAL ASSETS – Continued

	Balance <u>July 1, 2015</u>	Increases	Decreases	Balance <u>June 30, 2016</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	2,844,535	-	-	2,844,535
Machinery and equipment	140,283	-	-	140,283
Total	<u>2,984,818</u>	<u>-</u>	<u>-</u>	<u>2,984,818</u>
Less accumulated depreciation for:				
Sewer collection system	(2,722,874)	(10,246)	-	(2,733,120)
Machinery and equipment	(140,283)	-	-	(140,283)
Total	<u>(2,863,157)</u>	<u>(10,246)</u>	<u>-</u>	<u>(2,873,403)</u>
Total capital assets being depreciated, net	<u>121,661</u>	<u>(10,246)</u>	<u>-</u>	<u>111,415</u>
Business-type activities capital assets, net	<u>\$ 233,861</u>	<u>\$ (10,246)</u>	<u>\$ -</u>	<u>\$ 223,615</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 19,370
Public safety	54,396
Highways and streets	86,087
Parks and recreation	<u>4,288</u>
Total governmental activities depreciation expense	<u>\$ 164,141</u>
Business-type activities:	
Sewer	<u>\$ 10,246</u>
Total business-type activities depreciation expense	<u>\$ 10,246</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 24,807	\$ 7,471	\$ -	\$ 32,278	\$ 24,209
Capital leases payable	6,844	9,192	6,844	9,192	2,141
Net pension liability	230,886	29,326	-	260,212	-
Governmental activities long-term liabilities	<u>\$ 262,537</u>	<u>\$ 45,989</u>	<u>\$ 6,844</u>	<u>\$ 301,682</u>	<u>\$ 26,350</u>
Business-type activities					
Compensated absences payable	\$ 6,473	\$ 1,721	\$ -	\$ 8,194	\$ 6,146
Net pension liability	53,862	6,840	-	60,702	-
Business-type activities long-term liabilities	<u>\$ 60,335</u>	<u>\$ 8,561</u>	<u>\$ -</u>	<u>\$ 68,896</u>	<u>\$ 6,146</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
Lawn Mower	9,192
Less: accumulated depreciation	<u>(6,479)</u>
Carrying value	<u>\$ 28,907</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016:

Year Ending June 30	Governmental Activities
2016	211
2017	2,536
2018	2,536
2019	2,536
2020	2,324
Total minimum lease payments	10,142
Less amount representing interest	(950)
Present value of net minimum lease payments	\$ 9,192

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, 2016

NOTE 7 – 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, 2016, 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	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension assets	\$ 292,241	\$ -	\$ -
Net pension liabilities	260,212	60,702	\$ 320,914
Deferred outflows of resources	85,675	9,725	95,400
Deferred inflows of resources	58,262	7,644	65,906
Pension expense	(12,405)	2,669	(9,736)

The Town reported \$58,596 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, 2016

NOTE 7 – 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	
	<u>Initial membership date:</u>	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
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, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

2016, were \$27,147. 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,		
2016	\$ 1,196	\$ 287
2015	1,066	426
2014	1,132	472

During fiscal year 2016, 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 \$320,194 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. 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, 2015. 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, 2014.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$14,108. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,757	\$ 16,816
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	10,285
Changes in proportion and differences between Town contributions and proportionate share of contributions	15,508	13,308
Town contributions subsequent to the measurement date	27,147	-
Total	\$ 51,412	\$ 40,409

The \$27,147 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:

Year ended June 30,		
2017	\$	(9,998)
2018		(7,548)
2019		(6,022)
2020		7,424
2021		-
Thereafter		-

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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, 2014
Actuarial roll forward date	June 30, 2015
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, 2014, 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:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.93%
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, 2016

NOTE 7 – 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:

ASRS	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Town's proportionate share of the net pension liability	\$ 420,508	\$ 320,914	\$ 252,661

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, 2016

NOTE 7 – 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:

	<u>Initial membership date:</u>	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 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, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	2
Active employees	4
Total	6

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, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police
Active Members - Pension	11.65%
Town Pension	12.89%
Health insurance premium benefit	0.07%

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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, 2016, were:

Pension	<u>PSPRS Police</u>	
Contributions Made	\$	26,882
Health Insurance Premium Benefit		
Annual OPEB cost		136
Contributions made		136

During fiscal year 2016, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2016, the Town reported the following net pension liability (asset):

	<u>Net Pension Liability</u>	
	<u>(Asset)</u>	
PSPRS Police	\$	(292,241)

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town’s net pension liability as a result of the statutory adjustments is not known.

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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, 2015
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, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 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 Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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)

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 114,473	\$ 389,326	\$ (274,853)
Changes for the year			
Service Cost	21,099	-	21,099
Interest on the total pension liability	9,814	-	9,814
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	3,901	-	3,901
Changes of assumptions or other inputs	-	-	-
Contributions-employer	-	19,766	(19,766)
Contributions-employee	-	18,593	(18,593)
Net investment income	-	14,929	(14,929)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(743)	743
Other changes	-	(343)	343
Net changes	34,814	52,202	(17,388)
Balances at June 30, 2016	\$ 149,287	\$ 441,528	\$ (292,241)

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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:

	<u>1% Decrease (6.85%)</u>	<u>Current Discount Rate (7.85%)</u>	<u>1% Increase (8.85%)</u>
Net pension liability	\$ (269,211)	\$ (292,241)	\$ (310,853)

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, 2016, the Town recognized the following pension expense:

	<u>Pension Expense</u>
PSPRS Police	\$ (23,844)

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,221	\$ 13,921
Changes of assumptions or other inputs	208	-
Net difference between projected and actual earnings on pension plan investments	13,677	11,576
Town contributions subsequent to the measurement date	26,882	-
Total	<u>\$ 43,988</u>	<u>\$ 25,497</u>

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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, 2017. 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
2017	\$ (5,225)
2018	(5,225)
2019	(2,542)
2020	4,100
2021	501
Thereafter	-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, 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, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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. The actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 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	4.0%-8.0%
Wage growth	4.0%

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ 358	100%	\$ (260,671)
2015	136	100%	(302,561)
2014	-	0%	(280,327)

TOWN OF PIMA, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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)	\$	577,302
Actuarial accrued liability (b)	\$	316,631
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(260,671)
Funded ratio (a)/(b)		182.33%
Annual covered payroll (c)	\$	194,918
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, 2016

NOTE 7 – 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; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – The balance due by the Sewer Fund to the General Fund was \$183,033 at June 30, 2016. 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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 639,710	\$ 639,710	\$ 647,238	\$ 7,528
Taxes	373,000	373,000	444,201	71,201
Fees, fines, and forfeits	39,250	39,250	23,147	(16,103)
Charges for services	43,000	43,000	22,318	(20,682)
Licenses and permits	20,750	20,750	12,547	(8,203)
Interest	750	750	1,573	823
Miscellaneous	32,000	32,000	-	(32,000)
Total revenue	1,148,460	1,148,460	1,151,024	2,564
Expenditures				
Current				
Public safety	529,750	529,750	549,552	(19,802)
General government	938,750	938,750	242,705	696,045
Parks and recreation	240,900	240,900	253,562	(12,662)
Highways and streets	26,000	26,000	4,111	21,889
Debt service				
Principal	-	-	6,977	(6,977)
Interest	-	-	268	(268)
Capital outlay	-	-	9,192	(9,192)
Total expenditures	1,735,400	1,735,400	1,066,367	669,033
Excess (deficiency) of revenue over (under) expenditures	(586,940)	(586,940)	84,657	671,597
Other financing sources (uses)				
Capital lease acquisition	-	-	9,192	9,192
Net change in fund balances	(586,940)	(586,940)	93,849	680,789
Fund balances, July 1, 2015	827,377	827,377	827,377	-
Fund balances, June 30, 2016	\$ 240,437	\$ 240,437	\$ 921,226	\$ 680,789

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 190,400	\$ 190,400	\$ 171,960	\$ (18,440)
Miscellaneous	-	-	485	485
Total revenue	<u>190,400</u>	<u>190,400</u>	<u>172,445</u>	<u>(17,955)</u>
Expenditures				
Current				
Highways and streets	<u>205,400</u>	<u>205,400</u>	<u>114,041</u>	<u>91,359</u>
Net change in fund balances	(15,000)	(15,000)	58,404	73,404
Fund balances, July 1, 2015	<u>-</u>	<u>-</u>	<u>143,869</u>	<u>143,869</u>
Fund balances, June 30, 2016	<u><u>\$ (15,000)</u></u>	<u><u>\$ (15,000)</u></u>	<u><u>\$ 202,273</u></u>	<u><u>\$ 217,273</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 1,559,800	\$ 1,559,800	\$ -	\$ (1,559,800)
Expenditures				
Current				
Public safety	900,000	900,000	8,783	891,217
Parks and recreation	12,000	12,000	-	12,000
Highways and streets	-	-	69,094	(69,094)
Total expenditures	<u>912,000</u>	<u>912,000</u>	<u>77,877</u>	<u>834,123</u>
Net change in fund balances	647,800	647,800	(77,877)	(725,677)
Fund balances, July 1, 2015	<u>(1,400)</u>	<u>(1,400)</u>	<u>(1,400)</u>	<u>-</u>
Fund balances, June 30, 2016	<u><u>\$ 646,400</u></u>	<u><u>\$ 646,400</u></u>	<u><u>\$ (79,277)</u></u>	<u><u>\$ (725,677)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2016

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, 2016

Arizona State Retirement System

	Reporting Fiscal Year		
	(Measurement Date)		
	2016	2015	2014 through
	(2015)	(2014)	2007
Town's proportion of the net pension liability	0.007530%	0.006760%	Information
Town's proportionate share of the net pension liability	\$ 320,914	\$ 284,748	not available
Town's covered-employee payroll	\$ 239,183	\$ 198,319	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	134.17%	143.58%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	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, 2016

PSPRS

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 21,099	\$ 26,988	
Interest on the total pension liability	9,814	10,130	
Changes of benefit terms	-	(663)	
Differences between expected and actual experience in the measurement of the pension liability	3,901	(25,017)	
Changes of assumptions or other inputs	-	374	
Benefit payments, including refunds of employee contributions	-	(25,773)	
Net change in total pension liability	34,814	(13,961)	
Total pension liability - beginning	114,473	128,434	
Total pension liability - ending (a)	<u>\$ 149,287</u>	<u>\$ 114,473</u>	
Plan fiduciary net position			
Contributions - employer	\$ 19,766	\$ 14,998	
Contributions - employee	18,593	12,990	
Net investment income	14,929	46,810	
Benefit payments, including refunds of employee contributions	-	(25,773)	
Administrative expense	(743)	-	
Other changes	(343)	(18,217)	
Net change in plan fiduciary net position	52,202	30,808	
Plan fiduciary net position - beginning	389,326	358,518	
Plan fiduciary net position - ending (b)	<u>\$ 441,528</u>	<u>\$ 389,326</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ (292,241)</u>	<u>\$ (274,853)</u>	
Plan fiduciary net position as a percentage of the total pension liability	295.76%	340.10%	
Covered-employee payroll	\$ 179,148	\$ 93,758	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-163.13%	-293.15%	

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Schedule of Town's Pension Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 27,147	\$ 22,767	\$ 18,562	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(27,147)</u>	<u>(22,767)</u>	<u>(18,562)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 252,530</u>	<u>\$ 209,256</u>	<u>\$ 173,477</u>	
Town's contributions as a percentage of covered-employee payroll	10.75%	10.88%	10.70%	

PSPRS

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 26,882	\$ 21,068	\$ 14,988	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(26,882)</u>	<u>(21,068)</u>	<u>(14,988)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 118,267</u>	<u>\$ 210,650</u>	<u>\$ 216,510</u>	
Town's contributions as a percentage of covered-employee payroll	22.73%	10.00%	6.92%	

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016

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 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market 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 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. 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, 2016

Health Insurance Premium Benefit - PSPRS

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 ([b-a]/c)
06/30/16	\$ 26,139	\$ 12,515	\$ (13,624)	208.9 %	\$ 194,918	0.00 %
06/30/15	24,503	6,306	(18,197)	388.6	179,148	0.00
06/30/14	21,821	4,618	(17,203)	472.5	93,758	0.00

TOWN OF PIMA, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

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, 2016, 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.

Colby + Powell

February 3, 2017

TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2016

Financial Statement Findings

Audit findings and responses are as follows:

Item: 16-01

Subject: Preparation of the working trial balance

Criteria/Specific Requirements: The Town should prepare a more complete and accurate working trial balance prior to the start of the audit.

Condition: The Town did not have a complete and accurate working trial balance prior to the start of the audit.

Effect: A misstatement could occur and not be detected by management within a timely manner.

Cause: Due to the size of the Town, management has to allocate its resources (i.e. time) to items or projects they deem to be of greater importance.

Recommendation: The working trial balance should require very few accounting adjustments prior to the start of the annual audit. All material and necessary journal entries that are known to the Town management should be recorded in the trial balance.

Response: Management agrees with this finding and will ensure that all material adjustments are posted to the general ledger prior to the audit.

TOWN OF PIMA, ARIZONA
Schedule of Findings and Responses
June 30, 2016

Item: 16-02

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, 2016

Item: 16-03

Subject: Bank reconciliation procedures

Criteria/Specific Requirements: Proper internal control dictates that all bank accounts must be reconciled on a monthly basis in order to identify and resolve variances in a timely manner and insure that the financial records reflect accurate balances.

Condition: At the time of our audit it was noted that the Town did not reconcile cash for its checking and savings accounts during the year in a timely manner, which led to misstatements of the year-end balances. Misstatements were corrected with client approved audit adjustments.

Effect: Untimely reconciliations allow differences and errors to go undetected, which puts the Town's assets at risk. In addition, the lack of timely reconciliations delayed the audit process as trial balances were not completed in a timely manner.

Cause: The Town did not maintain procedures to ensure that the bank reconciliations were properly prepared in a timely manner.

Recommendation: Management should ensure that cash accounts are not materially misstated by reconciling such accounts to their corresponding detail on a regular basis.

Response: Management agrees with this finding and will implement procedures to ensure that timely and accurate bank reconciliations are performed.

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Item: 16-04

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.

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Item: 16-05

Subject: Reconciliation of payroll liability accounts

Criteria/Specific Requirements: Management should reconcile payroll liability accounts to their corresponding detail on a regular basis.

Condition: At the time of the audit, the Town had balances in many of its payroll liability accounts which usually should not have such balances. Such balances were made up of misstatements due to error, which were corrected with client approved audit adjustments.

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

Cause: The Town did not maintain procedures to ensure that the payroll liability account balances were properly stated.

Recommendation: Management should ensure that payroll liability accounts are not materially misstated by reconciling such accounts to their corresponding detail on a regular basis.

Response: Management agrees with this finding and will implement procedures to ensure that payroll liabilities are reconciled to their corresponding detail on a regular basis.

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Item: 16-06

Subject: Review of Utility Billings

Criteria/Specific Requirements: Management should review the automated posting of utility billings and payments posted in the general ledger at the end of every month.

Condition: During the course of the audit it was discovered that an error had occurred within the Town's financial management system, that had caused two months of utility payments to not be posted, and thus did not appear in the general ledger detail.

Effect: A lapse in the monthly review of automated postings in the Town's financial management system could cause a material misstatement to go undetected.

Cause: The Town did not maintain procedures to ensure that the utility revenue account balances were properly stated.

Recommendation: Management should ensure that an individual perform a review of the automated utility billings and payments posted in the general ledger once a month to ensure that account balances are complete.

Response: Management agrees with this finding and will ensure that an individual is assigned to review the automated posting of utility billings and payments in the general ledger at the end of every month.