

TOWN OF MAMMOTH, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Mammoth, 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, and the aggregate remaining fund information of the Town of Mammoth, 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, and the aggregate remaining fund information of the Town of Mammoth, 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 Mammoth, 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 Schedules on pages 35 to 37, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 38, Schedule of Town Pension Contributions on page 39, and Schedule of Agent OPEB Plans' Funding Progress on page 41, 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 September 20, 2017, on our consideration of the Town of Mammoth, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Mammoth, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, we noted that over time, the Town had loaned highway user revenue fund monies to other Town funds. The loan proceeds were expended in the other funds for various purposes which were not related to highways and streets. We do not consider such a loan in compliance with 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.



September 20, 2017

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 204,529	\$ -	\$ 204,529
Restricted cash	-	33,924	33,924
Accounts receivable - net	-	47,453	47,453
Taxes receivable	1,426	-	1,426
Due from other governments	53,088	-	53,088
Interactivity balances	212,511	(212,511)	-
Capital assets, not being depreciated	213,718	33,470	247,188
Capital assets, being depreciated, net	1,803,914	533,132	2,337,046
Total assets	2,489,186	435,468	2,924,654
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	78,198	-	78,198
LIABILITIES			
Accounts payable	33,406	16,765	50,171
Accrued expenses	68,604	3,191	71,795
Customer accounts payable	-	58,893	58,893
Due to other governments	25,841	-	25,841
Refundable deposits	-	33,924	33,924
Compensated absences	6,509	2,378	8,887
Noncurrent liabilities			
Due within one year	22,997	-	22,997
Due in more than one year	286,408	-	286,408
Total liabilities	443,765	115,151	558,916
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	63,972	-	63,972
NET POSITION			
Net investment in capital assets	1,900,092	566,602	2,466,694
Restricted			
Highways and streets	1,285,450	-	1,285,450
Unrestricted	(1,125,895)	(246,285)	(1,372,180)
Total net position	\$ 2,059,647	\$ 320,317	\$ 2,379,964

See accompanying notes to financial statements.

TOWN OF MAMMOTH, 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							
General government	\$ 147,233	\$ 35,960	\$ -	\$ -	\$ (111,273)	\$ -	\$ (111,273)
Public safety	348,234	29,514	-	-	(318,720)	-	(318,720)
Highways and streets	198,766	-	172,024	-	(26,742)	-	(26,742)
Culture and recreation	150,181	10,539	15,934	-	(123,708)	-	(123,708)
Interest	5,145	-	-	-	(5,145)	-	(5,145)
Total governmental activities	849,559	76,013	187,958	-	(585,588)	-	(585,588)
Business-type activities							
Water	189,717	152,517	-	25,960	-	(11,240)	(11,240)
Sewer	89,323	104,721	-	-	-	15,398	15,398
Sanitation	87,204	126,994	-	-	-	39,790	39,790
Cemetery	240	25,900	-	-	-	25,660	25,660
Total business-type activities	366,484	410,132	-	25,960	-	69,608	69,608
Total primary government	\$ 1,216,043	\$ 486,145	\$ 187,958	\$ 25,960	(585,588)	69,608	(515,980)
General revenue:							
Taxes:							
Local sales taxes					213,720	-	213,720
Property taxes, levied for general purposes					51,049	-	51,049
Franchise tax					9,226	-	9,226
Share of state sales taxes					134,943	-	134,943
Share of county auto lieu taxes					77,396	-	77,396
State urban revenue sharing					180,600	-	180,600
Investment earnings, net					364	-	364
Miscellaneous					4,500	-	4,500
Total general revenue					671,798	-	671,798
Change in net position					86,210	69,608	155,818
Net position, beginning of year, restated					1,973,437	250,709	2,224,146
Net position, end of year					\$ 2,059,647	\$ 320,317	\$ 2,379,964

See accompanying notes to financial statements.

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

	General Fund	HURF/Road Tax Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 204,529	\$ 204,529
Taxes receivable	1,426	-	1,426
Due from other governments	36,881	16,207	53,088
Due from other funds	-	1,072,158	1,072,158
	<u>-</u>	<u>1,072,158</u>	<u>1,072,158</u>
Total assets	<u>\$ 38,307</u>	<u>\$ 1,292,894</u>	<u>\$ 1,331,201</u>
LIABILITIES			
Accounts payable	\$ 28,970	\$ 4,436	\$ 33,406
Accrued expenses	65,596	3,008	68,604
Due to other governments	25,841	-	25,841
Due to other funds	859,647	-	859,647
	<u>859,647</u>	<u>-</u>	<u>859,647</u>
Total liabilities	<u>980,054</u>	<u>7,444</u>	<u>987,498</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	6,827	-	6,827
	<u>6,827</u>	<u>-</u>	<u>6,827</u>
FUND BALANCES			
Restricted			
Highways and streets	-	1,285,450	1,285,450
Unassigned	(948,574)	-	(948,574)
	<u>(948,574)</u>	<u>-</u>	<u>(948,574)</u>
Total fund balances	<u>(948,574)</u>	<u>1,285,450</u>	<u>336,876</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 38,307</u>	<u>\$ 1,292,894</u>	<u>\$ 1,331,201</u>

See accompanying notes to financial statements.

TOWN OF MAMMOTH, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2016

Fund balances--total governmental funds	\$ 336,876
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.	2,017,632
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	6,827
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	14,226
Long-term liabilities, such as net pension liabilities, notes payable, and capital leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(315,914)</u>
Net position of governmental activities	<u>\$ 2,059,647</u>

See accompanying notes to financial statements.

TOWN OF MAMMOTH, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

	General Fund	HURF/Road Tax Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Intergovernmental	\$ 393,350	\$ 172,024	\$ 565,374
Taxes	273,966	-	273,966
Rental income	32,850	-	32,850
Fines and forfeitures	30,292	-	30,292
Contributions	15,522	-	15,522
Charges for services	9,761	-	9,761
Other revenue	4,502	-	4,502
Licenses and permits	3,110	-	3,110
Investment income	364	-	364
Total revenue	<u>763,717</u>	<u>172,024</u>	<u>935,741</u>
Expenditures			
Current			
General government	137,099	-	137,099
Public safety	336,904	-	336,904
Highways and streets	-	153,553	153,553
Culture and recreation	89,929	-	89,929
Debt service			
Principal	9,300	13,524	22,824
Interest	3,294	1,851	5,145
Total expenditures	<u>576,526</u>	<u>168,928</u>	<u>745,454</u>
Net change in fund balance	187,191	3,096	190,287
Fund balances, beginning of year	<u>(1,135,765)</u>	<u>1,282,354</u>	<u>146,589</u>
Fund balances, end of year	<u>\$ (948,574)</u>	<u>\$ 1,285,450</u>	<u>\$ 336,876</u>

See accompanying notes to financial statements.

TOWN OF MAMMOTH, 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		\$ 190,287
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Current year depreciation		(138,659)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		28
<p>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.</p>		
Town pension contributions	16,715	
Pension expense	<u>(6,908)</u>	9,807
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Principal repaid		22,824
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as revenue or expenditures in governmental funds.</p>		
Decrease in compensated absences payable		<u>1,923</u>
Change in net position of governmental activities		<u><u>\$ 86,210</u></u>

See accompanying notes to financial statements.

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

	Business-type Activities--Enterprise Funds				Total
	Water Fund	Sewer Fund	Sanitation Fund	Cemetery Fund	
ASSETS					
Current assets					
Cash-restricted	\$ 33,924	\$ -	\$ -	\$ -	\$ 33,924
Accounts receivable - net	5,154	18,857	12,112	11,330	47,453
Due from other funds	-	305,519	61,748	-	367,267
Total current assets	<u>39,078</u>	<u>324,376</u>	<u>73,860</u>	<u>11,330</u>	<u>448,644</u>
Noncurrent assets					
Capital assets, net of accumulated depreciation, where applicable:					
Land	7,836	20,891	-	4,743	33,470
Utilities systems, net	524,903	-	-	-	524,903
Equipment, net	7,060	1,169	-	-	8,229
Capital assets, net	<u>539,799</u>	<u>22,060</u>	<u>-</u>	<u>4,743</u>	<u>566,602</u>
Total assets	<u>578,877</u>	<u>346,436</u>	<u>73,860</u>	<u>16,073</u>	<u>1,015,246</u>
LIABILITIES					
Current liabilities					
Accounts payable	8,377	1,041	7,321	26	16,765
Accrued expenses	1,452	1,739	-	-	3,191
Customer accounts payable	58,893	-	-	-	58,893
Refundable deposits	33,924	-	-	-	33,924
Compensated absences	1,239	1,139	-	-	2,378
Due to other funds	345,910	-	-	233,868	579,778
Total current liabilities	<u>449,795</u>	<u>3,919</u>	<u>7,321</u>	<u>233,894</u>	<u>694,929</u>
NET POSITION					
Net investment in capital assets	539,799	22,060	-	4,743	566,602
Unrestricted (deficit)	<u>(410,717)</u>	<u>320,457</u>	<u>66,539</u>	<u>(222,564)</u>	<u>(246,285)</u>
Total net position	<u>\$ 129,082</u>	<u>\$ 342,517</u>	<u>\$ 66,539</u>	<u>\$ (217,821)</u>	<u>\$ 320,317</u>

See accompanying notes to financial statements.

TOWN OF MAMMOTH, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds				Total
	Water Fund	Sewer Fund	Sanitation Fund	Cemetery Fund	
Operating revenue					
Water	\$ 152,517	\$ -	\$ -	\$ -	\$ 152,517
Sewer	-	104,721	-	-	104,721
Sanitation	-	-	126,994	-	126,994
Cemetery	-	-	-	25,900	25,900
	<u>152,517</u>	<u>104,721</u>	<u>126,994</u>	<u>25,900</u>	<u>410,132</u>
Operating expenses					
Personnel	57,385	60,253	-	-	117,638
Landfill fees	-	-	86,954	-	86,954
Repairs and maintenance	27,751	6,633	-	95	34,479
Utilities	24,530	8,596	-	-	33,126
Other	23,309	5,006	250	-	28,565
Insurance	19,299	7,573	-	-	26,872
Depreciation	15,112	52	-	-	15,164
Professional services	12,538	-	-	-	12,538
Materials and supplies	9,793	1,210	-	145	11,148
Total operating expenses	<u>189,717</u>	<u>89,323</u>	<u>87,204</u>	<u>240</u>	<u>366,484</u>
Operating income (loss)	<u>(37,200)</u>	<u>15,398</u>	<u>39,790</u>	<u>25,660</u>	<u>43,648</u>
Income (loss) before capital contributions	(37,200)	15,398	39,790	25,660	43,648
Capital contribution	<u>25,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,960</u>
Increase (decrease) in net position	(11,240)	15,398	39,790	25,660	69,608
Total net position, beginning of year, <i>restated</i>	<u>140,322</u>	<u>327,119</u>	<u>26,749</u>	<u>(243,481)</u>	<u>250,709</u>
Total net position, end of year	<u>\$ 129,082</u>	<u>\$ 342,517</u>	<u>\$ 66,539</u>	<u>\$ (217,821)</u>	<u>\$ 320,317</u>

See accompanying notes to financial statements.

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

	Business-type Activities--Enterprise Funds				Total
	Water Fund	Sewer Fund	Sanitation Fund	Cemetery Fund	
Cash flows from operating activities:					
Receipts from customers	\$ 151,155	\$ 104,475	\$ 126,792	\$ 22,349	\$ 404,771
Payments to suppliers and providers of goods and services	(132,472)	(30,351)	(110,497)	(6,899)	(280,219)
Payments to employees	(59,090)	(61,044)	-	-	(120,134)
Net cash provided (used) by operating activities	<u>(40,407)</u>	<u>13,080</u>	<u>16,295</u>	<u>15,450</u>	<u>4,418</u>
Cash flows from noncapital financing activities:					
Due (to) from other funds	40,299	(13,080)	(16,295)	(15,450)	(4,526)
Cash flows from capital and related financing activities:					
Purchase of capital assets	(179,662)	-	-	-	(179,662)
Capital contributions received	179,832	-	-	-	179,832
Net cash provided by (used by) capital and related financing activities	<u>170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170</u>
Net increase (decrease) in cash	62	-	-	-	62
Cash, beginning of year	33,862	-	-	-	33,862
Cash, end of year	<u>\$ 33,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,924</u>

See accompanying notes to financial statements.

TOWN OF MAMMOTH, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016
(Continued)

	Business-type Activities--Enterprise Funds				Total
	Water Fund	Sewer Fund	Sanitation Fund	Cemetery Fund	
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (37,200)	\$ 15,398	\$ 39,790	\$ 25,660	\$ 43,648
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	15,112	52	-	-	15,164
(Increase) decrease in:					
Accounts receivable	(1,424)	(245)	(202)	(3,551)	(5,422)
Increase (decrease) in:					
Accounts payable	(26,258)	(1,334)	(23,293)	(6,659)	(57,544)
Accrued expenses	61	190	-	-	251
Customer accounts payable	11,006				
Refundable deposits	62	-	-	-	62
Compensated absences payable	(1,766)	(981)	-	-	(2,747)
Net cash provided (used) by operating activities	<u>\$ (40,407)</u>	<u>\$ 13,080</u>	<u>\$ 16,295</u>	<u>\$ 15,450</u>	<u>\$ 4,418</u>

See accompanying notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Mammoth, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's significant accounting policies are as follows:

A. Reporting Entity

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government).

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund statements. The government-wide statements focus on the Town as a whole, while the fund 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. 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 each 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 for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

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

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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund statements provide information about the Town's funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund 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.

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/Road Tax Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and Pinal County ½ cent road tax that is legally restricted to expenditures for specified purposes.

The Town reports the following major enterprise funds:

The ***Water, Sewer, Sanitation, and Cemetery Funds*** account 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.

C. Basis of Accounting

The government-wide and proprietary fund 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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 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, claims and judgments, compensated absences, and landfill closure and post closure care costs, 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. Investment Income

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

F. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2016, is \$5,000 for water, \$12,580 for sewer, and \$6,284 for sanitation.

G. Property Tax Calendar

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town levies real property taxes on or before the third Monday in August that become due and 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.

H. 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</u>
Land	\$ 5,000	N/A	N/A
Construction in progress	5,000	N/A	N/A
Buildings	5,000	Straight-line	40
Equipment	5,000	Straight-line	15
Infrastructure	5,000	Straight-line	25

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Employees may accumulate up to 120 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. 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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 will 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.

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's town council,
4. *Assigned* fund balances are intended to be used by the Town 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 Town 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 are incurred 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 MAMMOTH, 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 2016, 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 2016, 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. This Statement is effective for fiscal years beginning after June 15, 2016.

In June 2016, 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 2016, 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 principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

N. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual reports as listed in the table of contents present all departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2016, if any.

O. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial statements, and has determined that there are no significant subsequent events requiring disclosure.

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.

Deposits – At June 30, 2016, the carrying amount of the Town’s deposits totaled \$209,087. The bank balance was \$232,316. The entire bank balance was covered by federal depository insurance.

Restricted cash – Restricted cash in the Water Fund consists of monies restricted for refundable customer deposits.

Investments – The Town reported investments in State Treasurer’s investment pool with a reported amount of \$29,366. The Standard and Poor’s credit quality rating of the pool is AAA. 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 MAMMOTH, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 3 – 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
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 213,718	\$ -	\$ -	\$ 213,718
Capital assets being depreciated:				
Buildings	1,206,699	-	-	1,206,699
Equipment	1,201,778	-	-	1,201,778
Infrastructure	4,492,982	-	-	4,492,982
Total	<u>6,901,459</u>	<u>-</u>	<u>-</u>	<u>6,901,459</u>
Less accumulated depreciation for:				
Buildings	293,119	43,574	-	336,693
Equipment	918,011	42,928	-	960,939
Infrastructure	3,747,756	52,157	-	3,799,913
Total	<u>4,958,886</u>	<u>138,659</u>	<u>-</u>	<u>5,097,545</u>
Total capital assets being depreciated, net	<u>1,942,573</u>	<u>(138,659)</u>	<u>-</u>	<u>1,803,914</u>
Governmental activities capital assets, net	<u>\$ 2,156,291</u>	<u>\$ (138,659)</u>	<u>\$ -</u>	<u>\$ 2,017,632</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 33,470	\$ -	\$ -	\$ 33,470
Construction in progress	191,354	-	191,354	-
Total capital assets not being depreciated	<u>224,824</u>	<u>-</u>	<u>191,354</u>	<u>33,470</u>
Capital assets being depreciated:				
Buildings	65,244	-	-	65,244
Utility systems	1,737,934	217,314	-	1,955,248
Equipment	244,119	-	-	244,119
Total	<u>2,047,297</u>	<u>217,314</u>	<u>-</u>	<u>2,264,611</u>
Less accumulated depreciation for:				
Buildings	65,244	-	-	65,244
Utility systems	1,415,940	14,405	-	1,430,345
Equipment	235,131	759	-	235,890
Total	<u>1,716,315</u>	<u>15,164</u>	<u>-</u>	<u>1,731,479</u>
Total capital assets being depreciated, net	<u>330,982</u>	<u>202,150</u>	<u>-</u>	<u>533,132</u>
Business-type activities capital assets, net	<u>\$ 555,806</u>	<u>\$ 202,150</u>	<u>\$ 191,354</u>	<u>\$ 566,602</u>

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

NOTE 3 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 10,312
Public safety	22,270
Highways and streets	45,825
Culture and recreation	<u>60,252</u>
Total governmental activities depreciation expense	<u><u>\$ 138,659</u></u>
Business-type activities:	
Water	\$ 15,112
Sewer	<u>52</u>
Total business-type activities depreciation expense	<u><u>\$ 15,164</u></u>

NOTE 4 – DUE TO/FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2016 consisted of \$11,115 in state-shared revenue from sales taxes, \$3,470 in state-shared revenue from auto lieu taxes, and \$12,943 in local sales taxes collected by the State of Arizona and \$9,353 in property taxes collected by Pinal County.

Amounts due from other governments in the HURF/Road Tax Fund at June 30, 2016 consisted of \$6,841 in county-shared revenue from county road taxes and \$9,366 in state-shared revenue from highway user revenue fund (HURF) taxes.

Amounts due to other governments in the General Fund at June 30, 2016 consisted of \$25,841 in reimbursements to be passed through to the Mammoth Fire District from the Arizona Department of Homeland Security.

TOWN OF MAMMOTH, 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 one year
Governmental activities:					
Compensated absences	\$ 8,432	\$ -	\$ 1,923	\$ 6,509	\$ 6,509
Note payable	79,778	-	9,300	70,478	10,214
Capital lease payable	60,586	-	13,524	47,062	12,783
Net pension liability	270,835	-	78,970	191,865	-
	<u>\$ 419,631</u>	<u>\$ -</u>	<u>\$ 103,717</u>	<u>\$ 315,914</u>	<u>\$ 29,506</u>
Business-type activities:					
Compensated absences	<u>\$ 5,125</u>	<u>\$ -</u>	<u>\$ 2,747</u>	<u>\$ 2,378</u>	<u>\$ 2,378</u>

Notes payable—In November of 2012 the Town acquired a building under a note agreement with Bank of the West. Under the agreement, the Town pays 120 monthly payments of \$1,062 beginning December 30, 2012.

Additional terms are as follows:

Description	Original Amount	Maturity	Interest Rate	Outstanding Principal
Note payable	<u>\$ 101,500</u>	11/30/2022	4.640%	<u>\$ 70,478</u>

The following schedule details debt service requirements to maturity for the Town’s note payable at June 30, 2016.

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 9,716	\$ 2,878
2018	10,152	2,443
2019	10,606	1,988
2020	11,081	1,513
2021	11,578	1,017
2022-23	17,345	547
Total	<u>\$ 70,478</u>	<u>\$ 10,386</u>

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

NOTE 5 – LONG-TERM LIABILITIES – Continued

Capital leases—The Town has acquired equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides 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
Equipment	\$ 95,879
Less: accumulated depreciation	(22,904)
Carrying value	\$ 72,975

The following schedule details the minimum lease payment requirements to maturity for the Town's capital lease payable at June 30, 2016:

Year Ending June 30	Governmental Activities
2017	\$ 13,994
2018	15,266
2019	15,266
2020	5,090
Total minimum lease payments	49,616
Less amount representing interest	(2,554)
Present value of net minimum lease payments	\$ 47,062

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's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years and age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive 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	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member’s compensation for up to 12 months.

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

	<u>PSPRS Police</u>
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	11
Total	<u><u>12</u></u>

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS Police</u>
Active Members - Pension	11.65%
Town	
Pension	20.78%
Health insurance premium benefit	0.58%

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:

	<u>PSPRS Police</u>
Contributions Made	\$ 16,715
Health Insurance Premium Benefit	
Annual OPEB cost	-
Contributions made	-

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

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	Net Pension Liability (Asset)
PSPRS Police	\$ 191,865

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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.

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

PSPRS	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	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.

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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:

PSPRS		Long-term Expected	
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>	
Short term investments	2%	0.75%	
Risk parity	4%	5.13%	
Absolute return	5%	4.11%	
Fixed Income	7%	2.92%	
Real assets	8%	4.77%	
GTAA	10%	4.38%	
Real estate	10%	4.48%	
Private Equity	11%	9.50%	
Credit opportunities	13%	7.08%	
Non-U.S. equity	14%	8.25%	
U.S. equity	16%	6.23%	
Total	<u>100%</u>		

Pension Discount Rates – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the 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.

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension		Net Pension
	Liability (Asset)	Plan Fiduciary Net	Liability (Asset)
	(a)	Position (b)	(a) - (b)
Balances at June 30, 2015	\$ 606,967	\$ 336,132	\$ 270,835
Changes for the year			
Service Cost	29,510	-	29,510
Interest on the total pension liability	47,666	-	47,666
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	(117,071)	-	(117,071)
Changes of assumptions or other inputs	-	-	-
Contributions-employer	-	15,235	(15,235)
Contributions-employee	-	12,452	(12,452)
Net investment income	-	12,307	(12,307)
Benefit payments, including refunds of employee contributions	(29,021)	(29,021)	-
Administrative expense	-	(665)	665
Other changes	-	(254)	254
Net changes	(68,916)	10,054	(78,970)
Balances at June 30, 2016	\$ 538,051	\$ 346,186	\$ 191,865

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 255,406	\$ 191,865	\$ 141,900

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 pension expense of \$6,908.

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

NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 54,113
Changes of assumptions or other inputs	50,290	-
Net difference between projected and actual earnings on pension plan investments	11,193	9,859
Town contributions subsequent to the measurement date	16,715	-
Total	<u>\$ 78,198</u>	<u>\$ 63,972</u>

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:

	PSPRS Police
Year ended June 30,	
2017	\$ (4,311)
2018	(488)
2019	(489)
2020	2,799
2021	-
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.

TOWN OF MAMMOTH, 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	\$ -	100%	\$ -
2015	1,659	100%	-
2014	2,295	100%	-

TOWN OF MAMMOTH, 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.

	PSPRS Police
Actuarial value of assets (a)	\$ 34,630
Actuarial accrued liability (b)	\$ -
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (34,630)
Funded ratio (a)/(b)	0.00%
Annual covered payroll (c)	\$ -
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)	0.00%

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%

ICMA Pension Plan - The Town's full-time employees participate in a defined contribution plan. The Town is required to contribute seven percent of the eligible employee's annual covered payroll. Contributions made by the Town vest with the employee at 20% after three years of full-time employment with 100% vesting after six years of full-time employment.

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

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund balances at June 30, 2016, were as follows:

Payable from	Payable to			Total
	HURF/Road Tax Fund	Sewer Fund	Sanitation Fund	
General Fund	\$ 859,647	\$ -	\$ -	\$ 859,647
Water Fund	212,511	133,399	-	345,910
Cemetery Fund	-	172,120	61,748	233,868
	<u>\$ 1,072,158</u>	<u>\$ 305,519</u>	<u>\$ 61,748</u>	<u>\$ 1,439,425</u>

The interfund receivables and payables above were necessary in order to fund the ongoing activities of the General, Water, and Cemetery Funds in current and prior years.

NOTE 9 – NET POSITION RESTATED

During the year ended June 30, 2016, the Town discovered that water utility customers were billed an incorrect rate of their water usage beginning in November 2013 and ending September 2015. The net effect of these adjustments related to prior periods resulted in the following:

	Water Fund	Business-type Activities
Total net position, at beginning of year, as previously reported	\$ 202,754	\$ 313,141
Decrease in accounts receivable-net	(14,583)	(14,583)
Increase in customer accounts payable	(47,849)	(47,849)
Total net position, at beginning of year, as restated	<u>\$ 140,322</u>	<u>\$ 250,709</u>

TOWN OF MAMMOTH, 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				
Property taxes	\$ 55,175	\$ 55,175	\$ 51,021	\$ (4,154)
Sales taxes	172,362	172,362	213,719	41,357
Franchise taxes	8,248	8,248	9,226	978
Intergovernmental	393,316	393,316	393,350	34
Fines and forfeitures	42,400	42,400	30,292	(12,108)
Rental income	14,305	14,305	32,850	18,545
Other revenue	30,517	30,517	4,502	(26,015)
Investment income	-	-	364	364
Charges for services	5,600	5,600	9,761	4,161
Licenses and permits	4,748	4,748	3,110	(1,638)
Contributions	11,000	11,000	15,522	4,522
Total revenue	<u>737,671</u>	<u>737,671</u>	<u>763,717</u>	<u>26,046</u>
Expenditures				
Current				
General government	258,487	258,487	137,099	121,388
Public safety	334,215	334,215	336,904	(2,689)
Culture and recreation	132,375	132,375	89,929	42,446
Debt service				
Principal	9,300	9,300	9,300	-
Interest	3,294	3,294	3,294	-
Total expenditures	<u>737,671</u>	<u>737,671</u>	<u>576,526</u>	<u>161,145</u>
Net change in fund balance	-	-	187,191	187,191
Fund balance, beginning of year	<u>(1,135,765)</u>	<u>(1,135,765)</u>	<u>(1,135,765)</u>	-
Fund balance, end of year	<u><u>\$(1,135,765)</u></u>	<u><u>\$(1,135,765)</u></u>	<u><u>\$ (948,574)</u></u>	<u><u>\$ 187,191</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF MAMMOTH, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/Road Tax Fund
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 157,573	\$ 157,573	172,024	\$ 14,451
Expenditures				
Current				
Highways and streets	142,198	142,198	153,553	(11,355)
Debt service				
Principal	13,524	13,524	13,524	-
Interest	1,851	1,851	1,851	-
Total expenditures	<u>157,573</u>	<u>157,573</u>	<u>168,928</u>	<u>(11,355)</u>
Net change in fund balance	-	-	3,096	3,096
Fund balance, beginning of year	<u>1,282,354</u>	<u>1,282,354</u>	<u>1,282,354</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,282,354</u>	<u>\$ 1,282,354</u>	<u>\$ 1,285,450</u>	<u>\$ 3,096</u>

See accompanying notes to budgetary comparison schedule.

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

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

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 Councils' approval. With the exception of the General Fund, each fund includes only one department.

The Town has exceeded appropriations in various departments in the General Fund and HURF/Road Tax Fund for the year ended June 30, 2016.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

TOWN OF MAMMOTH, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 29,510	\$ 25,131	
Interest on the total pension liability	47,666	32,932	
Changes of benefit terms	-	28,199	
Differences between expected and actual experience in the measurement of the pension liability	(117,071)	(31,725)	
Changes of assumptions or other inputs	-	154,368	
Benefit payments, including refunds of employee contributions	(29,021)	(17,777)	
Net change in total pension liability	(68,916)	191,128	
Total pension liability - beginning	606,967	415,839	
Total pension liability - ending (a)	<u>\$ 538,051</u>	<u>\$ 606,967</u>	
Plan fiduciary net position			
Contributions - employer	\$ 15,235	\$ 26,306	
Contributions - employee	12,452	15,758	
Net investment income	12,307	39,865	
Benefit payments, including refunds of employee contributions	(29,021)	(17,777)	
Administrative expense	(665)	-	
Other changes	(254)	(28,787)	
Net change in plan fiduciary net position	10,054	35,365	
Plan fiduciary net position - beginning	336,132	300,767	
Plan fiduciary net position - ending (b)	<u>\$ 346,186</u>	<u>\$ 336,132</u>	
Town's net pension liability (asset) - ending (a) - (b)	191,865	270,835	
Plan fiduciary net position as a percentage of the total pension liability	64.34%	55.38%	
Covered-employee payroll	\$ -	\$ 165,425	
Town's net pension liability (asset) as a percentage of covered-employee payroll	0.00%	163.72%	

TOWN OF MAMMOTH, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2016

PSPRS

	<u>Reporting Fiscal Year</u>			<u>2013 through 2007</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Actuarially determined contribution	\$ 16,715	\$ 15,235	\$ 26,306	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(16,715)</u>	<u>(15,235)</u>	<u>(26,306)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 80,455	\$ -	\$ 165,424	
Town's contributions as a percentage of covered-employee payroll	20.78%	0.00%	15.90%	

TOWN OF MAMMOTH, 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% corridor
<u>Actuarial assumptions:</u>	
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 MAMMOTH, ARIZONA
Required Supplementary Information
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 ([a-b]/c)
06/30/16	\$ 36,943	\$ 1,103	\$ (35,840)	3349.3 %	\$ 80,455	0.00 %
06/30/15	34,630	-	(34,630)	0.00	-	0.00
06/30/14	31,970	11,568	(20,402)	276.4	165,424	0.00

TOWN OF MAMMOTH, 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Town Council
Town of Mammoth, 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, each major fund and the aggregate remaining fund information of the Town of Mammoth, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements and, which collectively comprise the Town of Mammoth, Arizona's basic financial statements and have issued our report thereon dated September 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Mammoth, 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 Mammoth, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Mammoth, Arizona's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of finding and responses **2015-001, 2015-002, 2015-003, 2015-004, and 2016-001** to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Mammoth, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items **2015-005** and **2015-006**.

The Town of Mammoth, Arizona's Response to Findings

Town of Mammoth, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Mammoth, 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.



September 20, 2017

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

Audit findings and responses are as follows:

Financial Statement Findings

Item: 2015-001

Subject: Cemetery lot sales.

Condition: Lot sales to the Cemetery Fund are recorded as revenue only when the cash is received and are not being recorded when earned (date of sale). The recording of revenue “cash basis” is not an accounting principle generally accepted in the United States. The Town should use the accrual basis of accounting when recording cemetery lot sales.

Recommendation: Lot sales should be recorded in the general ledger for the amount of the sale on the day the sale is made. A corresponding account receivable should be set up for the amount of the sale for the amount owed to the Town by the customer. Payments received from the lot sale should reduce the account receivable.

Response: Management agrees with this finding and will implement procedures to ensure that all cemetery lot sales will be recorded on the accrual basis.

Item: 2015-002

Subject: Formal written accounting policies and procedures.

Condition: During our audit, it was noted that written accounting policies and procedures are outdated.

Recommendation: We recommend that the Town update their accounting policies and procedures to methodically identify and document its significant accounting processes. Accounting processes, in particular, are procedure to initiate, authorize, record, process, and report transactions. Processes include activities and procedures involved in repeatable accounting transactions or events, such as paying invoices, processing payroll, taking physical inventory, preparing journal entries, etc.

Response: Management will work on documenting its significant accounting processes.

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

Financial Statement Findings – Continued

Item: 2015-003

Subject: Bank reconciliations

Condition: During our audit it was noted that cash bank reconciliations were not prepared on a timely basis.

Recommendation: Management should assign someone to review all cash bank reconciliations each month and initial and date the reconciliation to evidence the review.

Response: Management has hired an outside accounting firm to perform all account and bank reconciliations in order to bring the reconciliations current. Management will perform reviews of bank reconciliations and will initial and date the reconciliation to evidence the review.

Item: 2015-004

Subject: Utility billing adjustments.

Condition: During our audit, it was noted that the same person who receives cash payments for utilities has the ability to perform billing and payment adjustments.

Recommendation: Management should segregate these duties. If segregating these duties is not possible, management should designate a responsible employee to review all utility billing adjustments posted in the billing software on a monthly basis.

Response: Management is working on ways to review all adjustments. Management is investigating functions in the accounting software that will improve controls.

Item: 2015-005

Subject: Pinal County Half-Cent Road Tax and HURF Revenue.

Condition: HURF and Half-Cent Road Tax revenue is required to be spent solely for highway and street related purposes. As of June 30, 2016, the Town had borrowed monies of HURF and Half-Cent Road Tax revenue to fund operations of other funds.

Recommendation: Management should cease borrowing from the HURF/Road Tax Fund and implement a formal plan to pay the monies back.

Response: Management agrees with this finding and will cease borrowing from the HURF/Road Tax Fund and implement a formal plan to pay the monies back.

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

Financial Statement Findings – *Continued*

Item: 2015-006

Subject: Control of Expenditures.

Condition: Arizona State law stipulates that no expenditure may be made for a purpose not authorized in the annual budget. Inadequate monitoring of budgeting requirements during year allowed the Town to exceed its budget appropriations in the HURF/Half-Cent Road Tax Fund.

Recommendation: Management should monitor actual expenses to budget on a routine basis.

Response: Management agrees with this finding and will monitor actual expenses to budget on a routine basis.

Item: 2016-001

Subject: Water Utility Billing Receipts

Condition: During our test of controls procedures over the Town's utility billing process, we noted that the Town was using an incorrect billing rate for its water customers for the period beginning November 2013 through September 2015. The effect of the error resulted in an overstatement of operating revenue in the utility fund over that time period. The total amount overcharged to the water utility customers totaled \$76,159.

Recommendation: Management should implement safeguards with its utility billing software, which would allow only authorized users to make changes to utility rates.

Response: Management agrees with this finding and has taken appropriate actions to identify the customers who were charged in excess of authorized rates. Management will also make inquiries with their utility billing software about placing restrictions on users who are not authorized to edit billing rates.