

TOWN OF TUSAYAN, ARIZONA



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF TUSAYAN

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Tusayan, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan, Arizona, as of and for the year ended June 30, 2017, 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, each major fund, and the aggregate remaining fund information of the Town of Tusayan as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules as listed in the table of contents 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 1, 2018, on our consideration of the Town of Tusayan'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 results of that testing, and not to provide an opinion on the 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 Tusayan's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
February 1, 2018

**TOWN OF TUSAYAN, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

As management of the Town of Tusayan (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceeded total liabilities (net position) by \$13,744,484 at the end of the fiscal year.
- Total revenues from all sources were \$4,414,584 and the total cost of all Town programs was \$2,133,702 resulting in an increase of net position of \$2,280,882 from the prior year.
- Sales tax collections of \$3,994,096 were up from the prior year amount of \$3,521,895.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$11,420,387
- At the end of the fiscal year, restricted fund balance for the HURF Fund was \$242,649 and unrestricted fund balance was \$105,496.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and its changes. Net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, an increase or decrease in net position is an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, State Revenue Sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town currently does not maintain any proprietary activities; all activities are accounted for as governmental activities.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management may establish many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major funds use the accounting approach as explained below.

- Governmental funds – All of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$13.7 million as of June 30, 2017 as shown in the following condensed statement of net position.

TOWN OF TUSAYAN, ARIZONA Statement of Net Position

	Governmental activities	
	6/30/2017	6/30/2016
Current and other assets	\$ 11,839,237	\$ 10,046,905
Capital assets	2,402,022	1,894,945
Total assets	14,241,259	11,941,850
Deferred outflows of resources	193,180	273,006
Long-term liabilities outstanding	306,679	325,465
Other liabilities	70,705	144,523
Total liabilities	377,384	469,988
Deferred inflows of resources	58,790	27,485
Net position:		
Net investment in capital assets	2,402,022	1,894,945
Restricted	242,649	182,176
Unrestricted	11,353,594	9,640,262
Total net position	\$ 13,998,265	\$ 11,717,383

Governmental Activities

The cost of all Governmental activities this year was \$2,133,702 as shown on the Changes in Net Position statement on the following page. \$53,725 of this cost was paid for by those who directly benefited from the programs. \$63,737 was subsidized by grants received from other governmental organizations for operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$117,462. General taxes, State Revenue Sharing, investment earnings and other revenues totaled \$4.3 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Economic Development. Each program's net cost (total cost less revenues generated by the activities) are presented on the following page. The net cost shows the extent to which the Town's general revenues or taxes support each of the Town's programs.

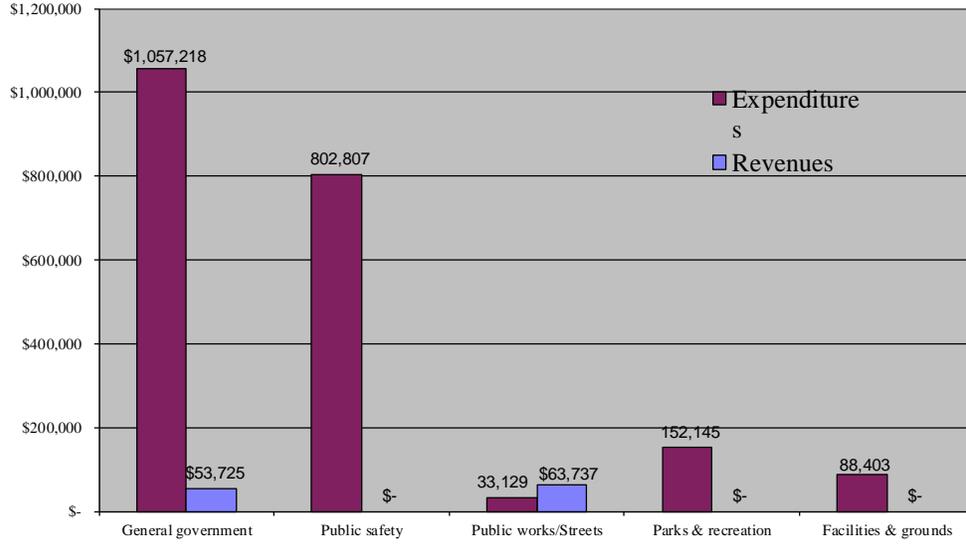
TOWN OF TUSAYAN, ARIZONA
Changes in Net Position

	Governmental activities	
	6/30/2017	6/30/2016
Revenues:		
Program revenues:		
Charges for services	\$ 53,725	\$ 32,503
Operating grants and contributions	63,737	61,286
Capital grants and contributions	-	230,309
General revenues:		
Taxes	4,070,100	3,599,133
Urban revenue sharing	183,514	180,600
Investment earnings	17,114	58,231
Other revenue/(expense)	26,394	200
Total revenues	4,414,584	4,162,262
Expenses:		
General government	1,057,218	906,369
Public safety	802,807	616,808
Public works/Streets	33,129	51,795
Parks and recreation	152,145	74,761
Facilities and grounds	88,403	66,613
Total expenses	2,133,702	1,716,346
Increase (Decrease) in net assets before transfers	2,280,882	2,445,916
Transfers	-	-
Net position, beginning	11,717,383	9,271,467
Net position, ending	\$ 13,998,265	\$ 11,717,383

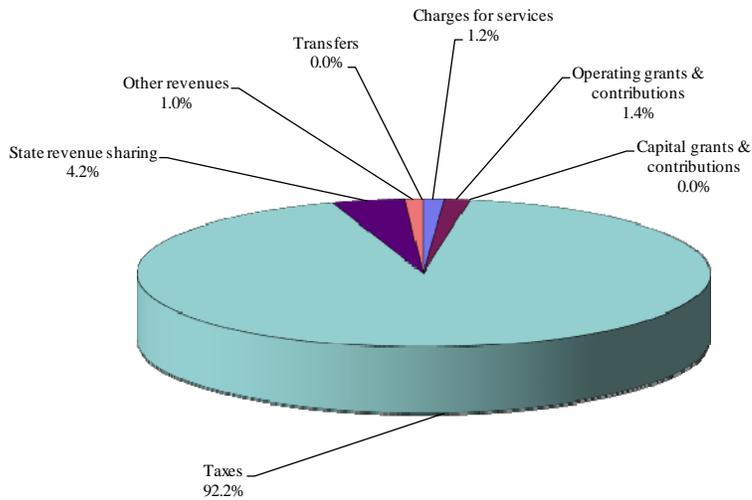
Total resources available during the year to finance governmental operations were \$15.87 million consisting of net position at July 1, 2016 of \$11.7 million, program revenues of \$117,462 and General Revenues of \$4.29 million. Total Governmental Activities during the year were \$2.1 million; thus Governmental Net Position increased by \$2.28 million to a total of \$13.74 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities
(in Thousands)



Revenue By Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11,768,532, an increase of \$1,866,150 in comparison with the prior year. Approximately 98% or \$11,525,883 constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance, or \$242,649, is restricted to indicate that it is not available for new spending because it has already been committed to pay for highways and streets.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the General fund was \$11,420,387. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance at year end represents 449.5% of the total General Fund fiscal year 2017 expenditures. During the year, the General Fund balance increased by \$1,786,230. The Town budgeted to increase the fund balance by \$524,600. The excess revenues over expenditures (fund balance) are anticipated to be expended in future years.

The Highway User Revenue Fund has a total fund balance of \$348,145, of which \$242,649 is restricted for road construction and maintenance. The fund balance increased during the current year by \$79,920.

Budgetary Highlights

General Fund revenues of \$4,326,929 were \$258,832 less than budgeted revenues of \$4,585,761. Less than anticipated revenue from city sales taxes was the major factor contributing to this variance. General Fund expenditures were \$6,776,787 less than budgeted. The Town had many planned capital outlay and other expenditures that were not made during the year.

CAPITAL ASSET AND LONG-TERM LIABILITY ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital assets include land, buildings, improvements other than buildings, equipment, vehicles, park facilities and roads. At the end of fiscal year 2017, net capital assets of the government activities totaled \$2,402,022. Significant capital asset additions during fiscal year 2017 were the bathrooms and ADA parking at the park of \$463,980, mobile home of \$47,500 and a new vehicle of \$20,000. Depreciation on capital assets for government activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Long-Term Liabilities

At the end of the current fiscal year, the Town of Tusayan had total long-term liabilities outstanding of \$306,679 related to net pension liabilities (See note 6 and note 8 to the financial statements).

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2017/2018, the Town Council and management were cautious as to the growth of revenues and expenditures. Overall governmental fund operating expenditures were budgeted to increase slightly due to increased levels of service.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact: Town of Tusayan, Finance Department, P.O. Box 709, Tusayan, Arizona 86023.

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BASIC FINANCIAL STATEMENTS

TOWN OF TUSAYAN, ARIZONA
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	\$ 11,629,051
Receivables (net of allowance)	210,186
Prepaid expense	-
Capital assets (net of accumulated depreciation):	
Construction in progress	746,476
Buildings	1,085,905
Improvements other than buildings	412,022
Furniture, equipment & vehicles	157,619
Total assets	14,241,259
Deferred Outflows of Resources	
Deferred outflows related to pensions	193,180
Total deferred outflows of resources	193,180
Liabilities	
Accounts payable and other current liabilities	70,705
Noncurrent liabilities:	
Net pension liability	306,679
Total liabilities	377,384
Deferred Inflows of Resources	
Deferred inflows related to pensions	58,790
Total deferred inflows of resources	58,790
Net investment in capital assets	2,402,022
Restricted for:	
Highways & streets	242,649
Unrestricted	11,353,594
Total net position	\$ 13,998,265

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Statement of Activities
Governmental Funds
June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Total
Governmental activities:						
General government	\$ 1,057,218	\$ 53,725	\$ -	\$ -	\$ (1,003,493)	\$ (1,003,493)
Public safety	802,807	-	-	-	(802,807)	(802,807)
Public works/Streets	33,129	-	63,737	-	30,608	30,608
Parks & recreation	152,145	-	-	-	(152,145)	(152,145)
Facilities & grounds	88,403	-	-	-	(88,403)	(88,403)
Total governmental activities	<u>2,133,702</u>	<u>53,725</u>	<u>63,737</u>	<u>-</u>	<u>(2,016,240)</u>	<u>(2,016,240)</u>
Total primary government	<u>\$ 2,133,702</u>	<u>\$ 53,725</u>	<u>\$ 63,737</u>	<u>\$ -</u>	<u>(2,016,240)</u>	<u>(2,016,240)</u>
General Revenues:						
Taxes:						
City sales tax					3,994,096	3,994,096
State sales tax					52,086	52,086
Auto lieu tax					23,918	23,918
Urban revenue sharing					183,514	183,514
Unrestricted investment earnings					17,114	17,114
Miscellaneous					26,394	26,394
Total general revenues & transfers					<u>4,297,122</u>	<u>4,297,122</u>
Change in net position					2,280,882	2,280,882
Net position - beginning					<u>11,717,383</u>	<u>11,717,383</u>
Net position - ending					<u>\$ 13,998,265</u>	<u>\$ 13,998,265</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

Assets	<u>General Fund</u>	<u>Highway Users Revenue Fund</u>	<u>Grants Fund</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 11,288,176	\$ 340,875	\$ -	\$ 11,629,051
Receivables, net:				
Intergovernmental	188,967	7,270	-	196,237
Due from other funds	<u>13,949</u>	<u>-</u>	<u>-</u>	<u>13,949</u>
Total Assets	<u><u>\$ 11,491,092</u></u>	<u><u>\$ 348,145</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,839,237</u></u>
Liabilities				
Accounts Payable	\$ 58,025	\$ -	\$ -	\$ 58,025
Accrued wages and benefits	<u>12,680</u>	<u>-</u>	<u>-</u>	<u>12,680</u>
Total Liabilities	<u>70,705</u>	<u>-</u>	<u>-</u>	<u>70,705</u>
Fund Balances				
Restricted for:				
Public works/streets	-	242,649		242,649
Unassigned	<u>11,420,387</u>	<u>105,496</u>	<u>-</u>	<u>11,525,883</u>
Total fund balances	<u>11,420,387</u>	<u>348,145</u>	<u>-</u>	<u>11,768,532</u>
Total Liabilities and fund balances	<u><u>\$ 11,491,092</u></u>	<u><u>\$ 348,145</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,839,237</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

Total fund balances - governmental funds \$ 11,768,532

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.

Governmental capital assets	\$ 2,712,601	
Accumulated depreciation	<u>(310,579)</u>	
		2,402,022

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	193,180	
Deferred inflows	<u>(58,790)</u>	
		134,390

Some liabilities, including the net pension liability, are not due and payable in the current period and, therefore are not reported in the funds.

(306,679)

Total net position - governmental activities

\$ 13,998,265

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

REVENUES	General Fund	Highway Users Revenue Fund	Grants Fund	Total Governmental Funds
Sales taxes	\$ 3,994,096	\$ -	\$ -	\$ 3,994,096
Licenses and permits	53,725	-	-	53,725
Intergovernmental	235,600	87,655	-	323,255
Interest revenue	17,114	-	-	17,114
Other revenues	26,394	-	-	26,394
Total revenues	<u>4,326,929</u>	<u>87,655</u>	<u>-</u>	<u>4,414,584</u>
EXPENDITURES				
Current:				
General government	933,063	-	-	933,063
Public safety	802,807	-	-	802,807
Public works/streets	-	7,735	-	7,735
Parks & recreation	84,972	-	-	84,972
Facilities & grounds	88,403	-	-	88,403
Capital outlay	631,454	-	-	631,454
Total expenditures	<u>2,540,699</u>	<u>7,735</u>	<u>-</u>	<u>2,548,434</u>
Excess of Revenues				
Over (Under) Expenditures	1,786,230	79,920	-	1,866,150
Fund balances, beginning of year	<u>9,634,157</u>	<u>268,225</u>	<u>-</u>	<u>9,902,382</u>
Fund balances, end of year	<u>\$ 11,420,387</u>	<u>\$ 348,145</u>	<u>\$ -</u>	<u>\$ 11,768,532</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,866,150
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between capital outlay and depreciation in the current period.

Capital outlay	\$	594,665	
Depreciation expense		<u>(87,588)</u>	
			507,077

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 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.

(92,345)

Change in net position of governmental activities

\$ 2,280,882

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN ARIZONA
Statement of Fiduciary Net Position
Agency Fund
June 30, 2017

	<u>STILO Agency Fund</u>
ASSETS	
Accounts receivable	<u>\$ 13,949</u>
Total assets	<u>13,949</u>
LIABILITIES	
Due to other funds	<u>13,949</u>
Total liabilities	<u>13,949</u>
NET POSITION	
Net Position (Deficit) Held in Trust	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The Town of Tusayan (Town) was incorporated in April 2010, under the provisions of Article 13, Sections 1 through 6, of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The Town is a municipal corporation governed by an elected five member council (council). The council members appoint the mayor and vice-mayor. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. Currently, there are no blended or discretely presented component units reported with the Town.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of presentation – fund financial statements

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

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 accounted for in another fund.

The **Highway User Revenue Special Revenue Fund** is used to account for the Town's share of motor fuel tax revenues which are restricted for the maintaining, repairing, and upgrading of streets.

Additionally, the Town reports the following fund types:

The **Agency Fund** accounts for assets held by the Town as an agent for a developer, the STILO Group. The developer is paying for planning services and all application costs based upon an agreement between the developer and the Town. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and agency funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

The governmental fund financial statements are reported using the *current financial resources measurement focus* and *the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, deposits in cash management pools that have the general characteristics of demand deposits accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy for investments is provided in Note 4. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Inventories

The cost of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activity column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years.

As the Town constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	25 to 50 years
Machinery, vehicles and equipment	5 to 10 years
Storm drains and inlets	20 years
Infrastructure - Streets and sidewalks	20 years

Unearned revenue

Unearned revenues arise when potential revenue is received by the Town from various granting agencies before it has a legal claim to them or when grant monies are received prior to the incurrence of qualifying expenditures, i.e., contract and grant receipts received in excess of expenditures incurred are recognized as unearned revenue. In subsequent periods, when the revenue recognition criteria is met, or when the Town has a legal claim to the resources, the liability or unearned revenue is removed from the balance sheet and the revenue is recognized.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position 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 period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government currently has one item which qualifies for reporting in this category. This item is a pension related item reported on the government-wide financial statements. See note 8 for more information.

In addition to liabilities, the statement of financial position 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 currently has one item which qualifies for reporting in this category. This item is a pension related item reported on the government-wide financial statements. See note 8 for more information.

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 plan's fiduciary net position of the Arizona State Retirement System (ASRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS. 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.

Net position flow assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as committed. The Town Manager is authorized to assign amount to a specific purpose in accordance with the Town's budget policy. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Taxes

The Town does not currently have any primary or secondary real property tax levies.

Normally, property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Compensated absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Currently, the Town has no full time employees and no liabilities for compensated absences.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of this difference are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a voter-approved alternative expenditure limitation that was adopted on August 26, 2014.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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 TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 3. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2017, if any.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Note 4. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position follows:

Cash and investments	<u>\$ 11,629,051</u>
Total cash and investments	<u><u>\$ 11,629,051</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2017, cash on hand was \$0, and the carrying amount of the Town's deposits was \$11,629,051. As of June 30, 2017, the Town's bank balance was \$12,252,039 and none of that balance was exposed to custodial credit risk because it was covered by FDIC insurance or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 4. Deposits and Investments, Continued

Investments

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investments in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P-1” by Moody’s investors or “A-1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2017 the Town did not hold any funds in the LGIP.

As of June 30, 2017 the Town had the following deposits and investments:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (Years)</u>
Cash on deposit	\$ 4,484,000	N/A	N/A
Money market fund	29,096	N/A	N/A
Certificates of deposit	<u>7,115,955</u>	N/A	less than 1 to 5
Total Fair Value	<u>\$ 11,629,051</u>		

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323) which requires that the Town’s investment portfolio maturities do not exceed five years from the time of purchase.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 4. Deposits and Investments, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Fair value measurements

As noted above, the Town holds investments that are measured at fair value on a reoccurring basis. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The certificates of deposit and money market fund, as listed above, are valued using inputs other than quoted prices, that are observable (Level 2 inputs).

This section intentionally left blank.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital assets, not being depreciated:				
Construction in progress	\$ 690,000	\$ 603,854	\$ (547,378)	\$ 746,476
Total capital assets, not being depreciated	<u>690,000</u>	<u>603,854</u>	<u>(547,378)</u>	<u>746,476</u>
Capital assets, being depreciated:				
Buildings	676,843	514,892	-	1,191,735
Improvements other than buildings	528,031	-	-	528,031
Furniture, equipment & vehicles	223,062	23,297	-	246,359
Total capital assets, being depreciated	<u>1,427,936</u>	<u>538,189</u>	<u>-</u>	<u>1,966,125</u>
Less accumulated depreciation for:				
Buildings	(74,894)	(30,936)	-	(105,830)
Improvements other than buildings	(87,910)	(28,099)	-	(116,009)
Furniture, equipment & vehicles	(60,187)	(28,553)	-	(88,740)
Total accumulated depreciation	<u>(222,991)</u>	<u>(87,588)</u>	<u>-</u>	<u>(310,579)</u>
Total capital assets, being depreciated, net	<u>1,204,945</u>	<u>450,601</u>	<u>-</u>	<u>1,655,546</u>
Governmental activities capital assets, net	<u>\$ 1,894,945</u>	<u>\$ 1,054,455</u>	<u>\$ (547,378)</u>	<u>\$ 2,402,022</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 31,810
Public works/streets	25,394
Parks & recreation	<u>30,384</u>
Total depreciation expense - governmental activities	<u>\$ 87,588</u>

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

Governmental Activities:	Balance 6/30/16	Additions	Retirements	Balance 6/30/17
Net pension liability	\$ 325,465		\$ (18,786)	\$ 306,679
Total long-term liabilities	<u>\$ 325,465</u>	<u>\$ -</u>	<u>\$ (18,786)</u>	<u>\$ 306,679</u>

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 13,949	\$ -
STILO Fund	-	13,949
	<u>\$ 13,949</u>	<u>\$ 13,949</u>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts are expected to be repaid within one year.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans

The Town contributes to the plan described below. The plan is a component unit of the State of Arizona.

Arizona State Retirement System (ASRS)

The Town contributes to the Arizona State Retirement System (ASRS) as described below. The plan is a component unit of the State of Arizona.

Plan Description – The Town participates in the Arizona State Retirement System. 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 website at www.azars.gov.

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

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive 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.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

The Town's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	24,093	1,305	265
2016	19,225	886	213
2017	24,500	1,273	318

Pension liability – At June 30, 2017, the Town reported a liability of \$306,679 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. 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, 2016. The Town's proportion measured as of June 30, 2016, was 0.001900 percent, which was a decrease of 0.000190 percent from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$92,345 in the statement of activities. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,864	\$ 21,097
Changes in assumptions	-	16,226
Net difference between projected and actual earnings on pension plan investments	33,234	-
Changes in proportion and differences between contributions and proportional share of contributions	133,582	21,467
Contributions subsequent to the measurement date	24,500	-
Total	\$ 193,180	\$ 58,790

The \$24,500 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 ending June 30, 2018. 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	Deferred Outflows (Inflows) of Resources
2018	\$ 87,129
2019	1,851
2020	11,590
2021	9,319
2022	-
Thereafter	-

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 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:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed income	25%	3.70%	0.93%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Multi-asset	5%	3.41%	0.17%
Totals	100%		5.50%
	Inflation		3.25%
	Expected arithmetic nominal return		8.75%

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 8. Retirement and Pension Plans, Continued

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 8.75 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.

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

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	\$ 391,039	\$ 306,679	\$ 239,041

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report

Note 9. 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; 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. The limit for general liability, professional liability, auto liability and physical damage coverage is for \$2,000,000 per occurrence on a claims made basis.

The Arizona Municipal Risk Retention Pool is structured such that members' premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

TOWN OF TUSAYAN, ARIZONA
Notes to the Financial Statements
June 30, 2017

Note 10. Contingencies

The Town is involved with various matters of litigation from year to year. It is the opinion of Town officials that these cases will either be handled by the Town's insurance coverage or that they will not have a material effect on the Town's financial condition.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town does not anticipate any such amounts.

Note 11. Stabilization Arrangement

The Town has established a General Fund reserve policy to set aside funds that may be needed in the event of an emergency or other unknown event that may adversely affect the Town's financial condition. An emergency reserve of \$250,000, an operating reserve of \$750,000 and a budget stabilization reserve of \$500,000 must be maintained before any expenditure can be authorized. The trigger amount for usage of the operating reserve and the budget stabilization reserve is \$300,000. As of June 30, 2017 the total reserve is \$1,500,000 and is included in the unassigned fund balance of the General Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF TUSAYAN, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year	
	(Measurement Date)	
	2017	2016
	(2016)	(2015)
	<hr/>	<hr/>
Proportion of the net pension liability (asset)	0.001900%	0.002090%
Proportionate share of the net pension liability (asset)	\$ 306,679	\$ 325,465
Covered payroll	\$ 227,278	\$ 177,108
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	134.94%	183.77%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

TOWN OF TUSAYAN, ARIZONA
Schedule of Pension Contributions
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2017 (2016)	2016 (2015)
Contractually required contribution	\$ 19,279	\$ 20,958
Contributions in relation to the contractually required contribution	(19,279)	(20,958)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 227,278	\$ 177,108
Contributions as a percentage of covered-employee payroll	8.48%	11.83%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

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TOWN OF TUSAYAN, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Major Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share of motor fuel tax revenues which are restricted for the maintaining, repairing, and upgrading of streets.
- **Grants Fund** – This fund is used to account for federal and state grants and other contributions that are restricted for specific use

TOWN OF TUSAYAN, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
General Fund
Budget & Actual
For the Year Ended June 30, 2017

REVENUES:	Budgeted Amounts		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	Original	Final		
Taxes:				
City sales tax	\$ 4,137,000	\$ 4,137,000	\$ 3,994,096	\$ (142,904)
Total Taxes	4,137,000	4,137,000	3,994,096	(142,904)
Licenses, Permits and Fees:				
Licenses and permits	2,250	2,250	420	(1,830)
Building permits	50,000	50,000	53,305	3,305
Total Licenses, Fees and Permits	52,250	52,250	53,725	1,475
Intergovernmental:				
State sales tax	52,880	52,880	52,086	(794)
Urban revenue sharing	183,631	183,631	183,514	(117)
Total Intergovernmental	236,511	236,511	235,600	(911)
Interest:				
Interest revenue	10,000	10,000	17,114	7,114
Total Interest	10,000	10,000	17,114	7,114
Other Revenues:				
Miscellaneous revenue	150,000	150,000	26,394	(123,606)
Total Other Revenues	150,000	150,000	26,394	(123,606)
TOTAL REVENUES	\$ 4,585,761	\$ 4,585,761	\$ 4,326,929	\$ (258,832)

(continued)

TOWN OF TUSAYAN, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
General Fund
Budget & Actual (Continued)
For the Year Ended June 30, 2017

EXPENDITURES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
General Government:				
Mayor & Council	170,000	170,000	52,983	117,017
City Manager	560,481	560,481	508,557	51,924
Legal	235,000	235,000	46,137	188,863
Planning & Development	319,500	319,500	150,446	169,054
Magistrate	21,500	21,500	24,665	(3,165)
Contingency	221,500	221,500	150,275	71,225
Total General Government	1,527,981	1,527,981	933,063	594,918
Public Safety:				
Sheriff	825,505	825,505	802,807	22,698
Total Public Safety	825,505	825,505	802,807	22,698
Parks & Recreation				
Parks & Recreation	105,000	105,000	84,972	20,028
Total Parks & Recreation	105,000	105,000	84,972	20,028
Facilities & Grounds:				
Facilities & Grounds	104,000	104,000	88,403	15,597
Total Facilities & Grounds	104,000	104,000	88,403	15,597
Capital Outlay:				
Capital Outlay	6,755,000	6,755,000	631,454	6,123,546
Total Capital Outlay	6,755,000	6,755,000	631,454	6,123,546
TOTAL EXPENDITURES	9,317,486	9,317,486	2,540,699	6,776,787
Excess of Revenues Over/(Under) Expenditures	(4,731,725)	(4,731,725)	1,786,230	6,517,955
Fund balance, beginning of year	9,634,157	9,634,157	9,634,157	-
Fund balance, end of year	\$ 4,902,432	\$ 4,902,432	\$ 11,420,387	\$ 6,517,955

TOWN OF TUSAYAN, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Highway User Revenue Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 85,808	\$ 85,808	\$ 87,655	\$ 1,847
Total revenue	<u>85,808</u>	<u>85,808</u>	<u>87,655</u>	<u>1,847</u>
EXPENDITURES:				
Current:				
Public works/streets	<u>50,000</u>	<u>50,000</u>	<u>7,735</u>	<u>42,265</u>
Total expenditures	<u>50,000</u>	<u>50,000</u>	<u>7,735</u>	<u>42,265</u>
Excess of Revenues Over (Under) Expenditures	35,808	35,808	79,920	44,112
Fund balance, beginning of year	<u>268,225</u>	<u>268,225</u>	<u>268,225</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 304,033</u></u>	<u><u>\$ 268,225</u></u>	<u><u>\$ 348,145</u></u>	<u><u>\$ 44,112</u></u>

TOWN OF TUSAYAN, ARIZONA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Grants Special Revenue Fund
Budget & Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
REVENUES:				
Intergovernmental revenue	\$ 1,000,000	\$ 1,000,000	\$ -	\$ (1,000,000)
Total revenues	1,000,000	1,000,000	-	(1,000,000)
EXPENDITURES:				
Parks and recreation	1,000,000	1,000,000	-	1,000,000
Total Expenditures	1,000,000	1,000,000	-	1,000,000
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

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OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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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***

The Honorable Mayor and
Town Council
Tusayan, 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, each major fund, and the aggregate remaining fund information of the Town of Tusayan, Arizona as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Tusayan, Arizona 's basic financial statements and have issued our report thereon dated February 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Tusayan, 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 Town of Tusayan, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Tusayan, 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the separately issued findings and recommendations letter dated March 14, 2017 that we consider to be significant deficiencies.

2011-01 Year-End Accounting
2011-02 Segregation of Duties
2011-03 Policy and Procedure

Compliance and Other Matters

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

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.



HintonBurdick, PLLC
Flagstaff, Arizona
February 1, 2018

Independent Auditors' Report on State Legal Compliance

The Honorable Mayor and
Town Council
Tusayan, Arizona

We have audited the basic financial statements of the Town of Tusayan, Arizona for the year ended June 30, 2017, and have issued our report thereon dated February 1, 2018. Our audit also included test work on the Town of Tusayan's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Tusayan is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The Town of Tusayan has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by the Town of Tusayan pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Town of Tusayan complied, in all material respects, with the requirements identified above for the year ended June 30, 2017.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
February 1, 2018

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