



town of
SNOWFLAKE
arizona

Comprehensive Annual Financial Report

For the fiscal year ended
June 30, 2016

TOWN OF SNOWFLAKE, ARIZONA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016

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INTRODUCTORY SECTION

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December 13, 2016

To the Honorable Mayor, Members of the Town Council, and Citizens of the Town of Snowflake:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Snowflake, Arizona (Town) for the fiscal year ended June 30, 2016. The report was prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a licensed Certified Public Accountant.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Hinton Burdick, Certified Public Accountants, has issued an unqualified ("clean") opinion on the Town of Snowflake's financial statements for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements: assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The Town of Snowflake was incorporated in 1948, and is located in Northeastern Arizona. It currently occupies 27 square miles and serves a population estimated at 5,742. The Town of Snowflake is empowered by the citizens to levy property taxes through a proper election, but as of today levies no property taxes, nor has ever levied a tax on property. The Town is also empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The Town of Snowflake has operated under the council-manager form of government since 1986. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and six other council members, all elected on a non-partisan basis. The Council appoints the Town's manager, who in turn appoints the heads of various departments. Council members serve four-year terms, with three members elected every two years. The mayor is directly elected to a four-year term.

The Town of Snowflake provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreation and cultural activities. The Town operates a water and sewer utility and a golf course.

The Council is required to adopt a tentative budget on or before the third Monday in July of each year. The Town Council adopted the final budget for the fiscal year ending June 30, 2016, on July 14, 2015. The budget is prepared by fund, and department. Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the governing council.

Local Economy

Major industries located within the government's boundaries or in close proximity include pork producers, and electrical generation. Unemployment has remained steady at around 3.4%. The unemployment rate in the Town has fluctuated between 3.4 and 4.0% during the past ten years.

During the past five years, the Town's expenditures related to public safety have increased significantly. These expenditures have risen in a large part to increased staffing and competitive wages.

Capital Projects

The major capital projects planned for the next year include minor road improvements, and a major flood control project of approximately \$545,000.

Long-term Financial Planning

The Town is currently working on projects that will enhance the value of the Town's industrial area. These flood control projects will be completed using a combination of Federal, State, and Local dollars. When completed a large area of available land will become more attractive because the land will no longer be designated a flood prone area. This enhanced area is projected to allow the expansion of existing businesses, bringing more jobs and dollars to the community.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Snowflake for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the ninth year that the Town of Snowflake has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. I wish to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Snowflake's finances.

Respectfully Submitted,

Brian Richards

Brian Richards, CPA, CPFO
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Snowflake
Arizona**

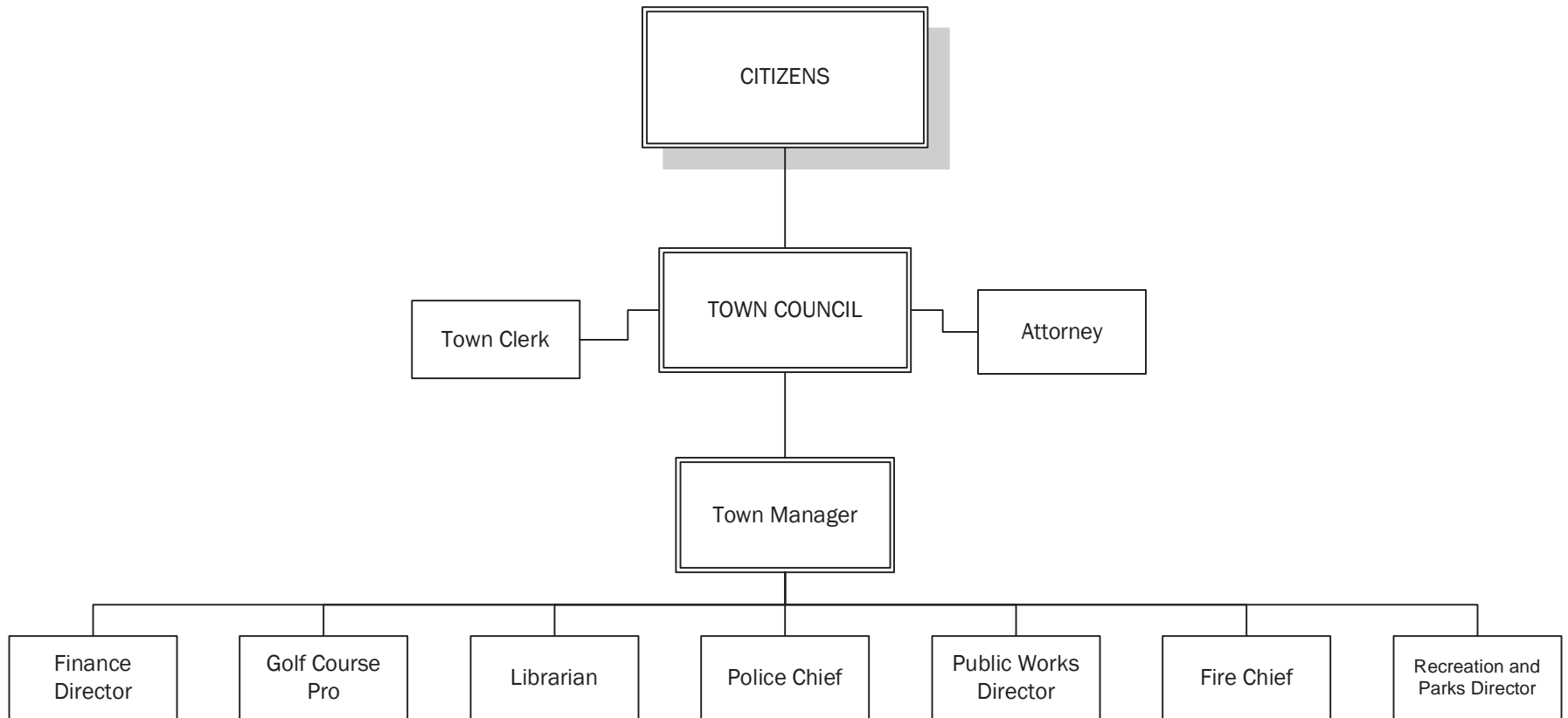
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Town of Snowflake, Arizona

Organization Chart



Town of Snowflake, Arizona
List of Elected and Appointed Officials
June 30, 2016

Elected Officials

Mayor	Thomas L. Poscharsky
Vice-Mayor	Kerry Ballard
Council	Terril Kay
Council	Stuart Hensley
Council	Byron Lewis
Council	Lynn Johnson
Council	Cory Johnson

Appointed Officials

Town Manager	Brian Richards
Public Works Director	Terry Cooper
Finance Director	Brian Richards
Town Clerk	Barbara Flake
Town Attorney	Robert M. Hall
Fire Chief	Clint Burden
Police Chief	Larry Scarber
Recreation and Parks Director	Donald Camacho
Librarian	Cathie McDowell
Golf Pro	Mark Wilson
Town Magistrate	Fred Peterson

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FINANCIAL SECTION

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The Honorable Mayor and
Town Council
Snowflake, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Snowflake, Arizona, as of and for the fiscal 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 an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 purposes 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Snowflake, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of changes in the net pension liability and related ratios, schedule of pension contributions, schedule of agent OPEB plans' funding progress, and budgetary comparison information 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 standard generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Snowflake, Arizona's basic financial statements. The introductory section and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the Town of Snowflake, 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 Town of Snowflake, Arizona's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
Flagstaff, Arizona
December 13, 2016

Management Discussion and Analysis

As management of the Town of Snowflake, we offer readers of the Town of Snowflake's statement this narrative overview and analysis of the financial activities of the Town of Snowflake for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information in the notes to the financial statements

Financial Highlights

- The assets and deferred outflows of resources of the Town of Snowflake exceeded its liabilities at the close of the most recent fiscal year by \$11,528,005 (net position).
- The Town of Snowflake's total net position increased by \$1,248,582 during the current fiscal year.
- As of June 30, 2016, the Town's governmental funds reported combined ending fund balances of \$2,153,506, an increase of \$678,643. Of the total ending fund balance, \$1,691,952 is unassigned and available for spending at the government's discretion.
- As of June 30, 2016, the total unassigned fund balance for the general fund was \$1,691,952, or 37.66% of total general fund expenditures (\$4,492,993).
- As of June 30, 2016, the Town's proprietary funds reported combined total net position of \$2,862,164.
- The Town's long term debt decreased by \$315,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Snowflake's basic financial statements. The Town of Snowflake's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Snowflake's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Town of Snowflake's assets and liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Snowflake is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Management Discussion and Analysis, continued

Both of the government-wide financial statements distinguish functions of the Town of Snowflake that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Snowflake include; general government, public safety, highways and streets, economic development, library, and recreation and parks. The business-type activities of the Town of Snowflake include; a Water and Sewer utility and a Golf Course operation.

The government-wide financial statements can be found on pages 22-23 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Snowflake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Snowflake can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Snowflake maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the special revenue funds.

The Town of Snowflake adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

Management Discussion and Analysis, continued

Proprietary funds. The Town of Snowflake maintains two proprietary funds. Both of these funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Snowflake uses enterprise funds to account for its Water and Sewer utilities and Golf Course enterprise.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer utility and Golf Course enterprise, both of which are considered to be major funds of the Town of Snowflake.

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 31 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents require supplementary information concerning the Town of Snowflake's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on pages 62-67 of this report.

Government-wide Financial Analysis

As previously noted, net position may serve as a useful indicator of a government's financial position over time. In the case of the Town of Snowflake, assets exceeded liabilities by \$11,528,005 at the close of the most recent fiscal year.

By and far the largest portion of the Town of Snowflake's net position (113 percent, \$13,074,306) reflects its investment in capital assets such as land, buildings, machinery, and equipment, less any related debt used to acquire those assets that are still outstanding. The Town of Snowflake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Snowflake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Snowflake's net position, \$706,291 (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$2,252,592.

Management Discussion and Analysis, continued

At the end of the current fiscal year, the Town of Snowflake is able to report positive balances in two categories of net position, for the government as a whole, and positive balances in two categories of net position for the government's separate business type activities.

The Town's net position increased by \$1,302,671 during the current fiscal year. This change is the result of normal operations of the Town.

Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Current and other assets	\$ 2,748,583	\$ 1,729,534	\$ 926,613	\$ 871,819	\$ 3,675,196	\$ 2,601,353
Capital assets	12,081,776	11,674,007	5,752,530	5,914,457	17,834,306	17,588,464
Total assets	<u>14,830,359</u>	<u>13,403,541</u>	<u>6,679,143</u>	<u>6,786,276</u>	<u>21,509,502</u>	<u>20,189,817</u>
Deferred outflows of resources	745,800	739,935	150,131	74,534	895,931	814,469
Long-term liabilities outstanding	6,033,282	5,753,536	3,705,730	439,202	9,739,012	6,192,738
Other liabilities	626,270	381,007	175,923	3,669,896	802,193	4,050,903
Total liabilities	<u>6,659,552</u>	<u>6,134,543</u>	<u>3,881,653</u>	<u>4,109,098</u>	<u>10,541,205</u>	<u>10,243,641</u>
Deferred inflows of resources	250,766	387,638	85,457	147,673	336,223	535,311
Net position:						
Net investment in capital ass	10,117,910	9,631,282	2,956,396	2,882,183	13,074,306	12,513,465
Restricted	450,154	409,799	256,137	236,945	706,291	646,744
Unrestricted	<u>(1,902,223)</u>	<u>(2,419,786)</u>	<u>(350,369)</u>	<u>(515,089)</u>	<u>(2,252,592)</u>	<u>(2,934,875)</u>
Total net position	<u>\$ 8,665,841</u>	<u>\$ 7,621,295</u>	<u>\$ 2,862,164</u>	<u>\$ 2,604,039</u>	<u>\$ 11,528,005</u>	<u>\$ 10,225,334</u>

Management Discussion and Analysis, continued

Changes in Net Position for the year ended June 30, 2016 are as follows:

	Governmental activities		Business-type activities		Combined Total	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,203,656	\$ 1,129,241	\$ 1,681,837	\$ 1,750,752	\$ 2,885,493	\$ 2,879,993
Operating grants and contributions	880,962	-	-	-	880,962	-
Capital grants and contributions	1,307,791	871,969	-	-	1,307,791	871,969
General revenues:						
Taxes	2,131,016	2,675,299	-	-	2,131,016	2,675,299
State revenue sharing	673,035	676,704	-	-	673,035	676,704
Other revenue/(expense)	90,151	39,423	1,520	3,303	91,671	42,726
Total revenues	6,286,611	5,392,636	1,683,357	1,754,055	7,969,968	7,146,691
Expenses:						
General government	631,965	1,542,753	-	-	631,965	1,542,753
Public safety	2,327,719	2,080,498	-	-	2,327,719	2,080,498
Public works/Streets	1,361,718	844,341	-	-	1,361,718	844,341
Culture and recreation	612,740	417,642	-	-	612,740	417,642
Interest on long-term debt	60,025	62,981	-	-	60,025	62,981
Water and wastewater	-	-	1,210,343	1,353,699	1,210,343	1,353,699
Golf Course	-	-	516,876	557,523	516,876	557,523
Total expenses	4,994,167	4,948,215	1,727,219	1,911,222	6,721,386	6,859,437
Increase (Decrease) in net position						
before transfers	1,292,444	444,421	(43,862)	(157,167)	1,248,582	287,254
Transfers	(247,896)	(147,412)	247,896	147,412	-	-
Increase in net position	1,044,548	297,009	204,034	(9,755)	1,248,582	287,254
Net position, beginning	7,621,293	10,513,321	2,604,039	3,462,091	10,225,332	13,975,412
Restatement adjustment	-	(3,189,035)	54,091	(848,297)	54,091	(4,037,332)
Net position, ending	\$ 8,665,841	\$ 7,621,295	\$ 2,862,164	\$ 2,604,039	\$ 11,528,005	\$ 10,225,334

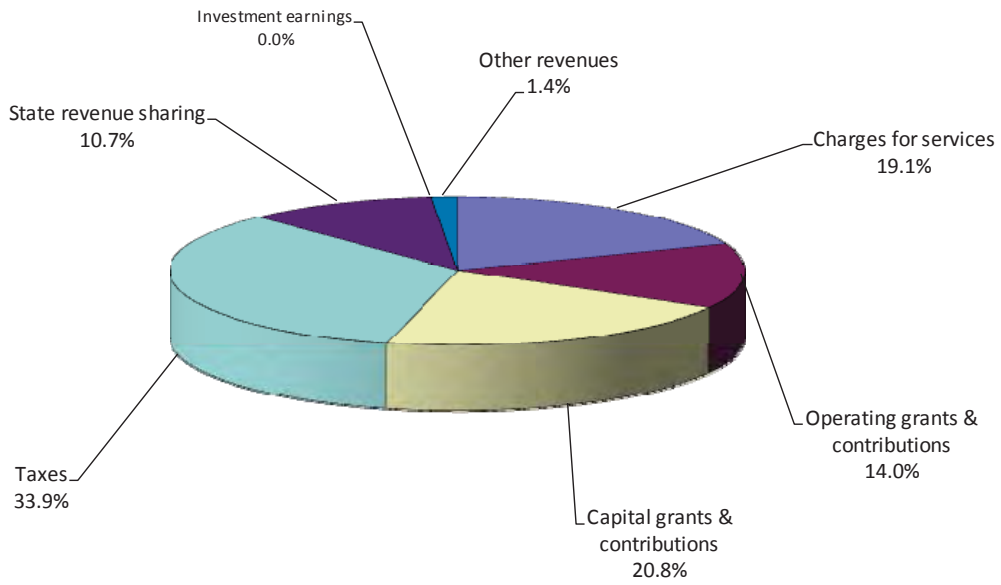
Governmental activities – Governmental activities increased the Town’s Net position by \$1,044,548. Key elements of this increase are as follows:

- Capital grants and contributions increased by \$435,822 (50 percent) during the year.
- Sales and other tax collections decreased by \$544,283 (20 percent) during the year.
- Public safety expenses increased by \$247,221 (12 percent) during the year.
- Recreation and park expenses increased by \$195,098 (47 percent) during the year.

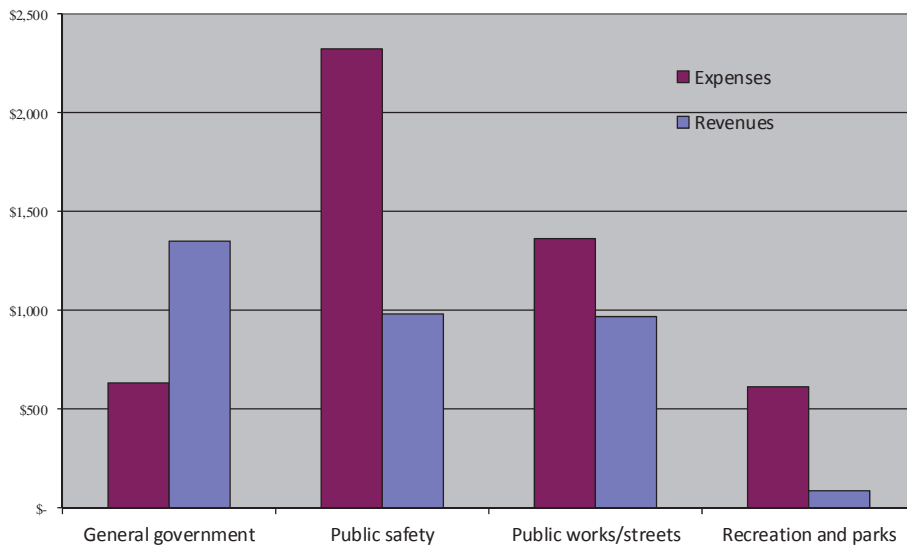
Business-type activities – Business-type activities increased the Town of Snowflake’s net position by \$258,125.

Management Discussion and Analysis, continued

Revenue By Source - Governmental Activities



Expenses and Program Revenues - Governmental Activities
(in Thousands)



Management Discussion and Analysis, continued

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Snowflake's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the Town of Snowflake'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 of Snowflake's governmental funds reported combined ending fund balances of \$2,153,506, an increase of 46 percent in comparison with the prior year. Approximately 38 percent constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it is not in a spendable form (\$11,400) or it has already been committed for highways and streets (\$450,154).

The general fund is the chief operating fund of the Town of Snowflake. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,691,952, with total fund balance reached being \$1,691,952. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38 percent of total general fund expenditures (\$4,492,993).

The fund balance of the Town of Snowflake's general fund increased by \$626,618 during the current fiscal year. Key factors relating to this change are as follows:

- General fund governmental revenues increased by \$623,712 (13 percent) during the year while expenditures remained reasonably consistent with the prior year.

The fund balance for the Highway User Revenue Fund increased by \$52,025 to \$461,554, mainly due to expenditures being lower than anticipated.

Proprietary Funds. The Town of Snowflake's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility fund at the end of the year amounted to a negative balance of \$62,515, and unrestricted net position of the Golf Course fund was a negative \$251,360. The main reason there is a deficit balance in unrestricted net position is due to the implementation of GASB 68, which required an accrual of net pension liability in the total amount of \$844,475 for both funds in fiscal year 2015. The deficits have carried forward from then, though they are decreasing. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Snowflake's business-type activities.

Management Discussion and Analysis, continued

General Fund Budgetary Highlights

The overall general fund budget decreased by 13% from the prior year due to the overall decrease in anticipated revenues and the economic environment in which the Town operates. There were no significant budget variances for expenditures or revenues.

General Fund Budgetary Variances

Intergovernmental Revenues received are significantly less than budgeted because of capital grant related revenues were not awarded in the budgeted fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Town of Snowflake's investment in capital assets for its governmental and business type activities as of June 30, 2016, amounts to \$17,834,308 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure. The total net increase in the Town of Snowflake's investment in capital assets for the current fiscal year was \$172,203.

The most significant capital asset addition for the year was \$979,340 for the flood control project that was funded by a FEMA grant which is reported as infrastructure in governmental activities.

Additional information on the Town of Snowflake's capital assets can be found in Note 5 on pages 42-43 of this report

Long-term debt. At the end of the current fiscal year, the Town of Snowflake had total debt outstanding of \$4,760,000. The entire amount of revenues bonds are secured by specified revenue sources.

The Town of Snowflake's total debt decreased by \$315,000 during the year, this decrease is attributed to principal payments on debt.

State statutes limit the amount of general obligation debt a governmental entity may issue. The debt limitations imposed on the Town by State statute are six percent and twenty percent of outstanding assessed valuation. The Town's available debt margin at June 30, 2016 is \$1.7 million at 6 percent and \$5.6 million at 20 percent.

Additional information on the Town of Snowflake's long-term debt can be found in Note 6 on pages 44-45.

Management Discussion and Analysis, continued

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the Town of Snowflake is currently around 3.4 percent. Inflationary trends in the region compare favorably to national indices. Sales taxes have increased in the recent year due to a general economic uptick.

All of these factors were considered in preparing the Town of Snowflake's budget for the 2017 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town of Snowflake's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following address:

Finance Department
Town of Snowflake
Brian Richards, Finance Director
81 W. 1st St. South
Snowflake, AZ 85937
Telephone: 928-536

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,314,147	\$ 472,609	\$ 2,786,756
Receivables (net of allowance)	423,036	171,122	594,158
Prepaid items	11,400	-	11,400
Inventory	-	12,140	12,140
Restricted cash	-	270,742	270,742
Capital assets (net of accumulated depreciation):			
Land	530,743	1,783,317	2,314,060
Buildings	2,498,176	3,115,008	5,613,184
Infrastructure/roads	8,102,208	-	8,102,208
Furniture, equipment and vehicles	950,649	854,205	1,804,854
Total assets	<u>14,830,359</u>	<u>6,679,143</u>	<u>21,509,502</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	745,800	150,131	895,931
Total deferred outflows of resources	<u>745,800</u>	<u>150,131</u>	<u>895,931</u>
LIABILITIES			
Accounts payable and other current liabilities	595,077	146,840	741,917
Interest payable	31,193	29,083	60,276
Noncurrent liabilities:			
Due within one year	189,665	296,202	485,867
Due in more than one year	5,843,617	3,409,528	9,253,145
Total liabilities	<u>6,659,552</u>	<u>3,881,653</u>	<u>10,541,205</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	250,766	85,457	336,223
Total deferred inflows of resources	<u>250,766</u>	<u>85,457</u>	<u>336,223</u>
NET POSITION			
Net investment in capital assets	10,117,910	2,956,396	13,074,306
Restricted for:			
Public works/streets	450,154	-	450,154
Other purposes	-	256,137	256,137
Unrestricted	<u>(1,902,223)</u>	<u>(350,369)</u>	<u>(2,252,592)</u>
Total net position	<u>\$ 8,665,841</u>	<u>\$ 2,862,164</u>	<u>\$ 11,528,005</u>

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

TOWN OF SNOWFLAKE, ARIZONA
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 631,965	\$ 172,408	\$ -	\$ 1,180,654	\$ 721,097	\$ -	\$ 721,097
Public safety	2,327,719	857,493	-	127,137	(1,343,089)	-	(1,343,089)
Public works/streets	1,361,718	87,469	880,962	-	(393,287)	-	(393,287)
Recreation and parks	612,740	86,286	-	-	(526,454)	-	(526,454)
Interest on long-term debt	60,025	-	-	-	(60,025)	-	(60,025)
Total governmental activities	4,994,167	1,203,656	880,962	1,307,791	(1,601,758)	-	(1,601,758)
Business-type activities:							
Water and wastewater	1,210,343	1,431,358	-	-	-	221,015	221,015
Golf Course	516,876	250,479	-	-	-	(266,397)	(266,397)
Total business-type activities	1,727,219	1,681,837	-	-	-	(45,382)	(45,382)
Total primary government	<u>\$ 6,721,386</u>	<u>\$ 2,885,493</u>	<u>\$ 880,962</u>	<u>\$ 1,307,791</u>			
General revenues:							
Taxes:							
City sales tax					1,163,487	-	1,163,487
State sales tax					527,763	-	527,763
Franchise taxes					119,958	-	119,958
Auto lieu tax					319,808	-	319,808
Urban revenue sharing					673,035	-	673,035
Unrestricted investment earnings					-	1,520	1,520
Miscellaneous					90,151	-	90,151
Transfers					(247,896)	247,896	-
Total general revenues					<u>2,646,306</u>	<u>249,416</u>	<u>2,895,722</u>
Change in net position					1,044,548	204,034	1,248,582
Net position - beginning					7,621,293	2,604,039	10,225,332
Prior period adjustment					-	54,091	54,091
Net position - ending					<u>\$ 8,665,841</u>	<u>\$ 2,862,164</u>	<u>\$ 11,528,005</u>

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

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

	General	Highway Users Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,557,381	\$ 756,766	\$ 2,314,147
Receivables:			
Intergovernmental	351,902	71,134	423,036
Prepaid expenses	-	11,400	11,400
Total assets	\$ 1,909,283	\$ 839,300	\$ 2,748,583
LIABILITIES			
Accounts payable	\$ 146,543	\$ 368,770	\$ 515,313
Accrued wages and benefits	70,788	8,976	79,764
Total liabilities	217,331	377,746	595,077
FUND BALANCES			
Nonspendable:			
Prepays	-	11,400	11,400
Restricted for:			
Public works/streets	-	450,154	450,154
Unassigned	1,691,952	-	1,691,952
Total fund balances	1,691,952	461,554	2,153,506
Total liabilities and fund balances	\$ 1,909,283	\$ 839,300	\$ 2,748,583

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

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

Total fund balances governmental funds \$ 2,153,506

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	23,377,101	
Accumulated depreciation	<u>(11,295,325)</u>	
		12,081,776

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds payable	(1,963,866)	
Compensated absences	(151,698)	
Net pension liability	<u>(3,917,718)</u>	
		(6,033,282)

Interest payable on long-term debt does not require current financial resources and therefore, is not reported as a liability in the governmental funds balance sheet.

(31,193)

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	745,800	
Deferred inflows	<u>(250,766)</u>	
		<u>495,034</u>

Net position of governmental activities \$ 8,665,841

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

TOWN OF SNOWFLAKE, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,283,445	\$ -	\$ 1,283,445
Licenses, permits and fees	39,532	-	39,532
Intergovernmental revenue	2,828,396	880,962	3,709,358
Charges for services	1,076,655	-	1,076,655
Other revenues	90,151	-	90,151
Total revenues	<u>5,318,179</u>	<u>880,962</u>	<u>6,199,141</u>
Expenditures			
Current:			
General government	504,011	-	504,011
Public safety	2,121,578	-	2,121,578
Public works/streets	1,170,397	802,100	1,972,497
Recreation and parks	566,824	-	566,824
Debt service:			
Principal	74,125	4,735	78,860
Interest	56,058	4,204	60,262
Total expenditures	<u>4,492,993</u>	<u>811,039</u>	<u>5,304,032</u>
Excess of revenues over expenditures	<u>825,186</u>	<u>69,923</u>	<u>895,109</u>
Other financing sources (uses)			
Transfers in	100,000	-	100,000
Transfers out	(327,896)	(20,000)	(347,896)
Total other financing sources (uses)	<u>(227,896)</u>	<u>(20,000)</u>	<u>(247,896)</u>
Net change in fund balances	597,290	49,923	647,213
Fund balances, beginning of year	1,065,334	409,529	1,474,863
Prior period adjustment	29,328	2,102	31,430
Fund balances, end of year	<u>\$ 1,691,952</u>	<u>\$ 461,554</u>	<u>\$ 2,153,506</u>

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

TOWN OF SNOWFLAKE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds		\$	647,213
<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. This is the difference between depreciation expense and capital outlay in the current</p>			
Capital outlay			1,110,557
Depreciation expense			<u>(702,787)</u>
			407,770
<p>Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, this does not have any effect on net position.</p>			
			78,860
<p>Accrued Interest and related changes for Long-term debt are not reported for the current period while they are recorded in the statement of activities.</p>			
			3,866
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>			
			(16,053)
<p>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.</p>			
Pension contributions			308,592
Pension expense			<u>(385,700)</u>
			<u>(77,108)</u>
Change in net position of governmental activities		\$	<u><u>1,044,548</u></u>

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

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

	Utility Fund	Golf Course Fund	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 428,230	\$ 44,379	\$ 472,609
Receivables (net of allowance)	171,122	-	171,122
Inventory	-	12,140	12,140
Total current assets	<u>599,352</u>	<u>56,519</u>	<u>655,871</u>
Noncurrent assets:			
Restricted investments	270,742	-	270,742
Land	28,911	1,754,406	1,783,317
Buildings and improvements	7,116,776	633,858	7,750,634
Furniture, equipment and vehicles	923,124	307,696	1,230,820
Accumulated depreciation	<u>(4,334,801)</u>	<u>(677,440)</u>	<u>(5,012,241)</u>
Total noncurrent assets	<u>4,004,752</u>	<u>2,018,520</u>	<u>6,023,272</u>
Total assets	<u>4,604,104</u>	<u>2,075,039</u>	<u>6,679,143</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>101,441</u>	<u>48,690</u>	<u>150,131</u>
Liabilities			
Current liabilities:			
Accounts payable	73,142	30,245	103,387
Accrued liabilities	18,877	9,971	28,848
Customer deposits	14,605	-	14,605
Accrued interest payable	23,614	5,469	29,083
Current portion of long-term debt	<u>258,082</u>	<u>38,120</u>	<u>296,202</u>
Total current liabilities	<u>388,320</u>	<u>83,805</u>	<u>472,125</u>
Noncurrent liabilities (net of current portion):			
Compensated absences	21,566	2,155	23,721
Bonds and contracts payable	2,018,673	494,032	2,512,705
Net pension liability	<u>589,934</u>	<u>283,168</u>	<u>873,102</u>
Total noncurrent liabilities	<u>2,630,173</u>	<u>779,355</u>	<u>3,409,528</u>
Total liabilities	<u>3,018,493</u>	<u>863,160</u>	<u>3,881,653</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>57,741</u>	<u>27,716</u>	<u>85,457</u>
Net position			
Net investment in capital assets	1,468,868	1,487,528	2,956,396
Restricted for debt service	256,137	-	256,137
Unrestricted	<u>(95,694)</u>	<u>(254,675)</u>	<u>(350,369)</u>
Total net position	<u>\$ 1,629,311</u>	<u>\$ 1,232,853</u>	<u>\$ 2,862,164</u>

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

TOWN OF SNOWFLAKE, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Utility Fund</u>	<u>Golf Course Fund</u>	<u>Totals</u>
Operating revenues			
Metered water service	\$ 773,340	\$ -	\$ 773,340
Sewer service charges	635,545	-	635,545
Connection fees	21,522	-	21,522
Other fine and fees	48,178	-	48,178
Green fees	-	76,240	76,240
Cart fees	-	80,101	80,101
Membership dues	-	33,810	33,810
Other charges and fees	-	71,266	71,266
Total operating revenues	<u>1,478,585</u>	<u>261,417</u>	<u>1,740,002</u>
Operating expenses			
Cost of sales and services	600,466	235,734	836,200
Administration	410,542	244,911	655,453
Depreciation	<u>199,335</u>	<u>36,231</u>	<u>235,566</u>
Total operating expenses	<u>1,210,343</u>	<u>516,876</u>	<u>1,727,219</u>
Operating income (loss)	<u>268,242</u>	<u>(255,459)</u>	<u>12,783</u>
Non-operating revenues (expenses)			
Interest income	1,520	-	1,520
Interest expense	<u>(47,227)</u>	<u>(10,938)</u>	<u>(58,165)</u>
Total non-operating revenue (expense)	<u>(45,707)</u>	<u>(10,938)</u>	<u>(56,645)</u>
Income (loss) before contributions and transfers			
	222,535	(266,397)	(43,862)
Contributions and transfers:			
Transfers in	-	327,896	327,896
Transfers out	<u>(80,000)</u>	<u>-</u>	<u>(80,000)</u>
Change in net position	142,535	61,499	204,034
Net position, beginning of year	1,450,227	1,153,812	2,604,039
Prior period adjustment	<u>36,549</u>	<u>17,542</u>	<u>54,091</u>
Net position, end of year	<u><u>\$ 1,629,311</u></u>	<u><u>\$ 1,232,853</u></u>	<u><u>\$ 2,862,164</u></u>

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

TOWN OF SNOWFLAKE, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Utility Fund	Golf Course Fund	Totals
Cash flows from operating activities:			
Cash received from customers, service fees	\$ 1,481,240	\$ 190,151	\$ 1,671,391
Cash received from customers, other	-	71,266	71,266
Cash paid to suppliers	(618,067)	(227,117)	(845,184)
Cash paid to employees	(444,551)	(271,535)	(716,086)
Net cash flows from operating activities	<u>418,622</u>	<u>(237,235)</u>	<u>181,387</u>
Cash flows from noncapital financing activities:			
Transfers (to)/from other funds	(80,000)	327,896	247,896
Net cash flows from noncapital financing activities	<u>(80,000)</u>	<u>327,896</u>	<u>247,896</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(48,646)	(24,995)	(73,641)
Principal paid on bonds	(223,820)	(11,160)	(234,980)
Interest paid	(49,564)	(11,065)	(60,629)
Net cash flows from capital and related financing activities	<u>(322,030)</u>	<u>(47,220)</u>	<u>(369,250)</u>
Cash flows from investing activities:			
Interest on investments	1,520	-	1,520
Net cash flows from investing activities	<u>1,520</u>	<u>-</u>	<u>1,520</u>
Net change in cash and cash equivalents	18,112	43,441	61,553
Cash and cash equivalents, including restricted cash, beginning of year	<u>680,860</u>	<u>938</u>	<u>681,798</u>
Cash and cash equivalents, including restricted cash, end of year	<u>\$ 698,972</u>	<u>\$ 44,379</u>	<u>\$ 743,351</u>
Reconciliation of operating income to net cash flows from operating activities:			
Net operating income (loss)	\$ 268,242	\$ (255,459)	\$ 12,783
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	199,335	36,231	235,566
Pension expense	761	123	884
Employer pension contributions	(37,988)	(17,991)	(55,979)
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables	2,655	-	2,655
(Increase)/decrease in inventory	-	4,105	4,105
Increase/(decrease) in payables	(17,601)	4,512	(13,089)
Increase/(decrease) in accrued liabilities	3,218	(8,756)	(5,538)
Net cash flows from operating activities	<u>\$ 418,622</u>	<u>\$ (237,235)</u>	<u>\$ 181,387</u>

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

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

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 Snowflake, Arizona (Town) was incorporated on August 2, 1948, under the provisions of the State of Arizona. The Town operates under a Council-Manager form of government and provides the following services: public safety, streets, water, sewer, planning, zoning, recreation, parks, golf, library, and general administrative services.

The Town of Snowflake, Arizona (Town) is a municipal corporation governed by an elected mayor, vice-mayor, and an elected five-member council (council). The accompanying financial statements present the government and its component units, entities for which the government 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 government. The Town has no blended or discretely presented component units.

The accounting policies of the Town conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting standards.

The accompanying financial statements include the Town of Snowflake, which is the primary government.

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 and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of presentation – fund financial statements

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

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 for those required to be accounted for in another fund. The General Fund will always be considered a major fund in the basic financial statements.

The **Highway User Special Revenue Fund** accounts for the revenue and expenditures related to maintenance, construction, and repair of Town streets and right of ways. This fund receives taxes on gasoline from the State and is restricted for authorized transportation purposes..

The Town reports the following major enterprise funds:

The **Utility Fund** accounts for the activities related to the Town's water and wastewater system.

The **Golf Course Fund** accounts for the activities related to the Town's municipal golf course operations.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

During the course of operations the government 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 internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type 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. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

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.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

Property taxes, sales taxes, intergovernmental grants and aid, 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.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

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

Cash and cash equivalents

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

State Statute authorizes the Town to invest in the State's Local Government Investment Pool, in obligations of the U.S. Treasury, commercial paper and repurchase agreements.

All Investments for the government are reported at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are generally based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

Inventories

The cost of governmental fund-type inventories are normally recorded as expenditures when purchased rather than when consumed. However, the Highway User Revenue Fund at times, maintains and records inventories for street supplies and fuel respectively and are recorded at the lower of cost of market using the first in/first-out method. Inventories for business-type activities consist of materials and supplies for the water and sewer system and are recorded at the lower of cost or market using the first in/first-out method.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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 or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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. Other property, plant and equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Building	20 - 40 years
Improvements	10 - 20 years
Equipment	5 - 20 years
Infrastructure	20 - 40 years

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 Town has one type of item that qualifies for reporting in this category, which is pension related items reported on the government-wide financial statements. See footnote 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 Town has one type of item that qualifies for reporting in this category, which is pension related items reported on the government-wide financial statements. See footnote 8 for more information.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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 Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. 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 and proprietary 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 – 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.

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.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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 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.

Property taxes

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

The County levies real property taxes on or before the third Monday in August, which 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. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation 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. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, building fund and EMS fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 assets. These differences primarily result 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 these differences are reported in the reconciliation on page 25.

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 27.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

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 public 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 March 8, 2011 and extended in August of 2016. This law does not permit the Town to spend more than budgeted revenues. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.
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.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 3. Stewardship, Compliance, and Accountability, Continued

The Town is subject to the State of Arizona's Spending Limitation Law for Cities and Towns. 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.

No Supplementary budgetary appropriations were made during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedule 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 fiscal year ended June 30, 2016, if any.

Highway User Revenue Funds

Highway user revenue fund monies received by the Town pursuant to title 28, chapter 18, article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized purposes.

Note 4. Deposits and Investments

Deposits

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

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, 2016 the carrying amount of the Town's deposits was \$2,542,556 and the bank balances were \$2,993,960. As of June 30, 2016, \$162,165 of the Town's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

As of June 30, 2016, the Town had \$412,165 of cash held by BNY Mellon acting as a trust agent for debt service payments and \$550 held in petty cash.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 4. Deposits and Investments, Continued

Investments

The Town's investments include \$100,966 held in the Local Government Investment Pool. 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 investment 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 "P1" by Moody's investors or "A1" 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.

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.

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

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 quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2016:

- LGIP investments are valued using quoted market prices (Level 2 inputs)

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 5. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Non-depreciable assets:				
Land	\$ 530,743	\$ -	\$ -	\$ 530,743
Total non-depreciable assets	<u>530,743</u>	<u>-</u>	<u>-</u>	<u>530,743</u>
Depreciable assets:				
Buildings and improvements	5,010,523	-	-	5,010,523
Machinery and equipment	3,714,884	131,217	-	3,846,101
Infrastructure	13,010,395	979,339	-	13,989,734
Total depreciable assets	<u>21,735,802</u>	<u>1,110,556</u>	<u>-</u>	<u>22,846,358</u>
Accumulated depreciation:				
Buildings	(2,416,398)	(95,950)	-	(2,512,348)
Machinery and equipment	(2,638,357)	(257,094)	-	(2,895,451)
Infrastructure	(5,537,783)	(349,743)	-	(5,887,526)
Total accumulated depreciation	<u>(10,592,538)</u>	<u>(702,787)</u>	<u>-</u>	<u>(11,295,325)</u>
Governmental activities capital assets, net	<u>\$ 11,674,007</u>	<u>\$ 407,769</u>	<u>\$ -</u>	<u>\$ 12,081,776</u>

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

Governmental activities:	
General government	\$ 182,367
Public safety	230,830
Highways and Streets	274,539
Recreations and parks	<u>15,051</u>
Total depreciation expense - governmental	<u>\$ 702,787</u>

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Non-depreciable assets:				
Land	\$ 1,783,317	\$ -	\$ -	\$ 1,783,317
Total non-depreciable assets	<u>1,783,317</u>	<u>-</u>	<u>-</u>	<u>1,783,317</u>
Depreciable assets:				
Buildings and improvements	7,750,635	-	-	7,750,635
Machinery and equipment	<u>1,157,180</u>	<u>73,641</u>	<u>-</u>	<u>1,230,821</u>
Total depreciable assets	<u>8,907,815</u>	<u>73,641</u>	<u>-</u>	<u>8,981,456</u>
Accumulated depreciation:				
Buildings and improvements	(4,465,543)	(170,084)	-	(4,635,627)
Machinery and equipment	<u>(311,132)</u>	<u>(65,482)</u>	<u>-</u>	<u>(376,614)</u>
Total accumulated depreciation	<u>(4,776,675)</u>	<u>(235,566)</u>	<u>-</u>	<u>(5,012,241)</u>
Business-type activities capital assets, net	<u>\$ 5,914,457</u>	<u>\$ (161,925)</u>	<u>\$ -</u>	<u>\$ 5,752,532</u>

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

Business-type activities:	
Utility fund	\$ 199,335
Golf course fund	<u>36,231</u>
expense - business-type activities	<u>\$ 235,566</u>

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term obligations during the year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bond Payable:					
Revenue bonds series 2013	\$ 1,272,726	\$ -	\$ (28,860)	\$ 1,243,866	\$ 86,571
Revenue bonds series 2007A	770,000	-	(50,000)	720,000	50,000
Net pension liability	3,701,502	216,216	-	3,917,718	-
Compensated absences	135,645	77,490	(61,437)	151,698	53,094
Total long-term liabilities	<u>\$ 5,879,873</u>	<u>\$ 293,706</u>	<u>\$ (140,297)</u>	<u>\$ 6,033,282</u>	<u>\$ 189,665</u>
Business-type activities:					
Bond Payable:					
Revenue bonds series 2013	\$ 932,274	\$ -	\$ (21,140)	\$ 911,134	\$ 63,429
Revenue bonds utility 2013	2,100,000	-	(215,000)	1,885,000	220,000
Net pension liability	844,475	28,627	-	873,102	-
Compensated absences	45,057	21,729	(30,292)	36,494	12,773
Total long-term liabilities	<u>\$ 3,921,806</u>	<u>\$ 125,741</u>	<u>\$ (266,432)</u>	<u>\$ 3,705,730</u>	<u>\$ 296,202</u>

The General fund and Highway User Revenue fund have separately liquidated their respective liabilities for compensated absences within the current year. In addition, the respective business-type activities of the Utility fund and Golf course fund generally liquidate their respective liabilities in each fund as it relates to compensated absences.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 6. Long-Term Liabilities, Continued

The following is a listing of long-term debt and liabilities outstanding as of June 30, 2016:

	Governmental Activities	Business-Type Activities
Revenue Bonds:		
\$2,255,000 Excise Tax Revenue Refunding Bonds, Series 2013, issued for refunding of 2003 Series revenue bonds, due in annual installments of \$95,423 to \$359,608; through July 1, 2023; interest at 2.09%	\$ 1,243,866	\$ 911,134
\$1,075,000 GADA Series 2007A Bond, for construction of a new fire station, due in annual installments of \$82,718 to \$83,938; through August 1, 2026; interest at 4.5%	720,000	-
\$2,305,000 Utility System Revenue Refunding Bonds, Series 2013, for refunding of 2003 WIFA loan and water system improvements, due in annual installments of \$248,890 to \$255,289; through July 1, 2023; interest at 2.09%		1,885,000
Total revenue bonds outstanding	\$ 1,963,866	\$ 2,796,134

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ended June 30,	Governmental Activities		Business-Type Activities		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 136,571	\$ 57,413	\$ 283,429	\$ 52,264	\$ 420,000	\$ 109,677
2018	242,571	51,386	362,429	44,730	605,000	96,116
2019	242,571	45,048	367,429	37,092	610,000	82,140
2020	253,342	38,190	376,658	29,263	630,000	67,453
2021	253,342	31,206	376,658	21,433	630,000	52,639
2022	261,228	24,040	383,772	13,455	645,000	37,495
2023	269,241	16,562	390,759	5,330	660,000	21,892
2024	70,000	13,281	255,000	2,665	325,000	15,946
2025	75,000	9,875	-	-	75,000	9,875
2026	80,000	6,000	-	-	80,000	6,000
2027	80,000	2,000	-	-	80,000	2,000
Total	\$ 1,963,866	\$ 295,001	\$ 2,796,134	\$ 206,232	\$ 4,760,000	\$ 501,233

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 7. Interfund Receivables, Payables, and Transfers

Interfund balances result 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. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances. The Town has no interfund receivables outstanding as of June 30, 2016.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in certain funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended, June 30, 2016, Inter-fund transfers for the year were as follows: The General fund made a transfer of \$327,896 to the Golf Course fund, the Utility fund made a transfer of \$80,000 to the General fund, and the Highway User Revenue fund made a transfer of \$20,000 to the General fund. Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds, in accordance with budgetary authorizations, including amounts provided as subsidies. The transfer of \$80,000 from the Utility fund and \$20,000 from the Highway User Revenue fund to the General fund was for overhead expenditures, and the transfer of \$327,896 from the General Fund to the Golf Course fund was for budgetary reasons, and considered a subsidy.

Note 8. Retirement and Pension Plans

The Town contributes to the Arizona State Retirement System and the Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2016, the Town reported the following aggregate amounts related to pensions for plans to which it contributes:

Statement of Net Position and Statement of Activities	ASRS	PSPRS	Combined Total	Governmental Activities Total	Business-Type Activities Total
Net pension liability	\$ 2,359,735	\$ 2,431,085	\$ 4,790,820	\$ 3,917,718	\$ 873,102
Deferred outflows of resources	259,569	582,272	841,841	745,800	96,040
Deferred inflows of resources	230,961	105,261	336,222	250,766	85,456
Pension expense	3,043	75,191	78,234	77,108	1,126

The Town reported \$374,158 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Arizona State Retirement System (ASRS)

Plan description – The Town participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.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	Initial Membership Date
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 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.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the fiscal year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.5 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that would typically be filled by an employee who contributes to the ASRS.

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
2014	\$ 167,859	\$ 9,413	\$ 3,765
2015	146,193	7,920	1,611
2016	146,881	6,769	1,624

Pension liability – At June 30, 2016, the Town reported a liability of \$2,359,735 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers'

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

contributions for the fiscal year ended June 30, 2015. The Town's proportion measured as of June 30, 2015, was 0.015150 percent, which was a decrease of 0.000275 percent from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources – For the fiscal year ended June 30, 2016, the Town recognized pension expense for ASRS of \$155,274. 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	\$ 64,392	\$ 123,652
Net difference between projected and actual earnings on pension plan investments	-	75,624
Changes in proportion and differences between contributions and proportional share of contributions	48,296	31,685
Contributions subsequent to the measurement date	146,881	-
Total	\$ 259,569	\$ 230,961

The \$146,881 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 fiscal year ending June 30, 2017. 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
2017	\$ (27,330)
2018	\$ (88,008)
2019	(57,527)
2020	54,592
2021	-
Thereafter	-

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

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, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined 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	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.79%	3.94%
Fixed income	25%	3.70%	0.93%
Multi-asset	5%	3.41%	0.17%
Commodities	2%	3.93%	0.08%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.54%
	Inflation		3.25%
	Expected arithmetic nominal return		8.79%

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8.00 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	\$ 3,092,059	\$ 2,359,735	\$ 1,857,853

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

Public Safety Personnel Retirement System (PSPRS)

Plan description – The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at www.psprs.com.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Benefits provided – The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit 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	Initial Membership Date 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 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 service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. 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 effect 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:

	Police
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	12
Total	21

Contributions and annual OPEB cost – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for 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. For the year ended June 30, 2016, active PSPSR members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 33.20 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.38 percent.

In addition, the Town was required by statute to contribute at the actuarially determined rate of 28.62 percent of annual covered payroll of retired members who worked for the Town in positions that would typically be filled by an employee who contributes to the PSPRS.

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

	PSPRS Police
Pension	
Contributions made	\$ 216,057
 Health Insurance Premium Benefit	
Annual OPEB cost	\$ 2,826
Contributions made	\$ 2,826

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Pension liability – At June 30, 2016, the Town reported a net pension liability of \$592,807. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions.

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.0% to 8.0% including inflation
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 SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 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 real rates of return 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 geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit		
Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term		
Invest.	2.00%	0.75%
Total	<u>100.00%</u>	

Discount Rate – A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. The projection of cash flows used to determine this Single Discount Rate 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 actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Changes in the Net Pension Liability

	PSPRS Police		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2015	\$ 4,218,295	\$ 1,954,682	\$ 2,263,613
Changes for the year:			
Service cost	132,212	-	132,212
Interest on total pension liability	325,750	-	325,750
Changes of benefit terms	-	-	-
Difference between expected and actual experience in the measurement of the pension liability	42,947	-	42,947
Changes of assumptions	-	-	-
Contributions - employer	-	189,537	(189,537)
Contributions - employee	-	85,034	(85,034)
Net investment income	-	72,784	(72,784)
Benefit payments, including refunds of employee contributions	(269,427)	(269,427)	-
Other changes*	-	(13,918)	13,918
Net changes	231,482	64,010	167,472
Balances at June 30, 2016	\$ 4,449,777	\$ 2,018,692	\$ 2,431,085

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

	1% Decrease 6.85%	Discount Rate 7.85%	1% Increase 8.85%
PSPRS Police			
Net pension (asset) / liability	\$ 2,944,726	\$ 2,431,085	\$ 2,003,492

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

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Pension expense and deferred outflows/inflows of resources – For the fiscal year ended June 30, 2016, the Town recognized pension expense for PSPRS of \$104,101. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,706	\$ 47,380
Changes in assumptions	266,258	-
Net difference between projected and actual earnings on pension plan investments	64,251	57,881
Contributions subsequent to the measurement date	216,057	-
Total	\$ 582,272	\$ 105,261

The \$216,057 reported as deferred outflows of resources related to PSPRS 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year Ending June 30	Deferred Outflows (Inflows) of Resources PSPRS Police
2017	\$ 57,784
2018	57,784
2019	57,785
2020	77,077
2021	10,524
Thereafter	-

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the fiscal year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plan as the Town and plans' members understand them 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 designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.0%
Wage growth	4.0%

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Retirement and Pension Plans, Continued

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS Police	2014	9,868	100%	-
	2015	10,211	100%	-
	2016	2,826	100%	-
PSPRS Fire	2014	-	0.00%	-
	2015	-	0.00%	-
	2016	-	0.00%	-

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

	<u>PSPRS Police</u>
Actuarial accrued liability (AAL)	\$ 81,444
Actuarial value of plan assets	<u>127,615</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (46,171)</u>
Funded ratio (actuarial value of plan assets/AAL)	156.69%
Covered payroll (active plan members)	\$ 601,000
UAAL as a percentage of covered payroll	-7.68%

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

TOWN OF SNOWFLAKE, ARIZONA
Notes to the Financial Statements
June 30, 2016

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 basic coverage is for \$3,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member 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.

The Town is insured by Municipal Workers Compensation for potential worker related accidents.

Note 10. Commitments and Contingencies

The Town is involved in various matters of litigation. Any pending or threatened litigation is not measurable and cannot be estimated as of the date of the financial statements. It is the opinion of Town officials that none of these cases would have a material effect on the Town's financial condition.

Note 11. Prior Period Adjustments

Adjustments were posted to correct the effect of prior year errors for various items on the governmental fund financial statements and the government-wide financial statements. These adjustments are described below.

An accrual for interest payable was accrued erroneously in the General fund and the Highway User Revenue fund financial statements. An adjustment to remove the accrual of \$31,430 resulted in an increase to fund balance of \$29,328 for the General fund and \$2,102 for the Highway User Revenue fund for a combined total of \$31,430.

Deferred outflows related to pensions reported in the enterprise funds were understated at June 30, 2015. An adjustment was made to increase the deferred outflow related to pensions by \$54,091 which resulted in an increase to net position of the Utility fund of \$36,549 and an increase to the Golf Course fund of \$17,542 for a combined total of \$54,091.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SNOWFLAKE, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.015150%	0.015425%
Proportionate share of the net pension liability (asset)	\$ 2,359,735	\$ 2,282,364
Covered employee payroll	\$ 1,385,444	\$ 1,375,190
(asset) as a percentage of its covered-employee payroll	170.32%	165.97%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

TOWN OF SNOWFLAKE, ARIZONA
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2016

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Total pension liability		
Service cost	\$ 132,212	\$ 138,501
Interest on total pension liability	325,750	280,167
Changes of benefit terms	-	82,250
Difference between expected and actual experience of the total net pension liability	42,947	(70,662)
Changes of assumptions	-	397,088
Benefit payments, including refunds of employee contributions	(269,427)	(217,608)
Net change in total pension liability	231,482	609,736
Total pension liability - beginning	4,218,295	3,608,559
Total pension liability - ending (a)	<u>\$ 4,449,777</u>	<u>\$ 4,218,295</u>
Plan fiduciary net position		
Contributions - employer	\$ 189,537	\$ 171,514
Contributions - employee	85,034	74,324
Net investment income	72,784	235,945
Benefit payments, including refunds of employee contributions	(269,427)	(217,608)
Other (net transfer)*	(13,918)	(1,900)
Net change in plan fiduciary net position	64,010	262,275
Plan fiduciary net position - beginning	1,954,682	1,692,407
Plan fiduciary net position - ending (b)	<u>\$ 2,018,692</u>	<u>\$ 1,954,682</u>
Net pension liability - ending (a) - (b)	<u>\$ 2,431,085</u>	<u>\$ 2,263,613</u>
Plan fiduciary net position as a percentage of the total pension liability	45.37%	46.34%
Covered employee payroll	\$ 601,000	\$ 687,610
Net pension liability as a percentage of covered- employee payroll	404.51%	329.20%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

TOWN OF SNOWFLAKE, ARIZONA
Schedule of Pension Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Contractually required contribution	\$ 151,953	\$ 148,778
Contributions in relation to the contractually required contribution	(151,953)	(148,778)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 1,240,073	\$ 1,385,444
Contributions as a percentage of covered-employee payroll	12.25%	10.74%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

Public Safety Personnel Retirement System

	PSPRS Police Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Actuarially determined contribution	\$ 189,537	\$ 171,514
Contributions in relation to the actuarially determined contribution	(189,537)	(171,514)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 601,000	\$ 687,610
Contributions as a percentage of covered-employee payroll	31.54%	24.94%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

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

Note 1. Actuarially Determined Contribution Rates

Actuarially 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	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%
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 projected to 2016 using projection scale AA (adjusted by 105% for both males and females)

TOWN OF SNOWFLAKE, ARIZONA
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

Public Safety Personnel Retirement System
Health Insurance Premium Benefit

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	[(b)-(a)] / (c)
June 30, 2012	\$ -	\$ 304,157	304,157	0.0%	\$ 1,614,782	18.84%
2013	-	280,120	280,120	0.0%	1,753,529	15.97%
2014	323,139	296,009	(27,130)	109.17%	1,909,357	0.00%
2015	127,615	81,444	(46,171)	156.69%	601,000	0.00%
2016	**	**	**	**	**	**

** The June 30, 2016 information was not yet available at the time the financial statements were issued.

See accompanying notes to pension plan schedules.

TOWN OF SNOWFLAKE, 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 plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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TOWN OF SNOWFLAKE, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

MAJOR GOVERNMENTAL FUNDS:

General Fund – Detail Budget-and-Actual

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

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 and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

TOWN OF SNOWFLAKE, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
REVENUES:				
Local sales tax	\$ 990,000	\$ 990,000	\$ 1,163,487	\$ 173,487
Franchise tax	123,000	123,000	119,958	(3,042)
Permits and fees	17,300	17,300	39,532	22,232
Intergovernmental	2,692,782	2,692,782	2,828,396	135,614
Charges for services	1,079,245	1,079,245	1,076,655	(2,590)
Interest	500	500	-	(500)
Miscellaneous and contingencies	311,500	311,500	90,151	(221,349)
Total revenues	<u>5,214,327</u>	<u>5,214,327</u>	<u>5,318,179</u>	<u>103,852</u>
EXPENDITURES:				
General government:				
Council	33,000	33,000	32,629	371
Administration	255,400	255,400	250,247	5,153
Town clerk	93,500	93,500	83,939	9,561
Magistrate	5,200	5,200	4,804	396
Contingency	350,960	350,960	132,392	218,568
Total general government	<u>738,060</u>	<u>738,060</u>	<u>504,011</u>	<u>234,049</u>
Public safety:				
Law enforcement	1,864,900	1,864,900	1,862,158	2,742
Fire	259,420	259,420	259,420	-
Total public safety	<u>2,124,320</u>	<u>2,124,320</u>	<u>2,121,578</u>	<u>2,742</u>
Public works/streets:				
Building maintenance	94,500	94,500	95,109	(609)
Planning and zoning	36,680	36,680	34,710	1,970
Community improvements	1,108,000	1,108,000	988,269	119,731
Attorney/engineer	75,000	75,000	52,309	22,691
Total public works/streets	<u>1,314,180</u>	<u>1,314,180</u>	<u>1,170,397</u>	<u>1,361</u>
Recreation and parks				
Contributions	184,750	184,750	183,993	757
Parks and recreation, activity	442,170	442,170	382,831	59,339
Total culture and recreation	<u>626,920</u>	<u>626,920</u>	<u>566,824</u>	<u>60,096</u>
Debt Service:				
Principal	75,300	75,300	74,125	1,175
Interest	57,900	57,900	56,058	1,842
Total debt service	<u>133,200</u>	<u>133,200</u>	<u>130,183</u>	<u>3,017</u>
Total expenditures	<u>4,936,680</u>	<u>4,936,680</u>	<u>4,492,993</u>	<u>301,265</u>

(continued)

TOWN OF SNOWFLAKE, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess (deficiency) of revenues over (under) expenditures	<u>277,647</u>	<u>277,647</u>	<u>825,186</u>	<u>547,539</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	100,000	100,000	100,000	-
Transfers out	<u>(260,355)</u>	<u>(260,355)</u>	<u>(327,896)</u>	<u>(67,541)</u>
Total other financing sources (uses)	<u>(160,355)</u>	<u>(160,355)</u>	<u>(227,896)</u>	<u>(67,541)</u>
Net change in fund balance	117,292	117,292	597,290	479,998
Fund balance, beginning of year	1,065,334	1,065,334	1,065,334	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>29,328</u>	<u>29,328</u>
Fund balance, end of year	<u>\$ 1,182,626</u>	<u>\$ 1,182,626</u>	<u>\$ 1,691,952</u>	<u>\$ 479,998</u>

TOWN OF SNOWFLAKE, ARIZONA
HIGHWAY USER REVENUE SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue:				
Highway user revenues	\$ 708,199	\$ 708,199	\$ 742,799	\$ 34,600
Grants and contributions	200,000	200,000	138,163	(61,837)
Total intergovernmental	<u>908,199</u>	<u>908,199</u>	<u>880,962</u>	<u>(27,237)</u>
Total revenue	<u>908,199</u>	<u>908,199</u>	<u>880,962</u>	<u>(27,237)</u>
EXPENDITURES:				
Public works:				
Salaries	138,500	138,500	179,172	(40,672)
Employee benefits	82,500	82,500	86,080	(3,580)
Services, supplies, and other	621,999	621,999	536,848	85,151
Total public works	<u>842,999</u>	<u>842,999</u>	<u>802,100</u>	<u>40,899</u>
Debt service				
Principal	4,800	4,800	4,735	65
Interest	4,400	4,400	4,204	196
Total debt service	<u>9,200</u>	<u>9,200</u>	<u>8,939</u>	<u>261</u>
Capital outlay	<u>36,000</u>	<u>36,000</u>	-	<u>36,000</u>
Total expenditures	<u>888,199</u>	<u>888,199</u>	<u>811,039</u>	<u>77,160</u>
Excess (deficiency) of revenues over (under) expenditures	20,000	20,000	69,923	49,923
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balance	-	-	49,923	49,923
Fund balance, beginning of year	409,529	409,529	409,529	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>2,102</u>	<u>2,102</u>
Fund balance, end of year	<u>\$ 409,529</u>	<u>\$ 409,529</u>	<u>\$ 461,554</u>	<u>\$ 52,025</u>

STATISTICAL SECTION

This part of the Town of Snowflake's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes, disclosures, and required supplementary information says about the government's overall financial health.

	Contents	Page
Financial Trends		
<i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>		
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Revenue Capacity		
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	Local Sales Tax Revenue by Industry	80
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Debt Capacity		
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Demographic and Economic Information		
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>		
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Operating Information		
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>		
	Full Time Equivalent Town Employees by Function	86
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Town of Snowflake, Arizona
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
Net investment in capital assets	\$ 10,117,910	\$ 9,631,282	\$ 9,055,294	\$ 8,972,640	\$ 8,284,922	\$ 7,655,966	\$ 7,508,330	\$ 6,945,750	\$ 6,859,301	\$ 6,514,718
Restricted	450,154	409,799	399,860	379,571	338,262	362,984	293,160	403,720	246,235	1,255,124
Unrestricted	(1,902,223)	(2,419,786)	1,058,167	1,447,821	2,035,693	1,908,498	1,813,450	2,031,852	2,883,107	1,512,512
Total governmental activities net position	\$ 8,665,841	\$ 7,621,295	\$ 10,513,321	\$ 10,800,032	\$ 10,658,877	\$ 9,927,448	\$ 9,614,940	\$ 9,381,322	\$ 9,988,643	\$ 9,282,354
Business-Type activities										
Net investment in capital assets	\$ 2,919,902	\$ 2,882,183	\$ 2,702,536	\$ 2,724,998	\$ 2,673,941	\$ 2,397,253	\$ 2,370,950	\$ 2,184,603	\$ 2,165,129	\$ 2,124,487
Restricted	256,137	236,945	260,167	610,810	610,810	747,123	656,248	565,400	478,917	390,488
Unrestricted	(313,875)	(515,089)	499,388	178,443	32,535	141,949	168,195	424,059	380,182	401,599
Total business-type activities net position	\$ 2,862,164	\$ 2,604,039	\$ 3,462,091	\$ 3,514,251	\$ 3,317,286	\$ 3,286,325	\$ 3,195,393	\$ 3,174,062	\$ 3,024,228	\$ 2,916,574
Primary government										
Net investment in capital assets	\$ 13,037,812	\$ 12,513,465	\$ 11,757,830	\$ 11,697,638	\$ 10,958,863	\$ 10,053,219	\$ 9,879,280	\$ 9,130,353	\$ 9,024,430	\$ 8,639,205
Restricted	706,291	646,744	660,027	990,381	949,072	1,110,107	949,408	969,120	725,152	1,645,612
Unrestricted	(2,216,098)	(2,934,875)	1,557,555	1,626,264	2,068,228	2,050,447	1,981,645	2,455,911	3,263,289	1,914,111
Total primary government net position	\$ 11,528,005	\$ 10,225,334	\$ 13,975,412	\$ 14,314,283	\$ 13,976,163	\$ 13,213,773	\$ 12,810,333	\$ 12,555,384	\$ 13,012,871	\$ 12,198,928

Town of Snowflake, Arizona
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting) - (unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses										
Governmental activities:										
General government	\$ 631,965	\$ 1,542,753	\$ 1,152,065	\$ 1,206,701	\$ 1,061,303	\$ 1,159,761	\$ 1,208,734	\$ 1,605,940	\$ 1,358,209	\$ 1,514,695
Public safety	2,327,719	2,080,498	2,245,703	2,122,500	1,872,380	1,858,543	1,851,500	1,954,856	1,808,214	1,475,624
Public works/streets	1,361,718	844,341	736,137	722,752	620,565	691,815	635,067	783,645	671,591	587,925
Culture and recreation	612,740	417,642	482,477	480,047	540,833	527,855	528,592	553,915	562,641	479,144
Interest on long-term debt	60,025	62,981	75,071	120,376	127,256	133,704	140,054	146,155	147,826	109,224
Total governmental activities expenses	4,994,167	4,948,215	4,691,453	4,652,376	4,222,337	4,371,678	4,363,947	5,044,511	4,548,481	4,166,612
Business-type activities:										
Utility	1,210,343	1,353,699	1,457,208	1,251,985	1,195,945	1,224,999	1,302,245	1,233,194	1,197,742	1,126,619
Golf course	516,876	557,523	607,426	621,585	617,653	554,555	570,994	627,625	619,821	598,767
Total business-type activities expenses	1,727,219	1,911,222	2,064,634	1,873,570	1,813,598	1,779,554	1,873,239	1,860,819	1,817,563	1,725,386
Total Expenses	\$ 6,721,386	\$ 6,859,437	\$ 6,756,087	\$ 6,525,946	\$ 6,035,935	\$ 6,151,232	\$ 6,237,186	\$ 6,905,330	\$ 6,366,044	\$ 5,891,998
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 259,877	\$ 166,707	\$ 172,899	\$ 165,662	\$ 142,725	\$ 148,494	\$ 173,982	\$ 184,073	\$ 222,346	\$ 360,638
Public safety	857,493	890,479	908,548	960,752	746,717	736,068	713,533	755,291	813,178	684,900
Culture and recreation	86,286	72,055	77,053	100,424	130,180	128,736	134,514	105,365	100,429	95,910
Operating grants and contributions	880,962	698,167	650,967	1,392	673,992	717,624	736,307	799,342	812,680	856,519
Capital grants and contributions	1,307,791	871,969	312,095	651,551	806,026	582,901	630,778	47,116	269,328	463,657
Total governmental activities program revenues	3,392,409	2,699,377	2,121,562	1,879,781	2,499,640	2,313,823	2,389,114	1,891,187	2,217,961	2,461,624
Business -type activities:										
Charges for services:										
Water and sewer	\$ 1,431,358	\$ 1,467,601	\$ 1,440,990	\$ 1,496,251	\$ 1,383,891	\$ 1,353,669	\$ 1,372,481	\$ 1,343,856	\$ 1,419,767	\$ 1,543,327
Golf course	250,479	283,151	276,590	354,765	364,682	329,795	346,229	384,272	411,859	409,219
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	1,681,837	1,750,752	1,717,580	1,851,016	1,748,573	1,683,464	1,718,710	1,728,128	1,831,626	1,952,546
Total primary government program revenues	\$ 5,074,246	\$ 4,450,129	\$ 3,839,142	\$ 3,730,797	\$ 4,248,213	\$ 3,997,287	\$ 4,107,824	\$ 3,619,315	\$ 4,049,587	\$ 4,414,170
Net/(expense) revenue										
Governmental activities	\$ (1,601,758)	\$ (2,248,838)	\$ (2,569,891)	\$ (2,772,595)	\$ (1,722,697)	\$ (1,908,514)	\$ (1,982,564)	\$ (2,472,760)	\$ (2,826,550)	\$ (2,086,857)
Business-type activities	(45,382)	(160,470)	(347,054)	(22,554)	(65,025)	(130,134)	(60,844)	(145,111)	(29,193)	134,983
Total primary government net expense	\$ (1,647,140)	\$ (2,409,308)	\$ (2,916,945)	\$ (2,795,149)	\$ (1,787,722)	\$ (2,038,648)	\$ (2,043,408)	\$ (2,617,871)	\$ (2,855,743)	\$ (1,951,874)

Town of Snowflake, Arizona
Changes in Net Position (continued)
Last Ten Fiscal Years
(accrual basis of accounting) - (unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Revenues										
Governmental activities:										
Taxes										
City sales taxes	\$ 1,163,487	\$ 1,046,222	\$ 993,577	\$ 1,039,145	\$ 1,060,338	\$ 1,127,115	\$ 933,781	\$ 1,183,389	\$ 1,396,429	\$ 1,506,977
State sales taxes	527,763	510,863	486,569	457,552	436,804	381,877	362,157	392,644	453,546	469,059
Franchise taxes	119,958	124,221	121,282	123,360	130,017	123,838	121,399	121,073	117,921	134,254
Auto lieu taxes	319,808	295,826	285,566	274,622	291,394	256,076	256,954	279,662	294,464	294,625
Urban revenue sharing	673,035	676,704	623,076	1,237,678	471,801	480,336	637,160	738,459	694,504	560,298
Unrestricted investment earnings	-	-	4,993	2,918	2,780	3,143	9,403	2,993	129,148	82,535
Miscellaneous	90,151	39,423	61,938	44,305	154,198	183,954	56,039	110,308	44,388	213,272
Sales of capital assets	-	-	-	-	-	-	4,286	-	-	-
Transfers	(247,896)	(147,412)	(293,821)	(215,138)	(93,206)	(185,976)	(172,728)	(282,525)	(93,591)	(122,970)
Total governmental activities	\$ 2,646,306	\$ 2,545,847	\$ 2,283,180	\$ 2,964,442	\$ 2,454,126	\$ 2,370,363	\$ 2,208,451	\$ 2,546,003	\$ 3,036,809	\$ 3,138,050
Business-type activities:										
Investment earnings	\$ 1,520	\$ 3,303	\$ 1,073	\$ 4,381	\$ 2,780	\$ 1,046	\$ 3,132	\$ -	\$ -	\$ -
Transfers	247,896	147,412	293,821	215,138	93,206	185,976	172,728	282,525	93,591	122,970
Total business-type activities	249,416	150,715	294,894	219,519	95,986	187,022	175,860	282,525	93,591	122,970
Total primary government	2,895,722	2,696,562	2,578,074	3,183,961	2,550,112	2,557,385	2,384,311	2,828,528	3,130,400	3,261,020
Change in Net Position										
Governmental activities	\$ 1,044,548	\$ 297,009	\$ (286,711)	\$ 191,847	\$ 731,429	\$ 647,666	\$ 299,937	\$ (607,321)	\$ 706,289	\$ 1,433,062
Business-type activities	204,034	(9,755)	(52,160)	196,965	30,961	121,997	45,726	149,834	107,654	350,130
Total change in Net Position	\$ 1,248,582	\$ 287,254	\$ (338,871)	\$ 388,812	\$ 762,390	\$ 769,663	\$ 345,663	\$ (457,487)	\$ 813,943	\$ 1,783,192

Town of Snowflake, Arizona
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007 *
General fund										
Non-Spendable	\$ -	\$ 27,447	\$ 561,612	\$ 6,433	\$ 380,338	\$ 202,541	\$ 205,257	\$ 205,779	\$ 210,206	\$ 1,255,124
Restricted	-	270	99,794	178,525	178,525	-	-	-	-	-
Unassigned	1,691,952	1,037,617	664,703	1,598,451	1,798,697	2,048,220	1,900,337	2,100,426	2,760,031	2,564,559
Total general fund	\$ 1,691,952	\$ 1,065,334	\$ 1,326,109	\$ 1,783,409	\$ 2,357,560	\$ 2,250,761	\$ 2,105,594	\$ 2,306,205	\$ 2,970,237	\$ 3,819,683
All other governmental funds										
Non-Spendable	\$ 11,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	450,154	409,529	300,066	201,046	159,737	149,420	114,635	225,166	-	-
Unassigned, reported in:										
Special Revenue Funds	-	-	-	-	-	-	20,793	12,093	276,318	89,549
Total all other governmental funds	\$ 461,554	\$ 409,529	\$ 300,066	\$ 201,046	\$ 159,737	\$ 149,420	\$ 135,428	\$ 237,259	\$ 276,318	\$ 89,549

* The Town began to report fund balance classifications per GASB Statement 54 in fiscal year 2011. Balances previously reported as reserved are reported as restricted and balances previously reported as unreserved are reported as unassigned.

Town of Snowflake, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues										
Local sales tax	\$ 1,163,487	\$ 1,046,222	\$ 993,577	\$ 1,039,145	\$ 1,060,338	\$ 1,127,115	\$ 933,781	\$ 1,183,389	\$ 1,396,429	\$ 1,506,977
State sales tax	527,763	510,863	486,569	457,552	436,804	381,877	362,157	392,644	453,546	469,059
Motor fuel tax	880,962	698,167	646,059	614,387	560,452	613,039	602,502	652,684	721,047	761,936
Franchise tax	119,958	124,221	121,282	123,360	130,017	123,838	121,399	121,073	117,921	134,254
Licenses and permits	39,532	31,493	21,099	31,143	15,111	15,013	32,608	55,869	88,030	183,665
Intergovernmental	2,300,633	1,891,405	1,245,291	1,550,856	1,682,761	1,423,898	1,659,258	1,211,895	1,409,830	1,413,163
Charges for services	1,076,655	1,050,842	1,054,733	1,195,695	1,004,511	998,285	988,860	988,860	988,022	957,783
Investment earnings	-	-	4,993	2,918	2,780	3,143	9,403	2,993	129,148	82,535
Miscellaneous	90,151	39,421	126,296	44,305	154,198	183,954	56,039	110,308	44,388	213,272
Total revenues	6,199,141	5,392,634	4,699,899	5,059,361	5,046,972	4,870,162	4,766,007	4,719,715	5,348,361	5,722,644
Expenditures										
Current:										
General government	504,011	1,314,150	990,186	1,100,970	911,708	1,013,868	1,065,648	1,474,031	1,227,551	1,393,282
Public safety	1,990,361	1,769,931	1,968,181	1,952,548	1,823,809	1,798,774	1,786,493	1,909,056	1,759,164	1,428,732
Public works/streets	993,157	559,667	461,585	419,911	413,611	512,589	436,947	600,332	487,940	426,485
Culture and recreation	566,824	418,693	466,594	474,147	473,462	466,140	467,220	497,233	502,817	426,664
Debt service:										
Principal	78,860	73,860	174,382	171,969	161,199	155,427	152,541	146,771	113,884	98,114
Interest	60,262	62,981	75,071	120,376	127,256	133,704	140,054	146,155	147,826	109,224
Capital outlay	1,110,557	1,197,252	436,225	1,137,144	925,605	444,525	851,104	366,703	1,678,265	1,124,696
Total expenditures	5,304,032	5,396,534	4,572,224	5,377,065	4,836,650	4,525,027	4,900,007	5,140,281	5,917,447	5,007,197
Excess (Deficiency) of Revenues over expenditures	\$ 895,109	\$ (3,900)	\$ 127,675	\$ (317,704)	\$ 210,322	\$ 345,135	\$ (134,000)	\$ (420,566)	\$ (569,086)	\$ 715,447

Town of Snowflake, Arizona
Changes in Fund Balances of Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Other financing sources (uses)										
Transfers in	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 120,793	\$ 80,000	\$ 50,000	\$ 100,000	\$ 100,000
Transfers (out)	(347,896)	(247,412)	(393,821)	(315,138)	(193,206)	(306,769)	(252,728)	(332,525)	(193,591)	(222,970)
Refunding bonds issued	-	-	1,301,586	-	-	-	-	-	-	1,075,000
Payment of debt from refunding	-	-	(1,493,720)	-	-	-	-	-	-	-
Sales of capital assets	-	-	-	-	-	-	4,286	-	-	-
Issuance costs for bonds issued	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(247,896)	(147,412)	(485,955)	(215,138)	(93,206)	(185,976)	(168,442)	(282,525)	(93,591)	952,030
Net change in fund balances	\$ 647,213	\$ (151,312)	\$ (358,280)	\$ (532,842)	\$ 117,116	\$ 159,159	\$ (302,442)	\$ (703,091)	\$ (662,677)	\$ 1,667,477
Debt service as a percentage of noncapital expenditures	3.32%	3.26%	6.03%	6.90%	7.38%	7.09%	7.23%	6.14%	6.17%	5.34%

Town of Snowflake, Arizona
Local Sales Tax Revenue by Industry
Last Five Fiscal Years
(Unaudited)

	Fiscal Year									
	2016		2015		2014		2013		2012	
	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total	Collections	% of Total
Mining	\$ 69,623	6.0%	\$ 7,886	0.8%	\$ 6,050	0.6%	\$ 5,071	0.5%	\$ 10,295	1.0%
Communication and Utilities	167,496	14.4%	164,261	15.7%	167,070	16.8%	170,319	16.4%	188,295	17.8%
Construction	111,145	9.6%	90,801	8.7%	76,019	7.7%	129,422	12.5%	84,726	8.0%
Manufacturing	10,188	0.9%	13,182	1.3%	16,156	1.6%	11,362	1.1%	23,762	2.2%
Retail	532,592	45.8%	508,016	48.6%	459,649	46.3%	470,736	45.3%	524,351	49.5%
Real Estate Leasing	30,655	2.6%	32,125	3.1%	35,096	3.5%	35,096	3.4%	34,676	3.3%
Restaurant and Bar	138,799	11.9%	117,549	11.2%	98,714	9.9%	98,181	9.4%	84,319	8.0%
Accommodation	21,155	1.8%	22,252	2.1%	29,618	3.0%	32,192	3.1%	31,826	3.0%
Services	60,874	5.2%	67,782	6.5%	84,939	8.5%	77,938	7.5%	76,493	7.2%
Other	20,960	1.8%	22,368	2.1%	20,266	2.0%	8,828	0.8%	1,594	0.2%
Total	<u>\$ 1,163,487</u>	<u>100.0%</u>	<u>\$ 1,046,222</u>	<u>100.0%</u>	<u>\$ 993,577</u>	<u>100.0%</u>	<u>\$ 1,039,145</u>	<u>100.0%</u>	<u>\$ 1,060,338</u>	<u>100.0%</u>

Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the Town's local sales tax revenues.

Town of Snowflake, Arizona
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

Fiscal Year	State Shared Sales Tax	City Sales Tax	Franchise Tax	Motor Fuel Tax	Vehicle License Tax	State Shared Income Tax
2016	\$ 527,763	\$ 1,163,487	\$ 119,958	\$ 742,799	\$ 319,808	\$ 673,035
2015	510,863	1,046,222	124,221	698,167	295,826	676,704
2014	486,569	993,577	121,282	646,059	285,566	623,076
2013	457,552	1,039,145	123,360	614,387	274,622	571,006
2012	436,804	1,060,338	130,017	560,452	291,394	471,800
2011	381,877	1,127,115	123,838	613,039	256,076	480,336
2010	362,157	933,781	121,399	602,502	256,954	637,160
2009	392,644	1,183,389	121,073	652,684	279,662	738,459
2008	453,546	1,396,429	117,921	721,047	294,464	694,504
2007	469,059	1,506,977	134,254	761,936	294,625	560,299

Town of Snowflake, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities			Business-Type Activities		Total Debt Primary Government	Percentage of Personal Income (1)	Debt Per Capita (2)
	General Obligation Bonds	Revenue Bonds	Capital Leases	Revenue Bonds	Capital Leases			
2016	\$ -	\$ 1,963,866	\$ -	\$ 2,796,134	\$ -	\$ 4,760,000	4.56%	\$ 829
2015	-	2,042,726	-	3,032,274	-	5,075,000	5.07%	899
2014	-	2,116,586	-	3,258,414	-	5,375,000	5.46%	953
2013	-	2,481,769	-	2,917,713	-	5,399,482	5.78%	970
2012	-	2,653,738	-	3,172,018	-	5,825,756	6.99%	1,043
2011	-	2,814,363	-	3,417,235	-	6,231,598	7.27%	1,115
2010	-	2,970,363	-	3,651,827	-	6,622,190	8.65%	1,198
2009	-	3,122,905	-	3,879,805	-	7,002,710	8.94%	1,258
2008	-	3,269,676	-	4,098,653	-	7,368,329	10.87%	1,411
2007	-	3,383,560	-	4,306,072	-	7,689,632	11.55%	1,484

(1) See the schedule of Demographic and Economic Statistics on page 70 for personal income and population data.

(2) Population numbers are based on Arizona Department of Economic Security estimated amounts.

Town of Snowflake, Arizona
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Secondary assessed valuation	\$ 28,207,167	\$ 28,357,451	\$ 28,586,860	\$ 31,688,491	\$ 35,550,051	\$ 38,904,372	\$ 42,659,655	\$ 40,601,288	\$ 40,419,848	\$ 34,144,796
Debt limit @ 20%	5,641,433	5,671,490	5,717,372	6,337,698	7,110,010	7,780,874	8,531,931	8,120,258	8,083,970	6,828,959
Debt limit @ 6%	1,692,430	1,701,447	1,715,212	1,901,309	2,133,003	2,334,262	2,559,579	2,436,077	2,425,191	2,048,688
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin @ 20%	5,641,433	5,671,490	5,717,372	6,337,698	7,110,010	7,780,874	8,531,931	8,120,258	8,083,970	6,828,959
Legal debt margin @ 6%	1,692,430	1,701,447	1,715,212	1,901,309	2,133,003	2,334,262	2,559,579	2,436,077	2,425,191	2,048,688

For statutory purposes, the Town's outstanding revenue bonds are not considered general obligation bonds subject to the statutory limits listed above because the Town's bonds outstanding at June 30, 2016, were secured by sales taxes, and pledged excise tax revenues, rather than property taxes.

Town of Snowflake, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Estimated Population	Median Household Income	Per Capita Personal Income	Total Personal Income	Unemployment Rate	Public School Enrollment
2016	5,742	\$ 51,938	\$ 18,174	\$ 104,355,108	3.4%	2,780
2015	5,644	60,215	17,727	100,051,188	3.4%	2,505
2014	5,641	53,021	17,439	98,373,399	6.5%	2,553
2013	5,564	53,384	16,796	93,452,944	8.5%	2,412
2012	5,587	38,050	14,923	83,374,801	8.7%	2,436
2011	5,590	42,374	15,324	85,661,160	9.1%	2,494
2010	5,528	37,439	13,850	76,562,800	9.1%	2,494
2009	5,565	38,262	14,080	78,355,200	8.6%	2,471
2008	5,221	37,439	12,985	67,794,685	5.4%	2,487
2007	5,180	34,110	12,854	66,583,720	3.4%	2,425

Source: US Census Bureau, Arizona Department of Economic Security, and US Department of Commerce, Arizona Office of Employment and Population Statistics.

Town of Snowflake, Arizona
Principle Employers
Current Year and Ten Years Ago
(Unaudited)

<u>Employers</u>	<u>2016</u>		<u>2006</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Summit Regional Medical Center	1,050	4.02%	500	1.82%
Northland Pioneer College	650	2.49%	175	0.64%
Navajo County	638	2.44%	425	1.55%
Wal-Mart	320	1.23%	761	2.77%
Hon-Dah Casino	370	1.42%	400	1.46%
Snowflake Unified School District	240	0.92%	250	0.91%
Arizona Public Service	220	0.84%	287	1.05%
Blue Ridge Unified School District	285	1.09%	195	0.71%
PFFJ	158	0.61%	142	0.52%
Total	<u>3,931</u>	<u>15.06%</u>	<u>3,135</u>	<u>11.42%</u>
Total Employment	<u>26,100</u>		<u>27,450</u>	

Source: Estimates of various employers and sources.

The principle employers represent a county-wide employment base, because the Town operates in a rural area and most employers are based outside the Town limits.

Town of Snowflake, Arizona
Full Time Equivalent Town Employees by Function
Last Ten Fiscal Years

	Full Time Equivalent Employees									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government	9	9	10	10	10	10	11	11	11	12
Public safety										
Police										
Officers	14	14	14	14	14	14	14	15	15	15
Civilians	7	7	7	7	7	7	7	7	7	7
Fire										
Full-time	0	1	1	1	1	1	1	1	1	1
Volunteers	0	15	15	15	15	15	15	15	16	18
Highways and streets	5	5	4.5	4.5	4	4	4	4	4	4
Recreation and parks	4	4	4	4	4	4	5	5	5	5
Utility fund	6	6	5.5	5.5	5	5	6	6	6	6
Golf Course	5	4	4	4	4	4	4	4	4	4
Total	50	65	65	65	64	64	67	68	69	72

Source: Various departments

Town of Snowflake, Arizona
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Public safety										
Police calls for service	11,125	16,985	17,875	19,505	18,520	17,625	15,480	14,489	14,210	13,855
Fire calls for service	750	330	385	400	415	320	305	274	222	286
Highways and streets										
Street miles resurfaced	21.00	0.50	2.50	0.50	0.10	0.50	0.60	0.40	0.20	2.30
Recreation and parks										
Participants	4,250	4,105	3,750	4,400	4,700	4,720	4,510	4,250	4,110	4,055
Water and wastewater										
Water connects	10	6	3	2	3	1	2	14	40	98
Sewer connects	3	-	1	-	1	1	1	7	28	62
Golf course										
Rounds of golf	14,110	16,510	17,460	21,230	22,800	20,130	21,110	23,439	24,098	23,255

Source: Various departments

Town of Snowflake, Arizona
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

		Fiscal Year									
		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Public safety											
	Police stations	1	1	1	1	1	1	1	1	1	1
	Fire stations	2	2	2	2	2	2	2	2	2	1
Highways and streets											
	Streetlights	415	415	415	415	415	415	415	415	415	415
	Lift stations	7	7	7	7	7	7	7	7	7	7
	Signalized intersections	1	1	1	1	1	1	1	1	1	1
Recreation and parks											
	Park areas	3	3	3	3	3	3	3	3	3	3
	Pools	-	-	-	1	1	1	1	1	1	1
Water and wastewater											
	Well sites	3	3	3	3	3	3	3	3	3	3
	Treatment facilities	1	1	1	1	1	1	1	1	1	1
Golf course											
	Playable golf holes	27	27	27	27	27	27	27	27	27	27

Source: Various departments

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
Town of Snowflake, 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 Snowflake, Arizona, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Snowflake, Arizona's basic financial statements and have issued our report thereon dated December 13, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Snowflake, 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 Snowflake, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Snowflake, 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Compliance and Other Matters

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

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.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
Flagstaff, Arizona
December 13, 2016

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
Town Council
Town of Snowflake, Arizona

We have audited the basic financial statements of the Town of Snowflake, Arizona for the fiscal year ended June 30, 2016, and have issued our report thereon dated December 13, 2016. Our audit also included test work on the Town of Snowflake'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 Snowflake 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 Snowflake has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the Town of Snowflake 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 Snowflake complied, in all material respects, with the requirements identified above for the fiscal year ended June 30, 2016.

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
December 13, 2016