

**TOWN OF WELLTON, ARIZONA**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council  
Town of Wellton, 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 Wellton, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton, 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 and the other required supplementary 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 standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies*

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Wellton, Arizona failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the Town of Wellton solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town of Wellton's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties with the Town and is not intended to be and should not be used by anyone other than these specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Wellton, Arizona's, internal control over financial reporting and compliance.

*Henry + Horne LLP*

Casa Grande, Arizona  
January 19, 2017

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**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

As management of the Town of Wellton, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

**FINANCIAL HIGHLIGHTS**

- The Town's total net position decreased approximately \$260,000 which represents a 2.6 percent decrease from fiscal year 2015. The primary cause for the decrease was due to increases in salaries and related pension and healthcare during the year ended June 30, 2016.
- General revenues of the governmental activities accounted for \$1.6 million in revenue, or 61 percent of all fiscal year 2016 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$1.0 million or 39 percent of total fiscal year 2016 revenues.
- The Town had approximately \$2.5 million in expenses related to governmental activities, of which \$1.0 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.6 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.7 million in fiscal year 2016 revenues, which primarily consisted of approximately \$1.5 million in taxes and intergovernmental revenues, and approximately \$96,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$2.5 million. The General Fund's fund balance decreased \$301,323 to \$872,741, primarily due the factors discussed in the **Governmental Funds** section of Page 16.
- The net change in the Town's total debt increased by approximately \$520,000 during the current fiscal year. The key factors in this change included the repayment of approximately \$64,000 in capital leases offset by the acquisition of a new lease for a pumper truck totaling approximately \$590,000.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Blended Component Units.** Town of Wellton Municipal Property Corporation (MPC), is a nonprofit corporation governed by a three-member board appointed by the Town Council. Although legally separate from the Town, the MPC is reported in the General Fund, Water Enterprise Fund, and the Government-wide statements of net position and activities as if it were part of the Town because it is financially accountable to the Town. Separate financial statements for the MPC are not available.

Community Facilities District #2003-1, The Links at Coyote Wash (District) was formed by petition to the Town Council in July 2003. The purpose of the District is to complete all reasonable and necessary improvements to the land (including necessary or incidental work, whether newly constructed, renovated or existing) all maintenance of said work and all necessary and desirable appurtenances. As special purpose district and separate political subdivisions under the Arizona Constitution, the District can levy taxes and issue bonds independently of the Town. The Town Council serves as the Board of Directors. The Town has no liability for the District's debts. For financial reporting purposes, transactions of the District are included in the governmental activities of the Town as if they were part of the Town's operation. Separate financial statements for the District are not available.

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

The *statement of net position* presents information on all of the Town's assets and liabilities, 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 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).

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)**

**Government-wide financial statements.** (Cont'd)

Both of the government-wide financial statements outline functions of the Town 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 fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highway and streets, parks and recreation, and cemetery. The water, sanitation and golf enterprises comprise the business-type activities of the Town of Wellton.

The government-wide financial statements can be found on pages 21 and 22 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-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 Town's near-term financing decision. 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*. These reconciliations are on pages 24 and 26, respectively.

The Town maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and CDBG Sidewalks and Curbs Fund which are considered to be major funds. Data from the other 11 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 23 and 25 of this report.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)**

***Proprietary funds.*** The Town maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water, Sanitation and Golf operations.

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, Sanitation, and Golf operations, all of which are considered to be major funds of the Town.

The basic proprietary fund financial statements can be found on pages 27 through 30 of this report.

***Fiduciary funds.*** The Town's fiduciary fund is used to account for resources held for the benefit of parties outside the Town. The fiduciary fund is *not* reflected in the government-wide financial statements because the resources of the fund are *not* available to support the Town's own programs. The accrual basis of accounting is used for the fiduciary fund.

The basic fiduciary fund financial statements can be found on pages 31 and 32 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 on pages 33 through 62 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's budget process and funding progress for its agent retirement plan. The Town adopts an annual expenditure budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund as required supplementary information. The required supplementary information can be found on pages 63 through 71 of this report.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net position.** Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$9,801,891 as of June 30, 2016.

By far the largest portion of the Town's net position reflects amounts restricted for its net investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending. Although the Town'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.

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the Town's net position as of June 30, 2016 and 2015.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 1,257,557	1,304,226	1,300,344	1,376,526	2,557,901	2,680,752
Capital assets	3,343,601	2,470,344	6,691,579	6,982,498	10,035,180	9,452,842
Total assets	<u>4,601,158</u>	<u>3,774,570</u>	<u>7,991,923</u>	<u>8,359,024</u>	<u>12,593,081</u>	<u>12,133,594</u>
Total deferred outflows of resources	<u>662,258</u>	<u>393,367</u>	<u>101,149</u>	<u>60,539</u>	<u>763,407</u>	<u>453,906</u>
Long-term liabilities	2,262,409	1,425,731	722,275	674,422	2,984,684	2,100,153
Other liabilities	333,940	89,639	83,613	83,313	417,553	172,952
Total liabilities	<u>2,596,349</u>	<u>1,515,370</u>	<u>805,888</u>	<u>757,735</u>	<u>3,402,237</u>	<u>2,273,105</u>
Total deferred inflows of resources	<u>95,073</u>	<u>155,800</u>	<u>57,287</u>	<u>99,685</u>	<u>152,360</u>	<u>255,485</u>
Net position						
Net investments in capital assets	2,779,807	2,470,344	6,491,442	6,737,101	9,271,249	9,207,445
Restricted	109,749	50,294	505,277	505,045	615,026	555,339
Unrestricted	(317,562)	(23,871)	233,178	319,997	(84,384)	296,126
Total net position	<u>\$ 2,571,994</u>	<u>2,496,767</u>	<u>7,229,897</u>	<u>7,562,143</u>	<u>9,801,891</u>	<u>10,058,910</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)**

The following are significant current year transactions that have had an impact on the Statement of Net position.

Governmental Activities:

- Current and other assets decreased approximately \$47,000 due to a decrease of cash caused by decreased revenue collections netted against an increase in receivables.
- Capital assets activity included the continuation of phase two of the sidewalks and curb project on San Jose, purchase of a new pumper truck and other vehicle purchases. These increases were offset by depreciation for a net increase of approximately \$870,000.
- Other liabilities increased approximately \$244,000 due primarily to a new capital lease for the acquisition of a new pumper truck and increased accounts payable due to unreimbursed grant expenses for the sidewalk project.
- Long-term liabilities increased approximately \$747,000 due to changes in the net pension liability for the ASRS and PSPRS plans and a new capital lease for the acquisition of a new pumper truck.

Business-type Activities:

- Current and other assets decreased approximately \$76,000 due primarily to repayment of notes receivable and decreases in cash due costs in excess of revenues.
- Capital asset activity included continued improvements at the water plant as well as the purchase of a new vehicle. These increases were offset by depreciation for a net decrease of approximately \$290,000.
- Liabilities increased approximately \$48,000 primarily due to regular lease payments of \$39,000, which was offset by increases in the net pension liability for ASRS of approximately \$89,000.

**Changes in net position.** The Town's total revenues for the fiscal years ended June 30, 2016 and 2015 were \$3.5 and \$3.1 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2016 and 2015 was \$3.7 and \$3.4 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and 2015.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 192,376	104,130	939,137	924,902	1,131,513	1,029,032
Operating grants and contributions	427,536	261,869			427,536	261,869
Capital grants and contributions	364,965	335,904			364,965	335,904
General revenues:						
Taxes	1,461,515	1,385,833			1,461,515	1,385,833
Licenses and permits	69,376	83,550			69,376	83,550
Fines and forfeits	27,039	41,044			27,039	41,044
Interest income	7,404	4,783	306	603	7,710	5,386
Total revenues	<u>2,550,211</u>	<u>2,217,113</u>	<u>939,443</u>	<u>925,505</u>	<u>3,489,654</u>	<u>3,142,618</u>
Expenses:						
General government	792,131	554,877			792,131	554,877
Public safety	1,016,922	1,036,091			1,016,922	1,036,091
Highway and streets	235,627	242,850			235,627	242,850
Parks and recreation	377,965	389,886			377,965	389,886
Cemetery	43,191	35,385			43,191	35,385
Water			702,517	637,565	702,517	637,565
Sanitation			203,684	194,625	203,684	194,625
Golf			365,488	329,872	365,488	329,872
Interest on long-term debt	9,148	34			9,148	34
Total expenses	<u>2,474,984</u>	<u>2,259,123</u>	<u>1,271,689</u>	<u>1,162,062</u>	<u>3,746,673</u>	<u>3,421,185</u>
Increase (decrease) in net assets before transfers	75,227	(42,010)	(332,246)	(236,557)	(257,019)	(278,567)
Transfers		(59,201)		59,201		
Increase (decrease) in net position	75,227	(101,211)	(332,246)	(177,356)	(257,019)	(278,567)
Net position, beginning of year	<u>2,496,767</u>	<u>2,597,978</u>	<u>7,562,143</u>	<u>7,739,499</u>	<u>10,058,910</u>	<u>10,337,477</u>
Net position, end of year	<u>\$ 2,571,994</u>	<u>2,496,767</u>	<u>7,229,897</u>	<u>7,562,143</u>	<u>9,801,891</u>	<u>10,058,910</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)**

**Governmental activities.** The following tables present the cost of the 5 major Town functional activities: general government, public safety, highway and streets, parks and recreation, and cemetery. The tables also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2016 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>
General government	\$ 792,131	(544,205)			792,131	(544,205)
Public safety	1,016,922	(907,130)			1,016,922	(907,130)
Highway and streets	235,627	350,041			235,627	350,041
Parks and recreation	377,965	(361,253)			377,965	(361,253)
Cemetery	43,191	(18,412)			43,191	(18,412)
Water			702,517	(279,586)	702,517	(279,586)
Sanitation			203,684	16,365	203,684	16,365
Golf			365,488	(69,331)	365,488	(69,331)
Interest on long-term debt	9,148	(9,148)			9,148	(9,148)
	<u>\$ 2,474,984</u>	<u>(1,490,107)</u>	<u>1,271,689</u>	<u>(332,552)</u>	<u>3,746,673</u>	<u>(1,822,659)</u>

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2015 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>
General government	\$ 554,877	(468,207)			554,877	(468,207)
Public safety	1,036,091	(979,780)			1,036,091	(979,780)
Highway and streets	242,850	277,447			242,850	277,447
Parks and recreation	389,886	(373,855)			389,886	(373,855)
Cemetery	35,385	(12,791)			35,385	(12,791)
Water			637,565	(233,885)	637,565	(233,885)
Sanitation			194,625	27,027	194,625	27,027
Golf			329,872	(30,302)	329,872	(30,302)
Interest on long-term debt	34	(34)			34	(34)
	<u>\$ 2,259,123</u>	<u>(1,557,220)</u>	<u>1,162,062</u>	<u>(237,160)</u>	<u>3,421,185</u>	<u>(1,794,380)</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)**

- The cost of all governmental activities for the years ended June 30, 2016 and 2015 were \$2,474,984 and \$2,259,123, respectively. The changes are discussed on Page 9.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2016 and 2015 subsidized approximately \$984,877 and \$701,903, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2016 and 2015 were (\$1,490,107) and (\$1,557,220), respectively. For the years ended June 30, 2016 and 2015 the net costs were financed by tax and intergovernmental revenues and fines, forfeitures, license, and permits

**Business-type activities.** The above tables present the cost of the 3 major Town functional activities: water, sanitation, and golf. The tables also shows each function's net cost (total cost less charges for services generated by the activities).

- The cost of all business type activities for the years ended June 30, 2016 and 2015 were \$1,271,689 and \$1,162,062, respectively.
- For the year ended June 30, 2016, net expenses of the business-type activities of \$332,552 was primarily due to costs in excess revenues. The water fund had received grants in prior years, which created net revenues. However, there were no additional monies besides charges for services during the fiscal year. Total expenses remained consistent with prior years.
- For the year ended June 30, 2015, net expenses of the business-type activities of \$237,160 was primarily due to costs in excess revenues. The water fund had received grants in prior years, which created net revenues. However, there were no additional monies besides charges for services during the fiscal year. Total expenses remained consistent with prior years.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$976,296, a decrease of \$228,062 due primarily to the activity of the General Fund, which is discussed below.

The General Fund equity decreased from the prior year by \$301,323 to \$872,741 as of June 30, 2016. The decrease was primarily due to a new pumper truck lease, increased costs in capital outlay for fixed asset purchases detail on page 19 and increased costs for salaries and benefits.

The CDBG Sidewalks and Curbs Fund had no changes in equity as the monies were used to complete the San Jose improvements. However, there were unpaid and unreimbursed costs at June 30, 2016, resulting in payables and receivables on the Balance Sheet.

The Other Governmental Funds' equity increased from the prior year by \$53,261 to 103,555 as of June 30, 2016. The increase was primarily due to the creation of an impact fee fund under A.R.S §9-463.05. None of the fees, which are restricted for public safety, parks and recreation and highway and streets use, were spent, resulting in the increase.

**Proprietary funds.** Net position of the Water, Sanitation, and Golf funds at the end of the year amounted to \$7,229,897. The decrease of \$332,246 from fiscal year 2015 is discussed in greater detail on Page 15.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**BUDGETARY HIGHLIGHTS**

Budgets of Arizona Cities and Towns are restricted by statute to expenditure limitations based primarily on a base limit, established in 1979-80, adjusted for changes in population and the cost of living. This limit may be exceeded in certain circumstances, generally requiring approval of the Town's qualified electors. On March 8, 2011, a majority of the qualified voters approved an alternative expenditures limitation in accordance with Arizona Constitution, Article IX, §20(9) effective for the year ended June 30, 2012 and 3 succeeding fiscal years, unless a new alternative expenditure limitation is adopted. The legal level of budgetary control is the total budget as adopted. The Town's alternative expenditures limitation expired June 30, 2016 and was not re-authorized.

The Town did not revise the annual General Fund and Highway and Streets Fund expenditure budgets during the year ended June 30, 2016. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report on page 63 and 64, as required supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2016, the Town had invested \$10.0 million in capital assets. The net change in capital assets of \$1.2 million, prior to depreciation, completion of improvements to streets \$115,000, purchase of new pumper truck for the fire department for approximately \$590,000, other vehicles of approximately \$105,000 continuation of phase two of San Jose sidewalks and curbs project of approximately \$327,000. Total depreciation expense for the year was approximately \$0.6 million.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2016.

	Governmental Activities	Business-type Activities	Total
Land	\$ 279,087	2,540,180	2,819,267
Buildings and other improvements	1,357,682		1,357,682
Water treatment plant		3,321,065	3,321,065
Transmission and distribution mains		544,440	544,440
Furniture, equipment, and vehicles	1,265,197	285,894	1,551,091
Street system	38,804		38,804
Construction in progress	402,831		402,831
Total	<u>\$ 3,343,601</u>	<u>6,691,579</u>	<u>10,035,180</u>

Additional information on the Town's capital assets can be found in Note 6 on pages 43 and 44 of this report.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)**

**Debt Administration.** At June 30, 2016, the Town had approximately \$0.1 million in capital leases and other long-term debt outstanding, approximately \$94,000 was due within one year. The following table presents a summary of the Town's outstanding long-term debt for the fiscal year ended June 30, 2016.

	Governmental Activities	Business-type Activities	Total
Capital leases payable	\$ 563,794	67,947	631,741
Compensated absences	38,974	14,972	53,946
 Total	 <u>\$ 602,768</u>	 <u>82,919</u>	 <u>685,687</u>

Additional information on the Town's long-term debt can be found in Note 7 on pages 45 and 46 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES**

Due to the general state of the economy, the Town has cut expenditures over the last couple of years in order to account for revenue losses. In October 2014, the Town entered into a development agreement which will generate taxes on monthly rental fees. This arrangement continues to be an additional revenue source for the Town, and the additional residents are expected to generate new revenues in water and sanitation services, which had increased monthly fees in fiscal year 2015. Additionally, the alternative expenditures limitation approved on March 8, 2011, effective for the year ended June 30, 2012 and 3 succeeding fiscal years, expired on June 30, 2015 and a new alternative expenditure limitation was not adopted.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, write to the Town Manager, Town of Wellton, P.O. Box 67, Wellton, Arizona 85356 or call (928) 785-3348.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash in bank	\$ 705,743	741,798	1,447,541
Accounts receivable, net of allowance for uncollectibles		53,269	53,269
Due from other governments	335,710		335,710
Notes receivable-current	2,683		2,683
Total current assets	<u>1,044,136</u>	<u>795,067</u>	<u>1,839,203</u>
Noncurrent assets:			
Restricted cash	84,155	505,277	589,432
Notes receivable	129,266		129,266
Capital assets, non-depreciable	681,918	2,540,180	3,222,098
Capital assets, net of depreciation	2,661,683	4,151,399	6,813,082
Total noncurrent assets	<u>3,557,022</u>	<u>7,196,856</u>	<u>10,753,878</u>
Total assets	<u>4,601,158</u>	<u>7,991,923</u>	<u>12,593,081</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	662,258	101,149	763,407
Total deferred outflows of resources	<u>662,258</u>	<u>101,149</u>	<u>763,407</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	281,261	20,840	302,101
Customer deposits		21,682	21,682
Compensated absences	880	1,320	2,200
Capital lease payable-current	51,799	39,771	91,570
Total current liabilities:	<u>333,940</u>	<u>83,613</u>	<u>417,553</u>
Noncurrent liabilities:			
Compensated absences	38,094	13,652	51,746
Developer advances payable		132,190	132,190
Capital lease payable	511,995	28,176	540,171
Net pension liability	1,712,320	548,257	2,260,577
Total noncurrent liabilities	<u>2,262,409</u>	<u>722,275</u>	<u>2,984,684</u>
Total liabilities	<u>2,596,349</u>	<u>805,888</u>	<u>3,402,237</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	95,073	57,287	152,360
Total deferred inflows of resources	<u>95,073</u>	<u>57,287</u>	<u>152,360</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,779,807	6,491,442	9,271,249
Restricted for:			
Capital improvements		505,277	505,277
Public safety	70,078		70,078
Parks and recreation	4,826		4,826
Highways and streets	30,810		30,810
Other purposes	4,035		4,035
Unrestricted	(317,562)	233,178	(84,384)
Total net position	<u>\$ 2,571,994</u>	<u>7,229,897</u>	<u>9,801,891</u>

See accompanying notes to financial statements.



**TOWN OF WELLTON, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	General Fund	CDBG Sidewalk and Curbs Fund	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash in bank	\$ 688,843		16,900	705,743
Restricted cash			84,155	84,155
Note receivable	131,949			131,949
Due from other governments	88,980	187,512	59,218	335,710
Due from other funds	41,320			41,320
 Total assets	 <u>\$ 951,092</u>	 <u>187,512</u>	 <u>160,273</u>	 <u>1,298,877</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued expenses	\$ 78,351	177,593	25,317	281,261
Due to other funds		9,919	31,401	41,320
 Total liabilities	 <u>78,351</u>	 <u>187,512</u>	 <u>56,718</u>	 <u>322,581</u>
<b><u>FUND BALANCES</u></b>				
Nonspendable	131,949			131,949
Restricted			109,749	109,749
Unassigned	740,792		(6,194)	734,598
 Total fund balances	 <u>872,741</u>	 <u></u>	 <u>103,555</u>	 <u>976,296</u>
 Total liabilities and fund balances	 <u>\$ 951,092</u>	 <u>187,512</u>	 <u>160,273</u>	 <u>1,298,877</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

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Fund balances - total governmental funds	\$ 976,296
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 governmental funds	
Governmental capital assets	6,366,346
Less accumulated depreciation	<u>(3,022,745)</u>
Capital assets used in governmental activities	<u>3,343,601</u>
Deferred inflows and outflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, not reported in the governmental funds	
	<u>567,185</u>
Long-term liabilities, such as net position liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds	
Net pension liability	(1,712,320)
Capital lease liability	(563,794)
Compensated absences	<u>(38,974)</u>
Long-term liabilities not due and payable in the current period	<u>(2,315,088)</u>
Net position of governmental activities	<u><u>\$ 2,571,994</u></u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	General Fund	CDBG Sidewalks and Curbs Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 729,333			729,333
License and permits	69,376			69,376
Intergovernmental -				
County			763	763
State	732,182		244,913	977,095
Federal		326,654	214,599	541,253
Charges for services	90,583		84,155	174,738
Fines and forfeits	27,039			27,039
Interest income	7,404			7,404
Other local	13,750		9,460	23,210
<b>Total revenues</b>	<b>1,669,667</b>	<b>326,654</b>	<b>553,890</b>	<b>2,550,211</b>
<b>Expenditures:</b>				
<b>Current -</b>				
General government	569,691			569,691
Public safety	843,669		38,311	881,980
Highways and streets			192,828	192,828
Parks and recreation	290,752			290,752
Cemetery	41,272			41,272
Capital outlay	744,252	326,654	305,490	1,376,396
<b>Debt service -</b>				
Principal payments on capital leases	25,402			25,402
Interest	9,148			9,148
<b>Total expenditures</b>	<b>2,524,186</b>	<b>326,654</b>	<b>536,629</b>	<b>3,387,469</b>
Excess (deficiency) of revenues over expenditures	(854,519)		17,261	(837,258)
<b>Other financing sources (uses):</b>				
Capital lease agreement	589,196			589,196
Transfers in			36,000	36,000
Transfers (out)	(36,000)			(36,000)
<b>Total other financing sources (uses)</b>	<b>553,196</b>		<b>36,000</b>	<b>589,196</b>
Net change in fund balances	(301,323)		53,261	(248,062)
Fund balances, beginning of year	1,174,064		50,294	1,224,358
Fund balances, end of year	<b>\$ 872,741</b>		<b>103,555</b>	<b>976,296</b>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

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Net change in fund balances - total governmental funds \$ (248,062)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Expenditures for capital assets	1,140,396
Less current year depreciation	<u>(267,139)</u>
Excess capital expenditures over depreciation and capital contributions	<u>873,257</u>

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

Pension contributions	128,043
Pension expense	<u>(115,033)</u>
	<u>13,010</u>

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities

Capital lease agreement	(589,196)
Principal payments on capital leases	<u>25,402</u>
Differences in treatment of long-term debt and related items	<u>(563,794)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

Change in long-term compensated absences	<u>816</u>
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Change in net position of governmental activities \$ 75,227

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
<b>ASSETS</b>				
Current assets:				
Cash in bank	\$ 532,563	103,611	105,624	741,798
Accounts receivable	32,492	20,777		53,269
Total current assets	<u>565,055</u>	<u>124,388</u>	<u>105,624</u>	<u>795,067</u>
Noncurrent assets:				
Restricted cash	505,277			505,277
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		22,677	25,594
Water treatment plant	5,367,843		55,909	5,423,752
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	552,688	444,534	182,565	1,179,787
Less accumulated depreciation	<u>(3,233,884)</u>	<u>(407,146)</u>	<u>(209,583)</u>	<u>(3,850,613)</u>
Total capital assets (net of accumulated depreciation)	<u>4,070,556</u>	<u>37,388</u>	<u>2,583,635</u>	<u>6,691,579</u>
Total noncurrent assets	<u>4,575,833</u>	<u>37,388</u>	<u>2,583,635</u>	<u>7,196,856</u>
Total assets	<u>5,140,888</u>	<u>161,776</u>	<u>2,689,259</u>	<u>7,991,923</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	40,403	20,619	40,127	101,149
Total deferred outflows on resources	<u>40,403</u>	<u>20,619</u>	<u>40,127</u>	<u>101,149</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	8,487	5,171	7,182	20,840
Customer deposits	21,682			21,682
Compensated absences			1,320	1,320
Capital lease payable-current		29,525	10,246	39,771
Total current liabilities	<u>30,169</u>	<u>34,696</u>	<u>18,748</u>	<u>83,613</u>
Noncurrent liabilities:				
Compensated absences	6,148	3,891	3,613	13,652
Developer advances payable	132,190			132,190
Capital lease payable		3,999	24,177	28,176
Net pension liability	219,001	111,766	217,490	548,257
Total noncurrent liabilities	<u>357,339</u>	<u>119,656</u>	<u>245,280</u>	<u>722,275</u>
Total liabilities	<u>387,508</u>	<u>154,352</u>	<u>264,028</u>	<u>805,888</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	22,883	11,678	22,726	57,287
Total deferred inflows on resources	<u>22,883</u>	<u>11,678</u>	<u>22,726</u>	<u>57,287</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	3,938,366	3,864	2,549,212	6,491,442
Restricted for capital improvements	505,277			505,277
Unrestricted	<u>327,257</u>	<u>12,501</u>	<u>(106,580)</u>	<u>233,178</u>
Total net position	<u>\$ 4,770,900</u>	<u>16,365</u>	<u>2,442,632</u>	<u>7,229,897</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET POSITION - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	Business-type Activities - Enterprise Funds			Total
	Water	Sanitation	Golf	
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 422,931			422,931
Sanitation fees		220,049		220,049
Golf course fees			296,157	296,157
Total operating revenues	<u>422,931</u>	<u>220,049</u>	<u>296,157</u>	<u>939,137</u>
Operating expenses:				
Water department	702,517			702,517
Sanitation department		201,116		201,116
Golf course			363,094	363,094
Total operating expenses	<u>702,517</u>	<u>201,116</u>	<u>363,094</u>	<u>1,266,727</u>
Operating income (loss)	<u>(279,586)</u>	<u>18,933</u>	<u>(66,937)</u>	<u>(327,590)</u>
Nonoperating revenues (expenses):				
Interest on investments	306			306
Interest expense		(2,568)	(2,394)	(4,962)
Total nonoperating revenues (expenses)	<u>306</u>	<u>(2,568)</u>	<u>(2,394)</u>	<u>(4,656)</u>
Increase (decrease) in net position	(279,280)	16,365	(69,331)	(332,246)
Net position, beginning of year	<u>5,050,180</u>		<u>2,511,963</u>	<u>7,562,143</u>
Net position, end of year	<u>\$ 4,770,900</u>	<u>16,365</u>	<u>2,442,632</u>	<u>7,229,897</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 419,019	218,738	296,157	933,914
Payments to suppliers for goods and services	(220,223)	(63,807)	(166,691)	(450,721)
Payments to employees	(167,894)	(107,339)	(183,449)	(458,682)
Net cash provided (used) for operating activities	<u>30,902</u>	<u>47,592</u>	<u>(53,983)</u>	<u>24,511</u>
Cash flows from capital related and financing activities:				
Purchase of capital assets	(60,142)			(60,142)
Principal payments on developer advances	(2,771)			(2,771)
Repayments on capital leases		(28,188)	(10,582)	(38,770)
Interest paid on capital debt		(2,568)	(2,394)	(4,962)
Net cash (used) by capital and related financing activities:	<u>(62,913)</u>	<u>(30,756)</u>	<u>(12,976)</u>	<u>(106,645)</u>
Cash flows from investing activities				
Collections on notes receivable	5,883			5,883
Investment income	306			306
Net cash provided by investing activities	<u>6,189</u>			<u>6,189</u>
Net increase (decrease) in cash and cash equivalents	(25,822)	16,836	(66,959)	(75,945)
Cash in bank, beginning of year (including \$505,045 in the Water Fund reported in restricted accounts)	<u>1,063,662</u>	<u>86,775</u>	<u>172,583</u>	<u>1,323,020</u>
Cash in bank, beginning of year (including \$505,277 in the Water Fund reported in restricted accounts)	<u>\$ 1,037,840</u>	<u>103,611</u>	<u>105,624</u>	<u>1,247,075</u>

(continued)

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

Business-type Activities - Enterprise Funds

	Water	Sanitation	Golf	Total
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RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED  
(USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ (279,586)	18,933	(66,937)	(327,590)
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:				
Depreciation	312,539	28,043	10,479	351,061
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(4,335)	(1,311)		(5,646)
(Increase) in deferred outflows of resources related to pensions	(16,221)	(8,278)	(16,111)	(40,610)
Increase in accounts payable and accrued expenses	19	315	2,279	2,613
Increase (decrease) in compensated absences	(697)	317	(2,325)	(2,705)
Increase in customer deposits	423			423
Increase in net pension liability	35,696	18,217	35,450	89,363
(Increase) in deferred inflows of resources related to pensions	(16,936)	(8,644)	(16,818)	(42,398)
Net cash provided (used) for operating activities	\$ 30,902	47,592	(53,983)	24,511

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2016**

	Cemetery Private Purpose Trust Fund
<u>ASSETS</u>	
Cash in bank	\$ 428
Total assets	428
<u>NET POSITION</u>	
Held in trust for other purposes	\$ 428

See accompanying notes to financial statements.

**TOWN OF WELLTON  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2016**

	Cemetery Private Purpose Trust Fund
Additions	\$
Deductions	
Net position - beginning	428
Net position - ending	\$ 428

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Wellton, Arizona, (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

For the year ended June 30, 2016, the Town implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establish standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

A summary of the Town's more significant accounting policies follows.

Reporting Entity - The financial reporting entity consists of a primary government and its component units. The Town is a general purpose local government that a separately elected Town Council (Council) governs. The accompanying financial statements present the activities of the Town (the primary government) and its component units.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. Blended component units, although legally separate entities, are so intertwined with the Town that they are in substance part of the Town's operations. Component units should be blended in the Town's financial statements when the component unit's governing body is substantively the same as the Town's governing body and there is either a financial benefit or burden relationship between the Town and the component unit or town management has operational responsibility for it; the component unit provides services entirely, or almost entirely, to the Town; or the component unit's total debt outstanding is expected to be repaid entirely or almost entirely with the Town's resources. Also, see GASB Statement Nos. 14 and 61 for additional guidance. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town. The Town has no discretely presented component units. Each blended component unit discussed below has a June 30 year end.

Blended Component Units

Town of Wellton Municipal Property Corporation (MPC), is a nonprofit corporation governed by a three-member board appointed by the Council. Although legally separate from the Town, the MPC is reported in the Capital Projects Fund-Water Enterprise Fund, and Government-wide statements of net position and activities as if it were part of the Town because it is financially accountable to the Town. Separate financial statements for the MPC are not available.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Blended Component Units (Cont'd)

Community Facilities District #2003-1, The Links at Coyote Wash (District) was formed by petition to the Town Council in July 2003. The purpose of the District is to complete all reasonable and necessary improvements to the land (including necessary or incidental work, whether newly constructed, renovated or existing) all maintenance of said work and all necessary and desirable appurtenances. As a special purpose district and separate political subdivisions under the Arizona Constitution, the District can levy taxes and issue bonds independently of the Town. The Town Council serves as the Board of Directors. The Town has no liability for the District's debts. For financial reporting purposes, transactions of the District are included in the governmental activities of the Town as if they were part of the Town's operation. Separate financial statements for the District are not available.

Government-Wide and Fund 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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Town's enterprise funds are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues. All indirect expenses are allocated to the general government function.

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. Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual (both measurable and available). Measurable means that the amount of the transaction can be determined. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. All other governmental fund revenues are also considered available if collected within sixty days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to general long-term debt, compensated absences and claims and judgments, which are recorded only when payment is due. 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. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Taxes, licenses, intergovernmental revenues, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 Town, except those required to be accounted for in other funds.

The **CDBG Sidewalk and Curbs Fund** accounts for federal monies used in the improvement of the Town's sidewalks and curbs along main roadways.

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the activities of the Town's water treatment plant and water distribution system.

The **Sanitation Fund** accounts for the sewage pumping stations and trash collection systems.

The **Golf Fund** accounts for the activities of the Town's golf course operations.

Additionally, the Town reports the following fiduciary fund type:

The **Cemetery Private Purpose Trust Fund** is used to account for resources legally held in trust where both the principal and interest may be spent.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges for interfund services provided are not eliminated if the prices approximate their external exchange values.

Amounts reported as program revenues include 1) charges for services to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 Town's water enterprise fund, golf enterprise fund, and sanitation enterprise 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 all capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Accounting - An operating budget is prepared and adopted by the Town each fiscal year for all governmental fund types on the modified accrual basis and for all proprietary fund types on the accrual basis.

A proposed budget is presented by the Town Manager to the Council on or before the first Monday in June. Two public hearings are held to obtain taxpayer input. The budget is legally adopted by ordinance prior to the second Monday in August.

The adopted budget is prepared by fund, function, and department. The Town manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the total budget as adopted. The budget was not increased or decreased during the year ended June 30, 2016.

All annual appropriations lapse at fiscal year end.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Budgetary Accounting (Cont'd)

Budgets of Arizona Cities and Towns are restricted by statute to expenditure limitations based primarily on a base limit, established in 1979-80, adjusted for changes in population and the cost of living. This limit may be exceeded in certain circumstances, generally requiring approval of the Town's qualified electors.

Additionally, effective September 7, 2004, the Town's electors authorized the creation of a Capital Projects Accumulation Fund pursuant to Arizona State Constitution, Article IX, Section 20, Subsection (3)(d)(viii) totaling \$70,000, for the year ended June 30, 2016, for the purpose of constructing water plant and water system improvements.

Cash and Investments - For purposes of the statement of cash flows, the proprietary fund type considers cash on hand, demand deposits, and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory of Supplies - Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2016 were immaterial, they are not included in the statements of net position or the balance sheets.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses/expenditures when purchased.

Capital Assets – Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture, and equipment, and street system are reported in the governmental activities columns in the government-wide financial statements.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Capital Assets (Cont'd)

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	15-40 years
Improvements other than buildings	15-40 years
Furniture, equipment and vehicles	5-20 years
Water treatment plant	25-40 years
Transmission and distribution mains	25-40 years
Street system	30 years

Deferred Outflows and Inflows of Resources - The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

Pensions – For purposes of measuring the net pension (asset and) 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 and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Fund Balance Classifications - Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the Council, which is the highest level of decision-making authority within the Town. The constraints placed on committed fund balances can only be removed or changed by the Council.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Council has authorized the Town Manager to make assign resources for a specific purpose.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Fund Balance Classifications (Cont'd)

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the Town's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the Town's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Compensated Absences - Compensated absences consist of accrued vacation and all applicable salary-related payments associated with the payment of compensated absences, such as the employer's share of social security and Medicare taxes and contributions to the Arizona State Retirement and Public Safety Personnel Retirement Systems. Vacation leave vests with employees at the employees' regular rate of pay and vested compensated absences of the Proprietary Funds are recorded as expenses and liabilities of those funds as the benefits accrue. Repayment of the compensated absences is made by the General, Special Revenue, and Proprietary Funds.

Contributed Capital - Contributed capital is recorded in Proprietary Funds that have received capital grants or contributions from governmental agencies, developers, customers or other funds.

Interfund Receivable/Payable – Interfund receivables and payables are used to account for short-term loans between funds. These amounts are reported as “Due from other funds” and “Due to other funds”.

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

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Transactions with MPC – Activity of the MPC is primarily to obtain funding for improvement projects within the Town and to repay any obligations entered into by the MPC to fund those projects. When combining the MPC as a blended component unit, transactions between the Town and the MPC have been eliminated, including the lease obligation.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Interfund Activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Deficit Fund Balance – The Community Facilities District Fund of the Special Revenue Fund Type had deficit fund balance of \$6,194, as of June 30, 2016. The deficit is expected to be corrected through normal operations during the following fiscal year.

**NOTE 3 – CASH**

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State or County Treasurer's investment pools; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, and notes and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest funds in certain fixed income securities of corporations doing business in the United States or District of Columbia. The Town does not have a formal policy for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. However, statute provides for the following risk limitations.

*Credit risk*

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

*Custodial credit risk*

Statutes require collateral for deposits and certificates of deposit at 102 percent of all deposits federal depository insurance does not cover.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – CASH (CONT'D)**

*Concentration of credit risk*

Statutes do not include any requirements for concentration of credit risk.

*Interest rate risk*

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

*Foreign currency risk*

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2016, the carrying amount of the Town's deposits were \$2,037,401 and the bank balances were \$2,197,156. The Town maintains its bank deposits with one financial institution. Bank deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized through a pledge collateral agreement with the financial institution. At June 30, 2016, all deposits were fully insured or collateralized.

Restricted Cash – The Water Enterprise Fund cash is restricted for improvements to the water plant, in the amount of \$505,277. Additionally, non-major fund cash totaling \$84,155 is restricted for public safety, parks and recreation and highways and streets.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 - RECEIVABLES/DUE FROM OTHER GOVERNMENTS**

Receivables as of year end for the Town's individual major funds, enterprise funds and nonmajor funds in the aggregate are as follows:

	General Fund	CDBG Sidewalks and Curbs Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>						
Sales tax	\$ 84,029					84,029
Vehicle license tax	4,951					4,951
Arizona Department Highway users revenue					19,153	19,153
U.S. Department of Housing and Urban Development		201,970			40,795	242,765
Yuma County - Homeland Security					10,848	10,848
Arizona Governor's Office of Highway Safety					1,285	1,285
<u>Accounts receivable</u>						
Customer accounts			32,492	20,777		53,269
	<u>\$ 88,980</u>	<u>201,970</u>	<u>32,492</u>	<u>20,777</u>	<u>72,081</u>	<u>416,300</u>

**NOTE 5 – NOTES RECEIVABLE**

	Governmental Activities <u>June 30, 2016</u>
5.00% note receivable from a developer in monthly installments of \$774, including interest; unpaid principal and interest due August 23, 2041	\$ 131,949
Current portion	<u>(2,683)</u>
Long-Term portion	<u>\$ 129,266</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - CAPITAL ASSETS**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated -					
Land	\$ 279,087				279,087
Construction in progress	51,158	351,673			402,831
Total capital assets not being depreciated	<u>330,245</u>	<u>351,673</u>			<u>681,918</u>
Capital assets being depreciated -					
Land improvements	1,556,593	122,778			1,679,371
Buildings and improvements	1,741,746	6,803			1,748,549
Furniture, equipment, and vehicles	1,547,475	659,142			2,206,617
Street system	49,891				49,891
Total capital assets being depreciated	<u>4,895,705</u>	<u>788,723</u>			<u>5,684,428</u>
Less accumulated depreciation for -					
Land improvements	(1,005,806)	(78,466)			(1,084,272)
Buildings and improvements	(923,953)	(62,013)			(985,966)
Furniture, equipment and vehicles	(816,423)	(124,997)			(941,420)
Street system	(9,424)	(1,663)			(11,087)
Total accumulated depreciation	<u>(2,755,606)</u>	<u>(267,139)</u>			<u>(3,022,745)</u>
Total capital assets being depreciated, net	<u>2,140,099</u>	<u>521,584</u>			<u>2,661,683</u>
Governmental activities capital assets, net	<u>\$ 2,470,344</u>	<u>873,257</u>			<u>3,343,601</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - CAPITAL ASSETS (CONT'D)**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Business-type activities:					
Capital assets not being depreciated -					
Land	\$ 2,540,180				2,540,180
Construction in progress					
Total capital assets not being depreciated	<u>2,540,180</u>				<u>2,540,180</u>
Capital assets being depreciated -					
Buildings and other improvements	81,503				81,503
Water treatment plant	5,356,385	11,458			5,367,843
Transmission and distribution mains	1,372,879				1,372,879
Furniture, equipment and vehicles	1,131,103	48,684			1,179,787
Total capital assets being depreciated	<u>7,941,870</u>	<u>60,142</u>			<u>8,002,012</u>
Less accumulated depreciation for -					
Buildings and other improvements	(81,507)				(81,507)
Water treatment plant	(1,802,245)	(244,529)			(2,046,774)
Transmission and distribution mains	(781,212)	(47,227)			(828,439)
Furniture, equipment and vehicles	(834,588)	(59,305)			(893,893)
Total accumulated depreciation	<u>(3,499,552)</u>	<u>(351,061)</u>			<u>(3,850,613)</u>
Total capital assets being depreciated, net	<u>4,442,318</u>	<u>(290,919)</u>			<u>4,151,399</u>
Business-type activities capital assets, net	<u>\$ 6,982,498</u>	<u>(290,919)</u>			<u>6,691,579</u>

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

Governmental activities:	
General government	\$ 37,809
Public safety	106,372
Highway and streets	40,589
Parks and recreation	80,508
Cemetery	1,861
Total depreciation expense - governmental activities	<u>\$ 267,139</u>
Business-type activities:	
Water	\$ 312,539
Sanitation	28,043
Golf	10,479
Total depreciation expense - business-type activities	<u>\$ 351,061</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT**

Capital Leases – The Town has acquired land, buildings and equipment under the provisions of long-term lease agreements classified as capital leases for accounting purposes because they provide for bargain purchase options or transfers of ownership by the end of the lease term. Accordingly, the original cost of the assets, totaling \$869,200, is capitalized. Repayment of the capital leases is made by the General Fund and the Sanitation Fund of the Enterprise fund type. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Equipment and vehicles	\$ 589,196	280,004
Less: Accumulated depreciation	<u>(27,005)</u>	<u>(274,511)</u>
	<u>\$ 562,191</u>	<u>5,493</u>

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Year ending June 30:		
2017	\$ 69,099	41,551
2018	69,099	15,868
2019	69,099	11,776
2020	69,099	2,943
2021	69,099	-
Thereafter	<u>310,945</u>	<u>-</u>
Total minimum lease payments	656,440	72,138
Less amount representing interest	<u>(92,646)</u>	<u>(4,191)</u>
Present value of net minimum capital lease payments	<u>\$ 563,794</u>	<u>67,947</u>

For the year ended June 30, 2016, total interest expense under the capital leases was \$14,110.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT (CONT'D)**

Changes in long-term liabilities for the year ended June 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	\$ -	589,196	(25,402)	563,794	51,799
Compensated absences	39,790	45,667	(46,483)	38,974	880
Total governmental long-term liabilities	<u>\$ 39,790</u>	<u>634,863</u>	<u>(71,885)</u>	<u>602,768</u>	<u>52,679</u>
Business-type activities:					
Capital leases	\$ 106,717		(38,770)	67,947	39,771
Compensated absences	18,812	19,408	(23,248)	14,972	1,320
Total Business-type long-term liabilities	<u>\$ 125,529</u>	<u>19,408</u>	<u>(62,018)</u>	<u>82,919</u>	<u>41,091</u>

**NOTE 8 - DEVELOPER ADVANCES PAYABLE**

The Town is obligated under agreements relating to extension of water distribution facilities to refund advances made by developers at the rate of 20 percent of the total annual gross revenue from water sales to each new bona fide customer in a new development or project for a period of 15 years, provided that total refunds may not exceed the original advance by the developer and any advances not refunded prior to the end of the 15 year period shall become non-refundable. Advances remain refundable as follows:

<u>Year Ending June 30</u>	
2021	<u>\$ 132,190</u>
Total	<u>\$ 132,190</u>

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES**

Insurance - The Town participates in the Arizona Municipal Risk Retention and Workers' Compensation Pools. The Pools are public entity risk-sharing and insurance-purchasing pools. If either of the Pools becomes insolvent or is otherwise unable to discharge its legal liabilities and other obligations, the Town may be assessed additional amounts not to exceed the original required annual contribution to each pool for the year in which the assessment is made. The Town's contributions totaled \$151,446 for the year ended June 30, 2016.

Litigation - In the normal course of business, the Town is exposed to various contingent liabilities such as claims and lawsuits for which no provision has been made in the basic financial statements. The Town's management is of the opinion that insurance coverage is adequate to cover any possible losses.

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

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

Statement of Net Position and Statement of Activities	ASRS			PSPRS	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Total
Net pension liabilities	710,368	548,257	1,258,625	1,001,952	2,260,577
Deferred outflows of resources	131,058	101,149	232,207	531,200	763,407
Deferred inflows of resources	(74,226)	(57,287)	(131,513)	(20,847)	(152,360)
Pension expense	55,490	42,826	98,316	59,543	157,859

The Town's accrued payroll and employee benefits includes \$6,708 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the Town reported \$164,514 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

**TOWN OF WELLTON, ARIZONA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

*Arizona State Retirement System*

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

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

\*With actuarially reduced benefits

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

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members 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 statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension plan for the year ended June 30, 2016, were \$176,274. The Town's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30,	Health Benefits Supplement Fund	Long-Term Disability Fund
2016	\$ 6,978	\$ 1,844
2015	8,782	1,786
2014	6,964	1,468

During fiscal year 2016, the Town paid for ASRS pension and OPEB contributions as follows: 50 percent from the General Fund, 44 percent from major funds and 6 percent from non-major funds.

Pension liability - At June 30, 2016, the Town reported a liability of \$1,258,625 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The Town's proportion measured as of June 30, 2015, was .008080% percent, which was a decrease of .00096% from its proportion measured as of June 30, 2014.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$98,316. 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	\$ 34,345	65,954
Net difference between projected and actual earnings on pension plan investments		40,336
Changes in proportion and differences between county contributions and proportionate share of contributions	109,744	25,223
Contributions subsequent to the measurement date	88,118	
	\$ 232,207	131,513

The \$88,118 reported as deferred outflows of resources related to ASRS pensions resulting from 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 ASRS pensions will be recognized in pension expense as follows:

Year ending June 30:

2017	\$ (3,771)
2018	1,141
2019	19,170
2020	(29,117)
	\$ (12,577)

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	8.00%
Projected salary increases	3.0%-6.75%
Inflation rate	3.0%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed Income	25%	3.70%
Real Estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

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

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

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Proportionate share of the net pension liability	1,649,228	1,258,624	990,933

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

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*

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

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plan. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

Benefits provided - The PSPRS provide 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:

<b>PSPRS</b>	<b>Initial membership date:</b>	
	<b>Before January 1, 2012</b>	<b>On or after January 1, 2012</b>
<b>Retirement and Disability</b>		
Years of service and age required to received 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	

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

**PSPRS**

**Initial membership date:**

**Before January 1, 2012**

**On or after January 1, 2012**

**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

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

Employees covered by benefit terms - At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	<u>PSPRS Police</u>
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>5</u>
Total	<u><u>9</u></u>

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

	<u>PSPRS Police</u>
Active members - pension	11.65%
Town	
Pension	30.82
Health insurance premium benefit	-

**TOWN OF WELLTON, ARIZONA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

For the agent plans, the Town's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	PSPRS Police
Pension - contributions made	\$ 80,788
Health insurance premium benefit	
Annual OPEB cost	-
Contributions made	-

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

Pension liability- At June 30, 2016, the Town reported the following net pension liabilities (and asset):

	Net Pension Liability
PSPRS Police	\$ 1,001,952

The net pension liabilities (and asset) were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability (asset) 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 May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town's net pension liability as a result of the statutory adjustments is not known.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.00-8.00%
Inflation	4.00%
Permanent Benefit Increases	Included
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

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

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Pension discount rates - The discount rates used to measure the PSPRS total pension liabilities was 7.85 percent. The projection of cash flows used to determine the PSPRS 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 the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

PSPRS	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at June 30, 2015	1,381,415	580,285	801,130
Changes for the year:			
Service cost	50,060		50,060
Interest on the total pension liability	106,628		106,628
Changes of benefit terms			-
Differences between expected and actual experience in the measurement of the pension liability	238,379		238,379
Changes of assumptions or other inputs			-
Contributions - employer		47,562	(47,562)
Contributions - employee		27,719	(27,719)
Net investment income		22,586	(22,586)
Benefit payments, including refunds of employee contributions	(96,264)	(96,264)	-
Administrative expense		(923)	923
Other changes		97,301	(97,301)
Net changes	298,803	97,981	200,822
Balances at June 30, 2016	1,680,218	678,266	1,001,952

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Sensitivity of the Town's net pension liability to changes in the discount rate - The following table presents the Town's net pension liability calculated using the discount rate of 7.85 percent, 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 (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

PSPRS Police	1% Decrease (6.85%)	Current Discount Rate (7.85%)	1% Increase (8.85%)
Net pension liability	1,215,454	1,001,952	826,215

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

Pension expense - For the year ended June 30, 2016, the Town recognized \$59,543 in pension expense for the PSPRS.

Pension deferred outflows/inflows of resources - At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 339,340	
Changes in assumptions	90,331	
Net difference between projected and actual earnings on pension plan investments	20,741	20,847
Contributions subsequent to the measurement date	80,788	
	<u>\$ 531,200</u>	<u>20,847</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Pension deferred outflows/inflows of resources (Cont'd)

The amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>PSPRS-Police</u>
2017	\$ 74,412
2018	74,412
2019	74,412
2020	80,946
2021	76,072
Thereafter	<u>49,311</u>
	<u>\$ 429,565</u>

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

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

Projections of benefits are based on (1) the plans as 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 the PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Agent plan OPEB actuarial assumptions (Cont'd)

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.00-8.00%
Wage growth	4.00%

Agent plan OPEB trend information - Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

<u>PSPRS-Police</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/OPEB Obligation</u>
2015	\$ -	100%	\$ -
2015	1,931	100	-
2014	1,415	100	-

Agent plan OPEB funded status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>
Actuarial accrued liability (a)	\$ 22,605
Actuarial value of assets (b)	53,906
Unfunded actuarial accrued liability (funding excess) (a)-(b)	(31,301)
Funded ratio (b)/(a)	238.47%
Covered payroll (c)	262,128
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a)-(b)]/(c)$	-11.94%

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)**

Agent plan OPEB funded status (Cont'd)

The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay closed
Remaining amortization period	20 years of unfunded actuarial liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.00-8.00%
Wage growth	4.00%

**NOTE 11 - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town provides for these risks through participation in public entity risk pools (Note 9), and the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded the risk pool coverage or purchased commercial insurance in any of the past three fiscal years.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 12 - FUND BALANCE CLASSIFICATIONS OF THE GOVERNMENTAL FUNDS**

The fund balance classifications of the governmental funds as of June 30, 2016, were as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances:			
Nonspendable:			
Note receivable	<u>\$ 131,949</u>	<u>                    </u>	<u>131,949</u>
Restricted for:			
Public Safety		70,078	70,078
Parks and Recreation		4,826	4,826
Highway and Streets		30,810	30,810
Electronic technology		4,035	4,035
Total restricted		<u>109,749</u>	<u>109,749</u>
Unassigned	<u>740,792</u>	<u>(6,194)</u>	<u>734,598</u>
Total fund balances	<u>\$ 872,741</u>	<u>103,555</u>	<u>976,296</u>

**NOTE 13 - INTERFUND RECEIVABLES AND PAYABLES**

Individual fund interfund receivables and payable balances at June 30, 2016, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 41,320	
CDBG Sidewalks and Curbs Fund		9,919
Other Governmental Funds		<u>31,401</u>
	<u>\$ 41,320</u>	<u>41,320</u>

The above receivables and payable between funds represent borrowings to cover negative cash balances.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 – INTERFUND TRANSFERS**

	General Fund	Highways & Streets Fund	Total
Transfers-in	\$	36,000	36,000
Transfers-out	(36,000)		(36,000)
	\$ (36,000)	36,000	

Transfers between funds are used to eliminate interfund loans that are not expected to be repaid.

**NOTE 15 – SUBSEQUENT EVENTS**

Note Payable - In August 2016, the Town entered into a 10 year note payable for the purchase of land, adjacent to the fire station, with a principal cost of \$67,500 at an effective interest rate of 3.50%, payable in annual installments of \$8,116.

**TOWN OF WELLTON, ARIZONA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**(BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 663,000	\$ 663,000	729,333	66,333
License and permits	155,500	155,500	69,376	(86,124)
Intergovernmental - State	730,983	730,983	732,182	1,199
Charges for services	87,649	87,649	90,583	2,934
Fines and forfeits	69,400	69,400	27,039	(42,361)
Interest income	700	700	7,404	6,704
Other local	329,426	329,426	13,750	(315,676)
<b>Total revenues</b>	<u>2,036,658</u>	<u>2,036,658</u>	<u>1,669,667</u>	<u>(366,991)</u>
<b>Expenditures:</b>				
Current -				
General government	878,450	878,450	569,691	308,759
Public safety	893,217	893,217	843,669	49,548
Parks and recreation	285,610	285,610	290,752	(5,142)
Cemetery	41,018	41,018	41,272	(254)
Capital outlay	417,704	417,704	155,056	262,648
Debt service -				
Principal payments on capital lease			25,402	
Interest			9,148	(9,148)
<b>Total expenditures</b>	<u>2,515,999</u>	<u>2,515,999</u>	<u>1,934,990</u>	<u>581,009</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(479,341)</u>	<u>(479,341)</u>	<u>(265,323)</u>	<u>214,018</u>
<b>Other financing sources (uses):</b>				
Sale of property	9,288	9,288		9,288
Transfers (out)			(36,000)	36,000
<b>Total other financing sources (uses)</b>	<u>9,288</u>	<u>9,288</u>	<u>(36,000)</u>	<u>45,288</u>
<b>Net change in fund balances</b>	<u>(470,053)</u>	<u>(470,053)</u>	<u>(301,323)</u>	<u>259,306</u>
<b>Fund balances, beginning of year</b>	<u>1,174,064</u>	<u>1,174,064</u>	<u>1,174,064</u>	
<b>Fund balances, end of year</b>	<u>\$ 704,011</u>	<u>704,011</u>	<u>872,741</u>	<u>259,306</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

The adopted budget of the Town is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for the following items.

- The present value of net minimum capital lease payments is not budgeted as a capital outlay expenditure or other financing source at the inception of the agreement.

Consequently, the following adjustments are necessary to present the General Fund actual revenues, expenditures, other financing sources (uses), and fund balance at June 30, 2016 on a budgetary basis in order to provide a meaningful comparison.

	General Fund	
	<u>Expenditures</u>	<u>Other Financing Sources</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 2,524,186	553,196
Present value of net minimum capital lease payments included in capital outlay	<u>(589,196)</u>	<u>(589,196)</u>
Budgetary Comparison Schedule (Budgetary Basis)	<u>\$ 1,934,990</u>	<u>(36,000)</u>

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
COST-SHARING PENSION PLANS  
YEAR ENDED JUNE 30, 2016**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Proportion of the net pension liability	0.0081%	0.0071%	Information not available
Proportionate share of the net pension liability	\$ 1,258,625	\$ 1,053,476	
Covered payroll	\$ 744,244	\$ 630,785	
Proportionate share of the net pension liability as a percentage of its covered payroll	169.11%	167.01%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF CHANGES IN NET PENSION  
LIABILITY (ASSET) AND RELATED RATIOS  
AGENT PENSION PLANS  
YEAR ENDED JUNE 30, 2016**

**PSPRS – WELLTON POLICE DEPT.**

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 50,060	\$ 63,590	
Interest on the total pension liability	106,628	82,083	
Changes of benefit terms		22,412	
Differences between expected and actual experience in the measurement of the pension liability	238,379	185,388	
Changes of assumptions or other inputs	-	124,493	
Benefit payments, including refunds of employee contributions	(96,264)	(220,809)	
Net change in total pension liability	298,803	257,157	
Total pension liability - beginning	1,381,415	1,124,258	
Total pension liability - ending (a)	<u>\$ 1,680,218</u>	<u>\$ 1,381,415</u>	
Plan fiduciary net position			
Contributions - employer	47,562	47,712	
Contributions - employee	27,719	27,743	
Net investment income	22,586	79,229	
Benefit payments, including refunds of employee contributions	(96,264)	(220,809)	
Administrative expense	(923)		
Other changes	97,301	(39,091)	
Net changes in fiduciary net position	97,981	(105,216)	
Plan fiduciary net position - beginning	580,285	685,501	
Plan fiduciary net position - ending (b)	<u>\$ 678,266</u>	<u>\$ 580,285</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 1,001,952</u>	<u>\$ 801,130</u>	
Plan fiduciary net position as a percentage of the total pension liability	40.37%	42.01%	
Covered payroll	\$ 252,065	\$ 272,625	
Town's net pension liability (asset) as a percentage of covered payroll	397.50%	293.86%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF PENSION CONTRIBUTIONS  
JUNE 30, 2016**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 83,726	\$ 81,048	\$ 66,159	Information not available
Contribution in relation to the statutorily required contribution	<u>83,726</u>	<u>81,048</u>	<u>66,159</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	<u>760,375</u>	<u>744,244</u>	<u>630,785</u>	
Contributions as a percentage of covered payroll	11.01%	10.89%	10.49%	

**PSPRS - WELLTON POLICE DEPT.**

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarial required contribution	\$ 80,788	\$ 47,562	\$ 45,741	Information not available
Contribution in relation to the actuarial required contribution	<u>80,788</u>	<u>47,562</u>	<u>45,741</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	<u>262,128</u>	<u>253,734</u>	<u>272,625</u>	
Contributions as a percentage of covered payroll	30.82%	18.74%	16.78%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA  
NOTES TO PENSION PLAN SCHEDULES  
JUNE 30, 2016**

**NOTE 1 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2016, the Town implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

**NOTE 2 – ACTUARIALLY DETERMINED CONTRIBUTION RATES**

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

	<u>June 30 ,2014</u>	<u>June 30 ,2013</u>
Actuarial valuation date	Entry Age Normal	Entry Age Normal
Actuarial cost method	Level percent closed for unfunded actuarial accrued liability, open for excess	Level percent closed for unfunded actuarial accrued liability, open for excess
Amortization method	22 years for unfunded actuarial accrued liability, 20 years for excess	23 years for unfunded actuarial accrued liability, 20 years for excess
Remaining amortization period	7 year smoothed market: 80%/120% market corridor	7 year smoothed market: 20% corridor
Asset valuation method	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Actuarial assumptions:		
Investment rate of return	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%	In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%
Projected salary increases	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 5.0%	In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Wage growth	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.	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.
Retirement Age		

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF AGENT OPEB PLANS'S FUNDING PROGRESS  
JUNE 30, 2016**

Health Insurance Premium Benefit

**PSPRS - Wellton Police Dept.**

Year	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/(c)
2016	\$ 53,906	\$ 22,605	(31,301)	238.47 %	\$ 262,128	(11.94) %
2015	50,532	18,436	(32,096)	274.09	252,065	(12.73)
2014	46,441	7,075	(39,366)	656.40	269,356	(14.61)
2013	-	14,481	14,481	-	322,347	4.49

See accompanying notes to schedule of agent OPEB plans' funding progress

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO SCHEDULE OF AGENT OPEB PLANS'S FUNDING PROGRESS**  
**JUNE 30, 2016**

**NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS**

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

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

To the Honorable Mayor and Town Council  
Town of Wellton, 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 Wellton, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Wellton, Arizona's basic financial statements, and have issued our report thereon dated January 19, 2017.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify and 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 Wellton, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.

*Henry & Horne LLP*

Casa Grande, Arizona  
January 19, 2017