

TOWN OF WELLTON, ARIZONA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017

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JUNE 30, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017, 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 February 22, 2018, 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
February 22, 2018

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**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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, 2017.

FINANCIAL HIGHLIGHTS

- The Town's total net position decreased approximately \$560,000 which represents a 5.7 percent decrease from fiscal year 2016. The primary cause for the decrease was due to increase in pension expense during the year ended June 30, 2017.
- General revenues of the governmental activities accounted for \$1.7 million in revenue, or 71 percent of all fiscal year 2017 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$0.7 million or 29 percent of total fiscal year 2017 revenues.
- The Town had approximately \$2.6 million in expenses related to governmental activities, of which \$0.7 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.7 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.8 million in fiscal year 2017 revenues, which primarily consisted of approximately \$1.6 million in taxes and intergovernmental revenues, and approximately \$103,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.7 million. The General Fund's fund balance decreased \$126,635 to \$999,376, primarily due the factors discussed in the **Governmental Funds** section of Page 16.
- The net change in the Town's total debt decreased by approximately \$60,000 during the current fiscal year. The key factors in this change included the early repayment of approximately \$119,000 in capital leases offset by the acquisition of a note payable for a land adjacent to the fire station totaling approximately \$67,500.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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, 2017**

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 12 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, Highway and Streets Fund and Stone Garden Fund which are considered to be major funds. Data from the other 9 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, 2017**

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 72 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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 \$9,240,673 as of June 30, 2017.

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, 2017 and 2016.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 1,219,198	1,257,557	1,208,345	1,300,344	2,427,543	2,557,901
Capital assets	3,229,907	3,343,601	6,372,084	6,691,579	9,601,991	10,035,180
Total assets	<u>4,449,105</u>	<u>4,601,158</u>	<u>7,580,429</u>	<u>7,991,923</u>	<u>12,029,534</u>	<u>12,593,081</u>
Total deferred outflows of resources	<u>1,145,053</u>	<u>662,258</u>	<u>123,079</u>	<u>101,149</u>	<u>1,268,132</u>	<u>763,407</u>
Long-term liabilities	3,003,245	2,262,409	680,095	722,275	3,683,340	2,984,684
Other liabilities	150,875	333,940	41,842	83,613	192,717	417,553
Total liabilities	<u>3,154,120</u>	<u>2,596,349</u>	<u>721,937</u>	<u>805,888</u>	<u>3,876,057</u>	<u>3,402,237</u>
Total deferred inflows of resources	<u>113,263</u>	<u>95,073</u>	<u>67,673</u>	<u>57,287</u>	<u>180,936</u>	<u>152,360</u>
Net position						
Net investments in capital assets	2,650,009	2,779,807	6,241,696	6,491,442	8,891,705	9,271,249
Restricted	138,025	109,749	480,588	505,277	618,613	615,026
Unrestricted	(461,259)	(317,562)	191,614	233,178	(269,645)	(84,384)
Total net position	<u>\$ 2,326,775</u>	<u>2,571,994</u>	<u>6,913,898</u>	<u>7,229,897</u>	<u>9,240,673</u>	<u>9,801,891</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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 \$40,000 due to a decrease of cash caused by decreased revenue collections netted against a decrease in receivables.
- Capital assets activity included the completion of phase two of the sidewalks and curb project on San Jose, overlay of avenue 29E, purchase of a public safety truck and land for future expansion of the fire station. These increases were offset by depreciation for a net decrease of approximately \$114,000.
- Other liabilities increased approximately \$183,000 due primarily to decreased accounts payable from the prior year.
- Long-term liabilities increased approximately \$737,000 due to changes in the net pension liability for the ASRS and PSPRS plans, a note payable to for the purchase of land for future expansion of the fire station and regular capital lease payments.

Business-type Activities:

- Current and other assets decreased approximately \$92,000 due primarily to decreases in cash from costs in excess of revenues.
- Capital asset activity included continued improvements at the water plant and Links golf course equipment. These increases were offset by depreciation for a net decrease of approximately \$319,000.
- Liabilities decreased approximately \$84,000 primarily due to early repayment of leases payable of \$68,000, plus decreases in the net pension liability for ASRS of approximately \$12,000.

Changes in net position. The Town's total revenues for the fiscal years ended June 30, 2017 and 2016 were \$3.3 and \$3.5 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2017 and 2016 was \$3.9 and \$3.7 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and 2016.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 144,848	192,376	970,414	939,137	1,115,262	1,131,513
Operating grants and contributions	528,983	427,536			528,983	427,536
Capital grants and contributions	5,816	364,965	29,407		35,223	364,965
General revenues:						
Taxes	1,551,515	1,461,515			1,551,515	1,461,515
Licenses and permits	68,982	69,376			68,982	69,376
Fines and forfeits	33,923	27,039			33,923	27,039
Interest income	7,102	7,404	270	306	7,372	7,710
Total revenues	<u>2,341,169</u>	<u>2,550,211</u>	<u>1,000,091</u>	<u>939,443</u>	<u>3,341,260</u>	<u>3,489,654</u>
Expenses:						
General government	694,247	792,131			694,247	792,131
Public safety	1,276,196	1,016,922			1,276,196	1,016,922
Highway and streets	264,267	235,627			264,267	235,627
Parks and recreation	295,966	377,965			295,966	377,965
Cemetery	38,009	43,191			38,009	43,191
Water			776,898	702,517	776,898	702,517
Sanitation			216,413	203,684	216,413	203,684
Golf			322,779	365,488	322,779	365,488
Interest on long-term debt	17,703	9,148			17,703	9,148
Total expenses	<u>2,586,388</u>	<u>2,474,984</u>	<u>1,316,090</u>	<u>1,271,689</u>	<u>3,902,478</u>	<u>3,746,673</u>
Increase (decrease) in net position	(245,219)	75,227	(315,999)	(332,246)	(561,218)	(257,019)
Net position, beginning 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>
Net position, end of year	<u>\$ 2,326,775</u>	<u>2,571,994</u>	<u>6,913,898</u>	<u>7,229,897</u>	<u>9,240,673</u>	<u>9,801,891</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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, 2017 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	\$ 694,247	(462,438)			694,247	(462,438)
Public safety	1,276,196	(1,134,392)			1,276,196	(1,134,392)
Highway and streets	264,267	(12,029)			264,267	(12,029)
Parks and recreation	295,966	(262,887)			295,966	(262,887)
Cemetery	38,009	(17,292)			38,009	(17,292)
Water			776,898	(312,064)	776,898	(312,064)
Sanitation			216,413	4,286	216,413	4,286
Golf			322,779	(8,491)	322,779	(8,491)
Interest on long-term debt	17,703	(17,703)			17,703	(17,703)
	<u>\$ 2,586,388</u>	<u>(1,906,741)</u>	<u>1,316,090</u>	<u>(316,269)</u>	<u>3,902,478</u>	<u>(2,223,010)</u>

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>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

- The cost of all governmental activities for the years ended June 30, 2017 and 2016 were \$2,586,388 and 2,474,984, 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, 2017 and 2016 subsidized approximately \$679,647 and \$984,877, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2017 and 2016 were (\$1,906,741) and (\$1,490,107), respectively. For the years ended June 30, 2017 and 2016 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, 2017 and 2016 were \$1,316,090 and \$1,271,689, respectively.
- For the year ended June 30, 2017, net expenses of the business-type activities of \$316,269 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 significant additional monies besides charges for services during the fiscal year. Total expenses remained consistent with prior years.
- 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.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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 \$1,127,955, an increase of \$151,659 due primarily to the activity of the General Fund and Streets and Highway Fund, which are discussed below.

The General Fund equity increased from the prior year by \$126,635 to \$999,376 as of June 30, 2017. The increase was primarily due to increased tax and other local revenues of approximately \$165,000 from fiscal year 2016.

The Highway and Streets Fund equity increased from the prior year by \$25,958 to \$47,517 as of June 30, 2017. The increase was due to collection of HURF fund in excess of expenditures.

The Stone Garden Fund had no changes in equity as the monies were used to supplement public safety salaries and purchase a new truck. However, there were unpaid and unreimbursed costs at June 30, 2017, resulting in payables and receivables on the Balance Sheet.

The Other Governmental Funds' equity decreased from the prior year by \$934 to \$81,062 as of June 30, 2017. The decrease was due to expenditures in excess of revenues in the Community Facilities fund. However, this was offset by impact fees collected 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.

Proprietary funds. Net position of the Water, Sanitation, and Golf funds at the end of the year amounted to \$6,913,898. The decrease of \$315,999 from fiscal year 2016 is discussed in greater detail on Page 15.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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, Highway and Streets Fund and Stone Garden Fund expenditure budgets during the year ended June 30, 2017. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund, Streets and Highway Fund and the Stone Garden Fund is provided in this report on page 63 through 66, as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the Town had invested \$9.6 million in capital assets. The net change in capital assets of \$0.2 million, prior to depreciation includes overlay of avenue 29E for approximately \$30,000, purchase of new public safety truck for approximately \$50,000, purchase of land for future expansion of the fire department for approximately \$76,000, and miscellaneous equipment for the water plant and links golf course totaling approximately \$57,000. Total depreciation expense for the year was approximately \$0.7 million.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2017.

	Governmental Activities	Business-type Activities	Total
Land	\$ 354,843	2,540,180	2,895,023
Buildings and other improvements	1,613,074	28,066	1,641,140
Water treatment plant		3,054,829	3,054,829
Transmission and distribution mains		499,099	499,099
Furniture, equipment, and vehicles	1,196,830	249,910	1,446,740
Street system	37,141		37,141
Construction in progress	28,019		28,019
Total	\$ 3,229,907	6,372,084	9,601,991

Additional information on the Town's capital assets can be found in Note 6 on pages 42 and 43 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)

Debt Administration. At June 30, 2017, the Town had approximately \$0.1 million in capital leases and other long-term debt outstanding, approximately \$60,000 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, 2017.

	Governmental Activities	Business-type Activities	Total
Note payable	\$ 67,500	-	67,500
Capital leases payable	512,398	-	512,398
Compensated absences	33,417	13,010	46,427
 Total	 <u>\$ 613,315</u>	 <u>13,010</u>	 <u>626,325</u>

Additional information on the Town's long-term debt can be found in Note 7 on pages 44 through 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.

During fiscal year 2017-18, as an effort to increase general operating revenues, the Town Council approved the following items:

- An amendment to the Town's Municipal Code authorizing a \$400 fee or annual subscription fee of \$62 to recover costs for providing Medical Emergency First Responder Services.
- An increase in water and sanitation fees.

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, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash in bank	\$ 783,891	667,137	1,451,028
Accounts receivable, net of allowance for uncollectibles		60,620	60,620
Due from other governments	220,249		220,249
Notes receivable-current	2,820		2,820
Total current assets	<u>1,006,960</u>	<u>727,757</u>	<u>1,734,717</u>
Noncurrent assets:			
Restricted cash	85,791	480,588	566,379
Notes receivable	126,447		126,447
Capital assets, non-depreciable	382,862	2,540,180	2,923,042
Capital assets, net of depreciation	2,847,045	3,831,904	6,678,949
Total noncurrent assets	<u>3,442,145</u>	<u>6,852,672</u>	<u>10,294,817</u>
Total assets	<u>4,449,105</u>	<u>7,580,429</u>	<u>12,029,534</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	1,145,053	123,079	1,268,132
Total deferred outflows of resources	<u>1,145,053</u>	<u>123,079</u>	<u>1,268,132</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	91,243	18,974	110,217
Customer deposits		22,868	22,868
Compensated absences	428		428
Capital lease payable-current	53,450		53,450
Note payable-current	5,754		5,754
Total current liabilities:	<u>150,875</u>	<u>41,842</u>	<u>192,717</u>
Noncurrent liabilities:			
Compensated absences	32,989	13,010	45,999
Developer advances payable		130,388	130,388
Capital lease payable	458,948		458,948
Note payable	61,746		61,746
Net pension liability	2,449,562	536,697	2,986,259
Total noncurrent liabilities	<u>3,003,245</u>	<u>680,095</u>	<u>3,683,340</u>
Total liabilities	<u>3,154,120</u>	<u>721,937</u>	<u>3,876,057</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	113,263	67,673	180,936
Total deferred inflows of resources	<u>113,263</u>	<u>67,673</u>	<u>180,936</u>
NET POSITION			
Net investment in capital assets	2,650,009	6,241,696	8,891,705
Restricted for:			
Capital improvements		480,588	480,588
Public safety	70,506		70,506
Parks and recreation	5,561		5,561
Highways and streets	57,241		57,241
Other purposes	4,717		4,717
Unrestricted	(461,259)	191,614	(269,645)
Total net position	<u>\$ 2,326,775</u>	<u>6,913,898</u>	<u>9,240,673</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 694,247	111,693	120,116		(462,438)		(462,438)
Public Safety	1,276,196	428	141,376		(1,134,392)		(1,134,392)
Highway and Streets	264,267	973	245,449	5,816	(12,029)		(12,029)
Parks and recreation	295,966	11,037	22,042		(262,887)		(262,887)
Cemetery	38,009	20,717			(17,292)		(17,292)
Interest on long-term debt	17,703				(17,703)		(17,703)
Total governmental activities	<u>2,586,388</u>	<u>144,848</u>	<u>528,983</u>	<u>5,816</u>	<u>(1,906,741)</u>		<u>(1,906,741)</u>
Business-type activities:							
Water	776,898	450,616		14,218		(312,064)	(312,064)
Sanitation	216,413	220,699				4,286	4,286
Golf	322,779	299,099		15,189		(8,491)	(8,491)
Total business-type activities	<u>1,316,090</u>	<u>970,414</u>		<u>29,407</u>		<u>(316,269)</u>	<u>(316,269)</u>
Total primary government	<u>\$ 3,902,478</u>	<u>1,115,262</u>	<u>528,983</u>	<u>35,223</u>	<u>(1,906,741)</u>	<u>(316,269)</u>	<u>(2,223,010)</u>
General Revenues:							
					1,551,515	270	1,551,785
					68,982		68,982
					33,923		33,923
					7,102		7,102
Total general revenues and transfers					<u>1,661,522</u>	<u>270</u>	<u>1,661,792</u>
Change in net position					(245,219)	(315,999)	(561,218)
Net position - beginning of year					<u>2,571,994</u>	<u>7,229,897</u>	<u>9,801,891</u>
Net position - end of year					<u>\$ 2,326,775</u>	<u>6,913,898</u>	<u>9,240,673</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Highway and Streets Fund	Stone Garden Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash in bank	\$ 745,794	33,380		4,717	783,891
Restricted cash				85,791	85,791
Note receivable	129,267				129,267
Due from other governments	93,736	20,828	68,971	36,714	220,249
Due from other funds	106,325				106,325
Total assets	\$ 1,075,122	54,208	68,971	127,222	1,325,523
<u>LIABILITIES</u>					
Accounts payable and accrued expenses	\$ 75,746	6,691	7,811	995	91,243
Due to other funds			61,160	45,165	106,325
Total liabilities	75,746	6,691	68,971	46,160	197,568
<u>FUND BALANCES</u>					
Nonspendable	129,267				129,267
Restricted		47,517		90,508	138,025
Unassigned	870,109			(9,446)	860,663
Total fund balances	999,376	47,517		81,062	1,127,955
Total liabilities and fund balances	\$ 1,075,122	54,208	68,971	127,222	1,325,523

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund balances - total governmental funds	\$ 1,127,955
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	6,440,718
Less accumulated depreciation	<u>(3,210,811)</u>
Capital assets used in governmental activities	<u>3,229,907</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>1,031,790</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	(2,449,562)
Note payable liability	(67,500)
Capital lease liability	(512,398)
Compensated absences	<u>(33,417)</u>
Long-term liabilities not due and payable in the current period	<u>(3,062,877)</u>
Net position of governmental activities	<u><u>\$ 2,326,775</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, 2017

	General Fund	Highway and Streets Fund	Stone Garden Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 806,064				806,064
License and permits	68,982				68,982
Intergovernmental -					
County				682	682
State	745,451	234,705		16,320	996,476
Federal			132,953	124,797	257,750
Charges for services	90,818	500		1,636	92,954
Fines and forfeits	33,923				33,923
Interest income	7,102				7,102
Other local	77,236				77,236
Total revenues	1,829,576	235,205	132,953	143,435	2,341,169
Expenditures:					
Current -					
General government	512,275			465	512,740
Public safety	862,277		82,953	5,576	950,806
Highways and streets		184,123		13,996	198,119
Parks and recreation	216,278				216,278
Cemetery	34,756				34,756
Capital outlay	75,756	25,124	50,000	124,332	275,212
Debt service -					
Principal payments on capital leases	51,396				51,396
Interest	17,703				17,703
Total expenditures	1,770,441	209,247	132,953	144,369	2,257,010
Excess (deficiency) of revenues over expenditures	59,135	25,958		(934)	84,159
Other financing sources (uses):					
Note proceeds	67,500				67,500
Total other financing sources (uses)	67,500				67,500
Net change in fund balances	126,635	25,958		(934)	151,659
Fund balances, beginning of year	872,741	21,559		81,996	976,296
Fund balances, end of year	<u>\$ 999,376</u>	<u>47,517</u>		<u>81,062</u>	<u>1,127,955</u>

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, 2017**

Net change in fund balances - total governmental funds	\$	151,659
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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	159,751	
Less current year depreciation	(273,445)	
Excess capital expenditures over depreciation and capital contributions	<u>(113,694)</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	158,299	
Pension expense	(430,936)	
	<u>(272,637)</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

Note payable	(67,500)	
Principal payments on capital leases	51,396	
Differences in treatment of long-term debt and related items	<u>(16,104)</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>5,557</u>
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Change in net position of governmental activities	\$	<u><u>(245,219)</u></u>
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See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	Business-type Activities-Enterprise Funds			Total
	Water	Sanitation	Golf	
ASSETS				
Current assets:				
Cash in bank	\$ 540,279	107,222	19,636	667,137
Accounts receivable	36,917	23,703		60,620
Total current assets	<u>577,196</u>	<u>130,925</u>	<u>19,636</u>	<u>727,757</u>
Noncurrent assets:				
Restricted cash	480,588			480,588
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		109,775	112,692
Water treatment plant	5,367,843			5,367,843
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	571,774	444,534	182,665	1,198,973
Less accumulated depreciation	<u>(3,562,090)</u>	<u>(435,189)</u>	<u>(223,104)</u>	<u>(4,220,383)</u>
Total capital assets (net of accumulated depreciation)	<u>3,761,436</u>	<u>9,345</u>	<u>2,601,403</u>	<u>6,372,184</u>
Total noncurrent assets	<u>4,242,024</u>	<u>9,345</u>	<u>2,601,403</u>	<u>6,852,772</u>
Total assets	<u>4,819,220</u>	<u>140,270</u>	<u>2,621,039</u>	<u>7,580,529</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	48,465	29,989	44,625	123,079
Total deferred outflows on resources	<u>48,465</u>	<u>29,989</u>	<u>44,625</u>	<u>123,079</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	11,161	3,911	3,902	18,974
Customer deposits	22,868			22,868
Total current liabilities	<u>34,029</u>	<u>3,911</u>	<u>3,902</u>	<u>41,842</u>
Noncurrent liabilities:				
Compensated absences	5,399	3,931	3,680	13,010
Developer advances payable	130,388			130,388
Net pension liability	212,028	125,892	198,777	536,697
Total noncurrent liabilities	<u>347,815</u>	<u>129,823</u>	<u>202,457</u>	<u>680,095</u>
Total liabilities	<u>381,844</u>	<u>133,734</u>	<u>206,359</u>	<u>721,937</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	26,735	15,874	25,064	67,673
Total deferred inflows on resources	<u>26,735</u>	<u>15,874</u>	<u>25,064</u>	<u>67,673</u>
NET POSITION				
Invested in capital assets, net of related debt	3,631,048	9,345	2,601,303	6,241,696
Restricted for capital improvements	480,588			480,588
Unrestricted	347,470	11,306	(167,162)	191,614
Total net position	<u>\$ 4,459,106</u>	<u>20,651</u>	<u>2,434,141</u>	<u>6,913,898</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, 2017

	Business-type Activities - Enterprise Funds			Total
	Water	Sanitation	Golf	
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 450,616			450,616
Sanitation fees		220,699		220,699
Golf course fees			299,099	299,099
Total operating revenues	<u>450,616</u>	<u>220,699</u>	<u>299,099</u>	<u>970,414</u>
Operating expenses:				
Water department	776,898			776,898
Sanitation department		215,219		215,219
Golf course			318,369	318,369
Total operating expenses	<u>776,898</u>	<u>215,219</u>	<u>318,369</u>	<u>1,310,486</u>
Operating income (loss)	<u>(326,282)</u>	<u>5,480</u>	<u>(19,270)</u>	<u>(340,072)</u>
Nonoperating revenues (expenses):				
Interest on investments	270			270
Interest expense		(1,194)	(4,410)	(5,604)
Total nonoperating revenues (expenses)	<u>270</u>	<u>(1,194)</u>	<u>(4,410)</u>	<u>(5,334)</u>
Income (loss) before contributions	(326,012)	4,286	(23,680)	(345,406)
Capital contributions - intergovernmental	14,218			14,218
Capital contributions - private developer			15,189	15,189
Total capital contributions	<u>14,218</u>		<u>15,189</u>	<u>29,407</u>
Increase (decrease) in net position	(311,794)	4,286	(8,491)	(315,999)
Net position, beginning of year	<u>4,770,900</u>	<u>16,365</u>	<u>2,442,632</u>	<u>7,229,897</u>
Net position, end of year	<u>\$ 4,459,106</u>	<u>20,651</u>	<u>2,434,141</u>	<u>6,913,898</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 447,377	217,773	299,099	964,249
Payments to suppliers for goods and services	(294,560)	(62,011)	(151,924)	(508,495)
Payments to employees	(156,390)	(117,433)	(178,330)	(452,153)
Net cash provided (used) for operating activities	(3,573)	38,329	(31,155)	3,601
Cash flows from capital related and financing activities:				
Purchase of capital assets	(26,086)		(16,000)	(42,086)
Principal payments on developer advances	(1,802)			(1,802)
Increase in contributed capital	14,218			14,218
Repayments on capital leases		(33,524)	(34,423)	(67,947)
Interest paid on capital debt		(1,194)	(4,410)	(5,604)
Net cash (used) by capital and related financing activities:	(13,670)	(34,718)	(54,833)	(103,221)
Cash flows from investing activities				
Investment income	270			270
Net cash provided by investing activities	270			270
Net increase (decrease) in cash and cash equivalents	(16,973)	3,611	(85,988)	(99,350)
Cash in bank, beginning of year (including \$505,277 in the Water Fund reported in restricted accounts)	1,037,840	103,611	105,624	1,247,075
Cash in bank, beginning of year (including \$480,588 in the Water Fund reported in restricted accounts)	\$ 1,020,867	107,222	19,636	1,147,725

(continued)

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED</u>				
<u>(USED) BY OPERATING ACTIVITIES</u>				
Operating income (loss)	\$ (326,282)	5,480	(19,270)	(340,072)
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:				
Depreciation	335,206	28,043	13,521	376,770
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) in accounts receivable	(4,425)	(2,926)		(7,351)
(Increase) in deferred outflows of resources related to pensions	(8,062)	(9,370)	(4,498)	(21,930)
(Decrease) in accounts payable and accrued expenses	(2,873)	(1,232)	(1,864)	(5,969)
Increase (decrease) in compensated absences	4,798	12	(2,669)	2,141
Increase in customer deposits	1,186			1,186
Increase (decrease) in net pension liability	(6,973)	14,126	(18,713)	(11,560)
Decrease in deferred inflows of resources related to pensions	3,852	4,196	2,338	10,386
Net cash provided (used) for operating activities	<u>\$ (3,573)</u>	<u>38,329</u>	<u>(31,155)</u>	<u>3,601</u>

Schedule of non-cash capital and related financing activities

Contributions of capital assets	\$	15,189	15,189
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(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2017**

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

See accompanying notes to financial statements.

**TOWN OF WELLTON
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2017**

	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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies in the accompanying basic financial statements of the Town of Wellton, Arizona, (Town) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

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. The Town has no discretely presented component units.

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.

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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Town as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

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.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double-counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Basis of Accounting – The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. 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.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, 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. The Town applies grant resources to such programs before using general revenues.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

Basis of Accounting (Cont'd) – Governmental fund financial statements and 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.

Fund Financial Statements – 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 governmental and enterprise fund financial statements.

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.

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 **Highway and Streets Fund** accounts for the monies used in the maintenance of the Town's roadways, easements and common areas. The significant revenues of the fund are Highway Users Revenues.

The **Stone Garden Fund** accounts for federal monies used to purchase public safety equipment and to subsidize public safety wages.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

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 increased by \$344,344 during the year ended June 30, 2017.

All annual appropriations lapse at fiscal year end.

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 \$100,000, for the year ended June 30, 2017, 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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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, 2017 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.

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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

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 \$9,446, as of June 30, 2017. The deficit is expected to be corrected through normal operations during the following fiscal year.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – CASH

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; 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 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.

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, 2017, the carrying amount of the Town's deposits were \$2,017,835 and the bank balances were \$2,052,083. 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, 2017, all deposits were fully insured or collateralized.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CASH (CONT'D)

Restricted Cash – The Water Enterprise Fund cash is restricted for improvements to the water plant, in the amount of \$480,588. Additionally, non-major fund cash totaling \$85,791 is restricted for public safety, parks and recreation and highways and streets.

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	Highway and Streets Fund	Stone Garden Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>							
Sales tax	\$ 88,881						88,881
Vehicle license tax	4,855						4,855
Arizona Department Highway users revenue		20,828					20,828
U.S. Department of Housing and Urban Development						36,714	36,714
Yuma County - Homeland Security			68,971				68,971
<u>Accounts receivable</u>							
Customer accounts				36,917	23,703		60,620
	<u>\$ 93,736</u>	<u>20,828</u>	<u>68,971</u>	<u>36,917</u>	<u>23,703</u>	<u>36,714</u>	<u>280,869</u>

NOTE 5 – NOTES RECEIVABLE

	<u>Governmental Activities June 30, 2017</u>
5.00% note receivable from a developer in monthly installments of \$774, including interest; unpaid principal and interest due August 23, 2041	\$ 129,267
Current portion	<u>(2,820)</u>
Long-Term portion	<u>\$ 126,447</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 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	75,756			354,843
Construction in progress	402,831	3,000		(377,812)	28,019
Total capital assets not being depreciated	<u>681,918</u>	<u>78,756</u>		<u>(377,812)</u>	<u>382,862</u>
Capital assets being depreciated -					
Land improvements	1,679,371	30,941	(60,217)	377,812	2,027,907
Buildings and improvements	1,748,549				1,748,549
Furniture, equipment, and vehicles	2,206,617	50,054	(25,162)		2,231,509
Street system	49,891				49,891
Total capital assets being depreciated	<u>5,684,428</u>	<u>80,995</u>	<u>(85,379)</u>	<u>377,812</u>	<u>6,057,856</u>
Less accumulated depreciation for -					
Land improvements	(1,084,272)	(90,894)	60,217		(1,114,949)
Buildings and improvements	(985,966)	(62,467)			(1,048,433)
Furniture, equipment and vehicles	(941,420)	(118,421)	25,162		(1,034,679)
Street system	(11,087)	(1,663)			(12,750)
Total accumulated depreciation	<u>(3,022,745)</u>	<u>(273,445)</u>	<u>85,379</u>		<u>(3,210,811)</u>
Total capital assets being depreciated, net	<u>2,661,683</u>	<u>(192,450)</u>		<u>377,812</u>	<u>2,847,045</u>
Governmental activities capital assets, net	<u>\$ 3,343,601</u>	<u>(113,694)</u>			<u>3,229,907</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS (CONT'D)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated -				
Land	\$ 2,540,180			2,540,180
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	31,189		112,692
Water treatment plant	5,367,843			5,367,843
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	<u>1,179,787</u>	<u>26,086</u>	<u>(7,000)</u>	<u>1,198,873</u>
Total capital assets being depreciated	<u>8,002,012</u>	<u>57,275</u>	<u>(7,000)</u>	<u>8,052,287</u>
Less accumulated depreciation for -				
Buildings and other improvements	(81,507)	(3,119)		(84,626)
Water treatment plant	(2,046,774)	(266,240)		(2,313,014)
Transmission and distribution mains	(828,439)	(45,341)		(873,780)
Furniture, equipment and vehicles	<u>(893,893)</u>	<u>(62,070)</u>	<u>7,000</u>	<u>(948,963)</u>
Total accumulated depreciation	<u>(3,850,613)</u>	<u>(376,770)</u>	<u>7,000</u>	<u>(4,220,383)</u>
Total capital assets being depreciated, net	<u>4,151,399</u>	<u>(319,495)</u>		<u>3,831,904</u>
Business-type activities capital assets, net	<u>\$ 6,691,579</u>	<u>(319,495)</u>		<u>6,372,084</u>

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

Governmental activities:	
General government	\$ 38,263
Public safety	99,172
Highway and streets	61,664
Parks and recreation	72,485
Cemetery	<u>1,861</u>
Total depreciation expense - governmental activities	<u>\$ 273,445</u>
Business-type activities:	
Water	\$ 335,206
Sanitation	28,043
Golf	<u>13,521</u>
Total depreciation expense - business-type activities	<u>\$ 376,770</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT

Note Payable – The Town has entered into a note payable agreement to provide funds for the acquisition of land adjacent to the fire station. The note has been issued for governmental activities and are liquidated by the General Fund. Note payable as of June 30, 2017 consisted of the following:

	Governmental Activities
Promissory note payable to a an individual in annual installments of \$8,116 through August 2026, including interest at an effective annual rate of 3.50%; secured by a deed of trust	\$ 67,500

Payments of principal on the notes payable for the years ending June 30 are due as follows:

	Governmental Activities	
	Principal	Interest
Year ending June 30:		
2018	\$ 5,754	2,362
2019	5,955	2,161
2020	6,163	1,953
2021	6,379	1,737
2022	6,603	1,514
Thereafter	36,646	3,936
	\$ 67,500	13,663

For the year ended June 30, 2017, total interest expense under the notes payable was \$0.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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:

	Governmental Activities	Business-type Activities
Equipment and vehicles	\$ 589,196	280,004
Less: Accumulated depreciation	(56,465)	(229,827)
	\$ 532,731	50,177

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2017, were as follows:

	Governmental Activities
Year ending June 30:	
2018	\$ 69,099
2019	69,099
2020	69,099
2021	69,099
2022	69,099
Thereafter	241,846
Total minimum lease payments	587,341
Less amount representing interest	(74,943)
Present value of net minimum capital lease payments	\$ 512,398

For the year ended June 30, 2017, total interest expense under the capital leases was \$23,607.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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:					
Note payable	\$	67,500		67,500	5,754
Capital leases	563,794		(51,396)	512,398	53,450
Compensated absences	38,974	49,400	(54,957)	33,417	428
	<u>602,768</u>	<u>116,900</u>	<u>(106,353)</u>	<u>613,315</u>	<u>59,632</u>
Total governmental long-term liabilities	<u>\$ 602,768</u>	<u>116,900</u>	<u>(106,353)</u>	<u>613,315</u>	<u>59,632</u>
Business-type activities:					
Capital leases	\$ 67,947		(67,947)		
Compensated absences	14,972	18,188	(20,150)	13,010	
	<u>82,919</u>	<u>18,188</u>	<u>(88,097)</u>	<u>13,010</u>	
Total Business-type long-term liabilities	<u>\$ 82,919</u>	<u>18,188</u>	<u>(88,097)</u>	<u>13,010</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>\$ 130,388</u>
Total	<u>\$ 130,388</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 \$118,797 for the year ended June 30, 2017.

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, 2017, 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	788,480	536,697	1,325,177	1,661,082	2,986,259
Deferred outflows of resources	187,144	123,079	310,223	957,909	1,268,132
Deferred inflows of resources	(99,421)	(67,673)	(167,094)	(13,842)	(180,936)
Pension expense	99,792	8,376	108,168	331,144	439,312

The Town's accrued payroll and employee benefits includes \$8,364 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the Town reported \$190,132 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, 2017**

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.

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:

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

*With actuarially reduced benefits

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, 2017**

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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension plan for the year ended June 30, 2017, were \$179,756. 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:

	Health Benefits Supplement Fund	Long-Term Disability Fund
Year ended June 30,		
2017	\$ 8,770	\$ 2,178
2016	6,978	1,844
2015	8,782	1,786

During fiscal year 2017, the Town paid for ASRS pension and OPEB contributions as follows: 54 percent from the General Fund, 46 percent from major funds and 0 percent from non-major funds.

Pension liability - At June 30, 2017, the Town reported a liability of \$1,325,176 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016 reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Town's proportion measured as of June 30, 2016, was .008210% percent, which was an increase of .0013% from its proportion measured as of June 30, 2015.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$108,168. At June 30, 2017, 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	\$ 8,054	91,162
Change of assumptions or other inputs		70,112
Net difference between projected and actual earnings on pension plan investments	143,605	
Changes in proportion and differences between town contributions and proportionate share of contributions	74,514	5,820
Contributions subsequent to the measurement date	84,050	
	\$ 310,223	167,094

The \$84,050 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30:

2018	\$ 11,632
2019	29,404
2020	(59,845)
2021	(40,266)
	\$ (59,075)

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.00%
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, 2017**

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.73%
Fixed Income	25%	3.70%
Real Estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Proportionate share of the net pension liability	1,689,701	1,325,176	1,032,908

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 nine-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.

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:

PSPRS	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
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, 2017**

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, 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, 2017, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	5
Total	9

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, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police
Active members - pension	11.65%
PSPRS members with an initial membership date on or before July 19, 2011	
Town	
Pension	35.44%
Health insurance premium benefit	-
PSPRS members with an initial membership date after July 19, 2011	
Town	
Pension	29.95%
Health insurance premium benefit	-

**TOWN OF WELLTON, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017**

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, 2017, were:

	PSPRS Police
Pension - contributions made	\$ 105,728
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, 2017, the Town reported the following net pension liabilities (and asset):

	Net Pension Liability
PSPRS Police	\$ 1,661,082

The net pension liabilities (and asset) were measured as of June 30, 2016, 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, 2016, 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.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town's net pension liabilities as a result of these changes is not known.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2016
Actuarial cost method	Entry Age Normal
Discount rate	7.50%
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, 2016, 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 7.50 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Arithmetic 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, 2017

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

Pension discount rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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, 2016	1,680,218	678,266	1,001,952
Changes for the year:			
Service cost	44,876		44,876
Interest on the total pension liability	128,715		128,715
Changes of benefit terms	81,014		81,014
Differences between expected and actual experience in the measurement of the pension liability	424,293		424,293
Changes of assumptions or other inputs	94,569		94,569
Contributions - employer		80,788	(80,788)
Contributions - employee		30,538	(30,538)
Net investment income		3,981	(3,981)
Benefit payments, including refunds of employee contributions	(125,937)	(125,937)	-
Administrative expense		(973)	973
Other changes		3	(3)
Net changes	647,530	(11,600)	659,130
Balances at June 30, 2017	2,327,748	666,666	1,661,082

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 7.50 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 (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

PSPRS Police	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	1,998,627	1,661,082	1,388,154

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, 2017, the Town recognized \$331,144 in pension expense for the PSPRS.

Pension deferred outflows/inflows of resources - At June 30, 2017, 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	\$ 643,510	
Changes in assumptions	154,194	
Net difference between projected and actual earnings on pension plan investments	54,477	13,842
Contributions subsequent to the measurement date	105,728	
	<u>\$ 957,909</u>	<u>13,842</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2018. 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	\$ 159,018
2018	159,016
2019	165,551
2020	160,366
2021	120,574
Thereafter	<u>73,814</u>
	<u>\$ 838,339</u>

Agent plan OPEB actuarial assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, 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 2017 contribution requirements:

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.00-8.00%
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>
2017	\$ -	100%	\$ -
2016	-	100	-
2015	1,931	100	-

Agent plan OPEB funded status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2017, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>
Actuarial accrued liability (a)	\$ 24,112
Actuarial value of assets (b)	57,525
Unfunded actuarial accrued liability (funding excess) (a)-(b)	(33,413)
Funded ratio (b)/(a)	238.57%
Covered payroll (c)	298,329
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c)	-11.20%

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay closed
Remaining amortization period	19 years of unfunded actuarial liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.40%
Projected salary increases	3.50-7.50%
Wage growth	3.50%

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, 2017**

NOTE 12 - FUND BALANCE CLASSIFICATIONS OF THE GOVERNMENTAL FUNDS

The fund balance classifications of the governmental funds as of June 30, 2017, were as follows:

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total
Fund balances:				
Nonspendable:				
Note receivable	\$ 129,267			129,267
Restricted for:				
Public Safety			70,506	70,506
Parks and Recreation			5,561	5,561
Highway and Streets		47,517	9,724	57,241
Electronic technology			4,717	4,717
Total restricted		47,517	90,508	138,025
Unassigned	870,109		(9,446)	860,663
Total fund balances	\$ 999,376	47,517	81,062	1,127,955

NOTE 13 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payable balances at June 30, 2017, were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 106,325	
Stone Garden Fund		61,160
Other Governmental Funds		45,165
	\$ 106,325	106,325

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

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**TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
(BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 718,000	718,000	806,064	88,064
License and permits	80,700	80,700	68,982	(11,718)
Intergovernmental -				
Federal	76,166	76,166		(76,166)
State	759,900	759,900	745,451	(14,449)
Charges for services	65,800	65,800	90,818	25,018
Fines and forfeits	28,300	28,300	33,923	5,623
Interest income	9,953	9,953	7,102	(2,851)
Other local	335,376	335,376	77,236	(258,140)
	<u>2,074,195</u>	<u>2,074,195</u>	<u>1,829,576</u>	<u>(244,619)</u>
Total revenues				
Expenditures:				
Current -				
General government	827,374	827,374	512,275	315,099
Public safety	856,250	856,250	862,277	(6,027)
Parks and recreation	247,020	247,020	216,278	30,742
Cemetery	39,290	39,290	34,756	4,534
Capital outlay	21,600	21,600	8,256	13,344
Debt service -				
Principal payments on capital lease	51,779	51,779	51,396	383
Interest	17,300	17,300	17,703	(403)
	<u>2,060,613</u>	<u>2,060,613</u>	<u>1,702,941</u>	<u>357,672</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	13,582	13,582	126,635	113,053
Fund balances, beginning of year	872,741	872,741	872,741	
Fund balances, end of year	<u>\$ 886,323</u>	<u>886,323</u>	<u>999,376</u>	<u>113,053</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR
THE HIGHWAY AND STREETS FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	\$ 221,799	221,799	234,705	12,906
Other local	31,000	31,000	500	(30,500)
Total revenues	<u>252,799</u>	<u>252,799</u>	<u>235,205</u>	<u>(17,594)</u>
Expenditures:				
Current -				
Highway and streets	244,560	244,560	184,123	60,437
Capital outlay			25,124	(25,124)
Total expenditures	<u>244,560</u>	<u>244,560</u>	<u>209,247</u>	<u>35,313</u>
Excess (deficiency) of revenues over expenditures	8,239	8,239	25,958	17,719
Fund balances, beginning of year	<u>21,559</u>	<u>21,559</u>	<u>21,559</u>	
Fund balances, end of year	<u>\$ 29,798</u>	<u>29,798</u>	<u>47,517</u>	<u>17,719</u>

See accompanying notes to required supplementary information.

TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE STONE GARDEN FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
Federal	\$ 100,000	100,000	132,953	32,953
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>132,953</u>	<u>32,953</u>
Expenditures:				
Current -				
Public safety	50,000	50,000	82,953	(32,953)
Capital outlay	50,000	50,000	50,000	-
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>132,953</u>	<u>(32,953)</u>
Excess (deficiency) of revenues over expenditures				
Fund balances, beginning of year				
Fund balances, end of year	<u>\$</u>			

See accompanying notes to required supplementary information.

TOWN OF WELLTON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2017 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	\$ 1,770,441	67,500
Proceeds of note payable included in capital outlay	(67,500)	(67,500)
Budgetary Comparison Schedule (Budgetary Basis)	\$ 1,702,941	-

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
COST-SHARING PENSION PLANS
YEAR ENDED JUNE 30, 2017**

ARIZONA STATE RETIREMENT SYSTEM

	Reporting Fiscal Year (Measurement Date)			2014 through 2008
	2017 (2016)	2016 (2015)	2015 (2014)	
Proportion of the net pension liability	0.0082%	0.0081%	0.0071%	Information not available
Proportionate share of the net pension liability	\$ 1,325,176	\$ 1,258,625	\$ 1,053,476	
Covered payroll	\$ 768,412	\$ 744,244	\$ 630,785	
Proportionate share of the net pension liability as a percentage of its covered payroll	172.46%	169.11%	167.01%	
Plan fiduciary net position as a percentage of the total pension liability	50.31%	68.35%	69.49%	

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY (ASSET) AND RELATED RATIOS
AGENT PENSION PLANS
YEAR ENDED JUNE 30, 2017**

PSPRS – WELLTON POLICE DEPT.

	Reporting Fiscal Year (Measurement Date)			2014 through 2008
	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability				Information not available
Service cost	\$ 44,876	\$ 50,060	\$ 63,590	
Interest on the total pension liability	128,715	106,628	82,083	
Changes of benefit terms	81,014		22,412	
Differences between expected and actual experience in the measurement of the pension liability	424,293	238,379	185,388	
Changes of assumptions or other inputs	94,569	-	124,493	
Benefit payments, including refunds of employee contributions	(125,937)	(96,264)	(220,809)	
Net change in total pension liability	647,530	298,803	257,157	
Total pension liability - beginning	1,680,218	1,381,415	1,124,258	
Total pension liability - ending (a)	<u>\$ 2,327,748</u>	<u>\$ 1,680,218</u>	<u>\$ 1,381,415</u>	
Plan fiduciary net position				
Contributions - employer	80,788	47,562	47,712	
Contributions - employee	30,538	27,719	27,743	
Net investment income	3,981	22,586	79,229	
Benefit payments, including refunds of employee contributions	(125,937)	(96,264)	(220,809)	
Administrative expense	(973)	(923)		
Other changes	3	97,301	(39,091)	
Net changes in fiduciary net position	(11,600)	97,981	(105,216)	
Plan fiduciary net position - beginning	678,266	580,285	685,501	
Plan fiduciary net position - ending (b)	<u>\$ 666,666</u>	<u>\$ 678,266</u>	<u>\$ 580,285</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 1,661,082</u>	<u>\$ 1,001,952</u>	<u>\$ 801,130</u>	
Plan fiduciary net position as a percentage of the total pension liability	28.64%	40.37%	42.01%	
Covered payroll	\$ 298,329	\$ 252,065	\$ 272,625	
Town's net pension liability (asset) as a percentage of covered payroll	556.80%	397.50%	293.86%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2017**

ARIZONA STATE RETIREMENT SYSTEM

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Statutorily required contribution	\$ 84,404	\$ 83,726	\$ 81,048	\$ 66,159	Information not available
Contribution in relation to the statutorily required contribution	84,404	83,726	81,048	66,159	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Covered payroll	783,590	768,412	744,244	630,785	
Contributions as a percentage of covered payroll	10.77%	10.90%	10.89%	10.49%	

PSPRS - WELLTON POLICE DEPT.

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Actuarial required contribution	\$ 105,728	\$ 80,788	\$ 47,562	\$ 45,741	Information not available
Contribution in relation to the actuarial required contribution	105,728	80,788	47,562	45,741	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Covered payroll	298,329	261,128	253,734	272,625	
Contributions as a percentage of covered payroll	35.44%	30.94%	18.74%	16.78%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA
NOTES TO PENSION PLAN SCHEDULES
JUNE 30, 2017**

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial valuation date	<u>June 30 ,2015</u>	<u>June 30 ,2014</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market: 80%/120% market corridor	7 year smoothed market: 80%/120% market corridor
Actuarial assumptions:		
Investment rate of return	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%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.	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.

NOTE 2 – FACTORS THAT AFFECT TRENDS

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the County's net pension liability and related ratios. These changes also increased the PSPRS' required contributions beginning in fiscal year 2016 in the schedule of town pension contributions.

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF AGENT OPEB PLANS'S FUNDING PROGRESS
JUNE 30, 2017**

Health Insurance Premium Benefit

PSPRS - Wellton Police Dept.

<u>Year</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/(c)</u>
2017	\$ 57,525	\$ 24,112	(33,413)	238.57 %	\$ 298,329	(11.20) %
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)

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, 2017

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, 2017, 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 February 22, 2018.

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
February 22, 2018