

**TOWN OF WELLTON, ARIZONA**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2019**

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JUNE 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council  
Town of Wellton, Arizona

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, 2019, 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, 2019, 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 10, 2020, 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*

Tempe, Arizona  
February 10, 2020

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**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

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, 2019.

**FINANCIAL HIGHLIGHTS**

- The Town's total net position decreased approximately \$545,000 which represents a 6.2 percent decrease from fiscal year 2018. The primary cause for the decrease was due to increased tax collections that were not offset by decreased operating expenses. Additionally, the Town assumed operations of the Coyote Links golf course and restaurant, previously operated by a contracted that paid rent to the Town.
- General revenues of the governmental activities accounted for \$1.7 million in revenue, or 64 percent of all fiscal year 2019 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$1.0 million or 36 percent of total fiscal year 2019 revenues.
- The Town had approximately \$2.9 million in expenses related to governmental activities, of which \$1.0 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.7 million and reserves from prior years were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.8 million in fiscal year 2019 revenues, which primarily consisted of approximately \$1.5 million in taxes and intergovernmental revenues, and approximately \$137,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.9 million. The General Fund's fund balance decreased \$251,195 to \$571,538, 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 \$115,000 during the current fiscal year. The key factors in this change include regular lease and the payoff of a note payable.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

**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, 2019**

**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 15 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 & Streets Fund, and CDBG Self Help Fund, which are considered to be major funds. Data from the other 12 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, 2019**

**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 58 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 schedule has been provided for the General Fund as required supplementary information. The required supplementary information can be found on pages 59 through 67 of this report.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

**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 and deferred outflows exceeded liabilities and deferred inflows by \$8,186,497 as of June 30, 2019.

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, 2019 and 2018.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 886,979	1,053,037	1,285,754	1,067,103	2,172,733	2,120,140
Capital assets	3,267,200	3,421,361	5,997,336	6,277,410	9,264,536	9,698,771
Total assets	<u>4,154,179</u>	<u>4,474,398</u>	<u>7,283,090</u>	<u>7,344,513</u>	<u>11,437,269</u>	<u>11,818,911</u>
Total deferred outflows of resources	<u>860,759</u>	<u>1,016,580</u>	<u>89,573</u>	<u>67,875</u>	<u>950,332</u>	<u>1,084,455</u>
Long-term liabilities	3,028,626	3,145,831	604,669	630,609	3,633,295	3,776,440
Other liabilities	298,313	203,204	101,323	66,532	399,636	269,736
Total liabilities	<u>3,326,939</u>	<u>3,349,035</u>	<u>705,992</u>	<u>697,141</u>	<u>4,032,931</u>	<u>4,046,176</u>
Total deferred inflows of resources	<u>113,284</u>	<u>88,970</u>	<u>57,889</u>	<u>37,107</u>	<u>171,173</u>	<u>126,077</u>
Net position						
Net investments in capital assets	2,752,651	2,774,984	5,871,926	6,020,956	8,624,577	8,795,940
Restricted	107,418	119,600	332,855	327,694	440,273	447,294
Unrestricted	(1,285,354)	(841,611)	407,001	329,540	(878,353)	(512,071)
Total net position	<u>\$ 1,574,715</u>	<u>2,052,973</u>	<u>6,611,782</u>	<u>6,678,190</u>	<u>8,186,497</u>	<u>8,731,163</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

**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 \$166,000 due to a decrease of cash caused by decreased revenue collections netted against an increase in receivables.
- Capital assets activity is detailed on Page 19. These increases were offset by depreciation and loss on dispositions for a net decrease of approximately \$155,000.
- Other liabilities increased approximately \$95,000 due primarily to increased accounts payable from the prior year.
- Long-term liabilities decreased approximately \$117,000 due to capital lease repayments and the payoff of an existing note payable.

Business-type Activities:

- Current and other assets increased approximately \$219,000 due primarily to a cash transfer to the Golf Fund from the General Fund.
- Capital assets activity is detailed on Page 19. These increases were offset by depreciation for a net decrease of approximately \$280,000.
- Liabilities increased approximately \$14,000 primarily due to increased accounts payable.

**Changes in net position.** The Town's total revenues for the fiscal years ended June 30, 2019 and 2018 were \$4.6 and \$3.5 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2019 and 2018 was \$5.2 and \$4.0 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2019 and 2018.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 119,327	156,481	1,968,840	1,008,234	2,088,167	1,164,715
Operating grants and contributions	797,746	535,782			797,746	535,782
Capital grants and contributions	39,974	253,355	16,350	18,708	56,324	272,063
General revenues:						
Taxes	1,532,041	1,440,551			1,532,041	1,440,551
Licenses and permits	104,257	57,528			104,257	57,528
Fines and forfeits	32,687	28,278			32,687	28,278
Interest income	21,472	17,301	5,213	4,075	26,685	21,376
Total revenues	<u>2,647,504</u>	<u>2,489,276</u>	<u>1,990,403</u>	<u>1,031,017</u>	<u>4,637,907</u>	<u>3,520,293</u>
Expenses:						
General government	1,010,340	809,333			1,010,340	809,333
Public safety	1,308,741	1,306,749			1,308,741	1,306,749
Highway and streets	259,184	282,943			259,184	282,943
Parks and recreation	245,599	289,331			245,599	289,331
Cemetery	29,310	31,621			29,310	31,621
Water			740,352	750,309	740,352	750,309
Sanitation			181,479	181,448	181,479	181,448
Golf			1,384,333	360,046	1,384,333	360,046
Interest on long-term debt	23,235	18,023			23,235	18,023
Total expenses	<u>2,876,409</u>	<u>2,738,000</u>	<u>2,306,164</u>	<u>1,291,803</u>	<u>5,182,573</u>	<u>4,029,803</u>
Increase (decrease) in net position before transfers and special item	(228,905)	(248,724)	(315,761)	(260,786)	(544,666)	(509,510)
Transfers	<u>(249,353)</u>	<u>(25,078)</u>	<u>249,353</u>	<u>25,078</u>		
Increase (decrease) in net position	(478,258)	(273,802)	(66,408)	(235,708)	(544,666)	(509,510)
Net position, beginning of year	<u>2,052,973</u>	<u>2,326,775</u>	<u>6,678,190</u>	<u>6,913,898</u>	<u>8,731,163</u>	<u>9,240,673</u>
Net position, end of year	<u>\$ 1,574,715</u>	<u>2,052,973</u>	<u>6,611,782</u>	<u>6,678,190</u>	<u>8,186,497</u>	<u>8,731,163</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

**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, 2019 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	\$ 1,010,340	(478,409)			1,010,340	(478,409)
Public safety	1,308,741	(1,210,300)			1,308,741	(1,210,300)
Highway and streets	259,184	11,070			259,184	11,070
Parks and recreation	245,599	(204,586)			245,599	(204,586)
Cemetery	29,310	(13,902)			29,310	(13,902)
Water			740,352	(174,605)	740,352	(174,605)
Sanitation			181,479	59,165	181,479	59,165
Golf			1,384,333	(205,534)	1,384,333	(205,534)
Interest on long-term debt	23,235	(23,235)			23,235	(23,235)
	<u>\$ 2,876,409</u>	<u>(1,919,362)</u>	<u>2,306,164</u>	<u>(320,974)</u>	<u>5,182,573</u>	<u>(2,240,336)</u>

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2018 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	\$ 809,333	(546,633)			809,333	(546,633)
Public safety	1,306,749	(922,902)			1,306,749	(922,902)
Highway and streets	282,943	(27,076)			282,943	(27,076)
Parks and recreation	289,331	(258,557)			289,331	(258,557)
Cemetery	31,621	(19,191)			31,621	(19,191)
Water			750,309	(257,122)	750,309	(257,122)
Sanitation			181,448	44,530	181,448	44,530
Golf			360,046	(52,269)	360,046	(52,269)
Interest on long-term debt	18,023	(18,023)			18,023	(18,023)
	<u>\$ 2,738,000</u>	<u>(1,792,382)</u>	<u>1,291,803</u>	<u>(264,861)</u>	<u>4,029,803</u>	<u>(2,057,243)</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

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

- The cost of all governmental activities for the years ended June 30, 2019 and 2018 were \$2,876,409 and 2,738,000, 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, 2019 and 2018 subsidized approximately \$957,047 and \$945,618, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2019 and 2018 were (\$1,919,362) and (\$1,792,382), respectively. For the years ended June 30, 2019 and 2018 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, 2019 and 2018 were \$2,306,164 and \$1,291,803, respectively.
- For the year ended June 30, 2019, net expenses of the business-type activities of \$320,974 was primarily due to costs in excess revenues. Beginning in May 2018, the Town began internally operating the Links golf course, which had previously been operated by a contractor that paid an annual lease fee to the Town. Revenues associated with the change in operations did not commence until November 2018. This resulted in increased charges for services and operating costs during the fiscal year. 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, 2018, net expenses of the business-type activities of \$264,861 was primarily due to costs in excess revenues. The water and sanitation funds reflect increase in fees, which is reflected in the decrease of net (expenses). There were no significant 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, 2019**

**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 \$662,155, a decrease of \$266,127 due primarily to the activity of the General Fund, Highway & Streets Fund and Other Governmental Funds, which are discussed below.

The General Fund equity decreased from the prior year by \$251,195 to \$571,538 as of June 30, 2019. The decrease was primarily due to approximately \$241,000 being transferred to enterprise funds to cover cash deficiencies that are not expected to be repaid.

The Highway & Streets equity decreased from the prior year by \$25,920 to \$5,046 as of June 30, 2019. The decrease was due to expenditures in excess of HURF collections.

The Other Governmental Funds' equity increased from the prior year by \$10,988 to \$85,571 as of June 30, 2019. The increase was due primarily to collections of Impact Fees collected under A.R.S §9-463.05. Impact fees are restricted for public safety, parks and recreation and highway and streets use.

**Proprietary funds.** Net position of the Water, Sanitation, and Golf funds at the end of the year amounted to \$6,611,782. The decrease of \$66,408 from fiscal year 2018 is discussed in greater detail on Page 15.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2019**

**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 & Streets Fund, or CDBG Self Help Fund expenditure budgets during the year ended June 30, 2019. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report on page 59 through 62, as required supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2019, the Town had invested \$9.3 million in capital assets. The net change in capital assets of approximately \$60,000, prior to depreciation includes \$25,000 for land, \$40,000 for the fire station expansion, \$64,000 for a pedestrian bridge on Los Angeles Avenue, \$5,900 for a new A/C unit for the community center, \$42,000 for new vehicles, \$27,000 for electrical upgrades on the water generators. Above additions were offset by deletions of approximately \$150,000. Total depreciation expense for the year was approximately \$0.6 million.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2019.

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,159,305	2,540,180	3,699,485
Buildings and other improvements	580,988	21,828	602,816
Water treatment plant		2,740,780	2,740,780
Transmission and distribution mains		414,224	414,224
Furniture, equipment, and vehicles	1,361,535	267,252	1,628,787
Street system	33,815		33,815
Construction in progress	131,557	13,072	144,629
<b>Total</b>	<b>\$ 3,267,200</b>	<b>5,997,336</b>	<b>9,264,536</b>

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, 2019**

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

**Debt Administration.** At June 30, 2019, the Town had approximately \$0.6 million in capital leases and other long-term debt outstanding, approximately \$74,000 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, 2019.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Capital leases payable	\$ 515,549	-	515,549
Compensated absences	39,441	25,078	64,519
 Total	 <u>\$ 554,990</u>	 <u>25,078</u>	 <u>580,068</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.

Beginning in November 2018, the Town began internally operating the Links golf course, which had previously been operated by a contractor that paid an annual lease fee to the Town. This change resulted in increased charges for services and operating costs during fiscal year 2018-19.

During fiscal year 2019-20, the Town expects an increase in new housing starts and has already exceeded their budget for first 6 months of the fiscal year. Additionally, revenues at the Links golf course have increased and expenses have decreased. The Town expects the prior year deficit at the Links to be reduced by half (\$100,000).

**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, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash in bank	\$ 378,371	855,369	1,233,740
Accounts receivable, net of allowance for uncollectibles		81,180	81,180
Due from other governments	288,591	16,350	304,941
Notes receivable-current	3,117		3,117
Total current assets	<u>670,079</u>	<u>952,899</u>	<u>1,622,978</u>
Noncurrent assets:			
Restricted cash	96,460	332,855	429,315
Notes receivable	120,440		120,440
Capital assets, non-depreciable	498,745	2,553,252	3,051,997
Capital assets, net of depreciation	2,768,455	3,444,084	6,212,539
Total noncurrent assets	<u>3,484,100</u>	<u>6,330,191</u>	<u>9,814,291</u>
Total assets	<u>4,154,179</u>	<u>7,283,090</u>	<u>11,437,269</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	860,759	89,573	950,332
Total deferred outflows of resources	<u>860,759</u>	<u>89,573</u>	<u>950,332</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	224,443	75,158	299,601
Unearned revenues	381		381
Customer deposits		26,165	26,165
Capital lease payable-current	73,489		73,489
Total current liabilities:	<u>298,313</u>	<u>101,323</u>	<u>399,636</u>
Noncurrent liabilities:			
Compensated absences	39,441	25,078	64,519
Developer advances payable		125,410	125,410
Capital lease payable	441,060		441,060
Net pension liability	2,548,125	454,181	3,002,306
Total noncurrent liabilities	<u>3,028,626</u>	<u>604,669</u>	<u>3,633,295</u>
Total liabilities	<u>3,326,939</u>	<u>705,992</u>	<u>4,032,931</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	113,284	57,889	171,173
Total deferred inflows of resources	<u>113,284</u>	<u>57,889</u>	<u>171,173</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,752,651	5,871,926	8,624,577
Restricted for:			
Capital improvements		332,855	332,855
Public safety	71,871		71,871
Parks and recreation	8,985		8,985
Highways and streets	20,650		20,650
Other purposes	5,912		5,912
Unrestricted	(1,285,354)	407,001	(878,353)
Total net position	<u>\$ 1,574,715</u>	<u>6,611,782</u>	<u>8,186,497</u>

See accompanying notes to financial statements.



**TOWN OF WELLTON, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	General Fund	Highway & Streets	CDBG Self Help	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>					
Cash in bank	\$ 372,234			6,137	378,371
Restricted cash				96,460	96,460
Note receivable	123,557				123,557
Due from other governments	91,704	22,611	98,407	75,869	288,591
Due from other funds	70,924				70,924
<b>Total assets</b>	<b>\$ 658,419</b>	<b>22,611</b>	<b>98,407</b>	<b>178,466</b>	<b>957,903</b>
<b><u>LIABILITIES</u></b>					
Accounts payable and accrued expenses	\$ 86,881	7,370	69,701	60,491	224,443
Due to other funds		10,195	28,706	32,023	70,924
Unearned revenue				381	381
<b>Total liabilities</b>	<b>86,881</b>	<b>17,565</b>	<b>98,407</b>	<b>92,895</b>	<b>295,748</b>
<b><u>FUND BALANCES</u></b>					
Nonspendable	123,557				123,557
Restricted		5,046		102,372	107,418
Unassigned	447,981			(16,801)	431,180
<b>Total fund balances</b>	<b>571,538</b>	<b>5,046</b>	<b>-</b>	<b>85,571</b>	<b>662,155</b>
<b>Total liabilities and fund balances</b>	<b>\$ 658,419</b>	<b>22,611</b>	<b>98,407</b>	<b>178,466</b>	<b>957,903</b>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

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Fund balances - total governmental funds	\$	662,155
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		6,942,336
Less accumulated depreciation		<u>(3,675,136)</u>
Capital assets used in governmental activities		<u>3,267,200</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>747,475</u>
Long-term liabilities, such as net pension 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		(2,548,125)
Capital lease liability		(514,549)
Compensated absences		<u>(39,441)</u>
Long-term liabilities not due and payable in the current period		<u>(3,102,115)</u>
Net position of governmental activities	\$	<u><u>1,574,715</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, 2019**

	General Fund	Highway & Streets	CDBG Self Help	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 739,597				739,597
License and permits	104,257				104,257
Intergovernmental -					
County				11,668	11,668
State	792,444	259,458		5,644	1,057,546
Federal			268,283	259,835	528,118
Charges for services	103,652			6,544	110,196
Fines and forfeits	32,687				32,687
Interest income	21,472				21,472
Other local	41,963				41,963
<b>Total revenues</b>	<b>1,836,072</b>	<b>259,458</b>	<b>268,283</b>	<b>283,691</b>	<b>2,647,504</b>
<b>Expenditures:</b>					
Current -					
General government	549,305			58,953	608,258
Public safety	915,706			30,333	946,039
Highway and streets		187,624		13,546	201,170
Parks and recreation	181,436				181,436
Cemetery	27,977				27,977
Capital outlay	22,751	97,754	247,415	176,415	544,335
Debt service -					
Principal payments on capital leases	71,078				71,078
Principal payments on note payable	60,750				60,750
Interest	23,235				23,235
<b>Total expenditures</b>	<b>1,852,238</b>	<b>285,378</b>	<b>247,415</b>	<b>279,247</b>	<b>2,664,278</b>
Excess (deficiency) of revenues over expenditures	(16,166)	(25,920)	20,868	4,444	(16,774)
<b>Other financing sources (uses):</b>					
Transfers in	6,179			6,544	12,723
Transfers (out)	(241,208)		(20,868)		(262,076)
<b>Total other financing sources (uses)</b>	<b>(235,029)</b>	<b>-</b>	<b>(20,868)</b>	<b>6,544</b>	<b>(249,353)</b>
<b>Net change in fund balances</b>	<b>(251,195)</b>	<b>(25,920)</b>	<b>-</b>	<b>10,988</b>	<b>(266,127)</b>
Fund balances, beginning of year	822,733	30,966		74,583	928,282
Fund balances, end of year	<u>\$ 571,538</u>	<u>5,046</u>	<u>-</u>	<u>85,571</u>	<u>662,155</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, 2019**

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Net change in fund balances - total governmental funds	\$ (266,127)
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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	155,701
Less current year depreciation	(296,007)
Loss on disposal of assets	(13,855)
Excess capital expenditures over depreciation and capital contributions	<u>(154,161)</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	209,899
Pension expense	(393,174)
	<u>(183,275)</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

Principal payments on note payable	60,750
Principal payments on capital leases	71,078
Differences in treatment of long-term debt and related items	<u>131,828</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>(6,523)</u>
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Change in net position of governmental activities	<u>\$ (478,258)</u>
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See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019**

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
<b>ASSETS</b>				
Current assets:				
Cash in bank	\$ 647,166	169,827	38,376	855,369
Due from other government	16,350			16,350
Accounts receivable	58,781	22,399		81,180
Total current assets	<u>722,297</u>	<u>192,226</u>	<u>38,376</u>	<u>952,899</u>
Noncurrent assets:				
Restricted cash	332,855			332,855
Capital assets -				
Land	8,113		2,532,067	2,540,180
Construction in progress	13,072			13,072
Buildings and other improvements	2,917		109,775	112,692
Water treatment plant	5,558,007			5,558,007
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	599,924	485,306	189,876	1,275,106
Less accumulated depreciation	(4,189,811)	(441,495)	(243,294)	(4,874,600)
Total capital assets (net of accumulated depreciation)	<u>3,365,101</u>	<u>43,811</u>	<u>2,588,424</u>	<u>5,997,336</u>
Total noncurrent assets	<u>3,697,956</u>	<u>43,811</u>	<u>2,588,424</u>	<u>6,330,191</u>
Total assets	<u>4,420,253</u>	<u>236,037</u>	<u>2,626,800</u>	<u>7,283,090</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	37,715	21,215	30,643	89,573
Total deferred outflows on resources	<u>37,715</u>	<u>21,215</u>	<u>30,643</u>	<u>89,573</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	31,039	9,499	34,620	75,158
Customer deposits	26,165			26,165
Total current liabilities	<u>57,204</u>	<u>9,499</u>	<u>34,620</u>	<u>101,323</u>
Noncurrent liabilities:				
Compensated absences	9,504	5,127	10,447	25,078
Developer advances payable	125,410			125,410
Net pension liability	191,234	107,569	155,378	454,181
Total noncurrent liabilities	<u>326,148</u>	<u>112,696</u>	<u>165,825</u>	<u>604,669</u>
Total liabilities	<u>383,352</u>	<u>122,195</u>	<u>200,445</u>	<u>705,992</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	24,374	13,711	19,804	57,889
Total deferred inflows on resources	<u>24,374</u>	<u>13,711</u>	<u>19,804</u>	<u>57,889</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	3,239,691	43,811	2,588,424	5,871,926
Restricted for capital improvements	332,855			332,855
Unrestricted	477,696	80,535	(151,230)	407,001
Total net position	<u>\$ 4,050,242</u>	<u>124,346</u>	<u>2,437,194</u>	<u>6,611,782</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, 2019**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 549,397			549,397
Sanitation fees		240,644		240,644
Golf course fees			1,178,799	1,178,799
Total operating revenues	<u>549,397</u>	<u>240,644</u>	<u>1,178,799</u>	<u>1,968,840</u>
Operating expenses:				
Water department	740,352			740,352
Sanitation department		181,479		181,479
Golf course			1,384,333	1,384,333
Total operating expenses	<u>740,352</u>	<u>181,479</u>	<u>1,384,333</u>	<u>2,306,164</u>
Operating income (loss)	<u>(190,955)</u>	<u>59,165</u>	<u>(205,534)</u>	<u>(337,324)</u>
Nonoperating revenues (expenses):				
Interest on investments	<u>5,213</u>			<u>5,213</u>
Total nonoperating revenues (expenses)	<u>5,213</u>	<u>-</u>	<u>-</u>	<u>5,213</u>
Income (loss) before contributions and transfers	(185,742)	59,165	(205,534)	(332,111)
Capital contributions - intergovernmental	16,350			16,350
Transfers in	<u>8,145</u>		<u>241,208</u>	<u>249,353</u>
Increase (decrease) in net position	(161,247)	59,165	35,674	(66,408)
Net position, beginning of year	<u>4,211,489</u>	<u>65,181</u>	<u>2,401,520</u>	<u>6,678,190</u>
Net position, end of year	<u>\$ 4,050,242</u>	<u>124,346</u>	<u>2,437,194</u>	<u>6,611,782</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 540,209	241,015	1,178,799	1,960,023
Payments to suppliers for goods and services	(196,163)	(65,679)	(714,386)	(976,228)
Payments to employees	(214,342)	(116,026)	(659,934)	(990,302)
Net cash provided (used) for operating activities	<u>129,704</u>	<u>59,310</u>	<u>(195,521)</u>	<u>(6,507)</u>
Cash flows from non-capital and related financing activities:				
Transfers from other funds	<u>8,145</u>		<u>241,208</u>	<u>249,353</u>
Net cash provided by non-capital and related financing activities:	<u>8,145</u>		<u>241,208</u>	<u>249,353</u>
Cash flows from capital related and financing activities:				
Purchase of capital assets	(46,303)		(7,311)	(53,614)
Principal payments on developer advances	(2,817)			(2,817)
Net cash (used) by capital and related financing activities:	<u>(49,120)</u>		<u>(7,311)</u>	<u>(56,431)</u>
Cash flows from investing activities				
Investment income	<u>5,213</u>			<u>5,213</u>
Net cash provided by investing activities	<u>5,213</u>			<u>5,213</u>
Net increase (decrease) in cash and cash equivalents	93,942	59,310	38,376	191,628
Cash in bank, beginning of year (including \$327,694 in the Water Fund reported in restricted accounts)	<u>886,079</u>	<u>110,517</u>		<u>996,596</u>
Cash in bank, ending of year (including \$332,855 in the Water Fund reported in restricted accounts)	<u>\$ 980,021</u>	<u>169,827</u>	<u>38,376</u>	<u>1,188,224</u>

(continued)

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

Business-type Activities - Enterprise Funds

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

Operating income (loss)	\$ (190,955)	59,165	(205,534)	(337,324)
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:				
Depreciation	318,955	5,104	9,629	333,688
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(11,044)	371		(10,673)
(Increase) in deferred outflows of resources related to pensions	(9,868)	(5,553)	(6,277)	(21,698)
Increase (decrease) in accounts payable and accrued expenses	13,494	(1,070)	14,288	26,712
Increase in compensated absences	7,029	1,159	5,639	13,827
Increase in customer deposits	1,856			1,856
(Decrease) in net pension liability	(8,913)	(5,014)	(19,750)	(33,677)
Increase in deferred inflows of resources related to pensions	9,150	5,148	6,484	20,782
	9,150	5,148	6,484	20,782
Net cash provided (used) for operating activities	\$ 129,704	59,310	(195,521)	(6,507)

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 JUNE 30, 2019**

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

See accompanying notes to financial statements.

**TOWN OF WELLTON  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2019**

	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, 2019**

**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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

Blended Component Units (Cont'd)

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

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

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.

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

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 **CDBG Self Help** accounts for federal monies used to provide financial assistance to qualified nonprofit organizations that will aid low-income individuals and their families to build homes in rural areas

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.

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

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 \$25,000, for the year ended June 30, 2019, for the purpose of constructing water plant and water system improvements.

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

Inventory of Supplies - Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2019 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. Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value. 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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

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.

Postemployment Benefits – For purposes of measuring the net pension or other postemployment benefits (OPEB) asset and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension expense and OPEB expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. As of June 30, 2019, ASRS and PSPRS net OPEB liabilities have not been recorded or further disclosed in accordance with GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, due to the relative insignificance to the Town's financial statements.

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

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

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

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

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

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

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

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 \$16,801, as of June 30, 2019. The deficit is expected to be corrected through normal operations during the following fiscal year.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

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.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 – CASH (CONT'D)**

*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, 2019, the carrying amount of the Town's deposits were \$1,663,483 and the bank balances were \$1,784,324. The Town maintains its bank deposits with two financial institutions. 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, 2019, all deposits were fully insured or collateralized.

Restricted Cash – The Water Enterprise Fund cash is restricted for improvements to the water plant, in the amount of \$332,855. Additionally, non-major fund cash totaling \$96,460 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	Highways & Streets Fund	CDBG Self Help Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>							
Sales tax	\$ 86,768						86,768
Vehicle license tax	4,936						4,936
Arizona Department Highway users revenue		22,611					22,611
Arizona Department of Emergency & Military Affairs				16,350			16,350
U.S. Department of Housing and Urban Development			98,407			64,120	162,527
Yuma County - Homeland Security						11,749	11,749
<u>Accounts receivable</u>							
Customer accounts				58,781	22,399		81,180
	<u>\$ 91,704</u>	<u>22,611</u>	<u>98,407</u>	<u>75,131</u>	<u>22,399</u>	<u>75,869</u>	<u>386,121</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 5 – NOTES RECEIVABLE**

	<u>Governmental Activities</u> <u>June 30, 2019</u>
5.00% note receivable from a developer in monthly installments of \$774, including interest; unpaid principal and interest due August 23, 2041	\$ 123,557
Current portion	<u>(3,117)</u>
Long-Term portion	<u>\$ 120,440</u>

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 354,843	12,345		367,188
Construction in progress	<u>28,019</u>	<u>103,538</u>		<u>131,557</u>
Total capital assets not being depreciated	<u>382,862</u>	<u>115,883</u>		<u>498,745</u>
Capital assets being depreciated -				
Land improvements	2,097,565			2,097,565
Buildings and improvements	1,748,549	5,850		1,754,399
Furniture, equipment, and vehicles	2,648,170	33,968	(140,402)	2,541,736
Street system	<u>49,891</u>			<u>49,891</u>
Total capital assets being depreciated	<u>6,544,175</u>	<u>39,818</u>	<u>(140,402)</u>	<u>6,443,591</u>
Less accumulated depreciation for -				
Land improvements	(1,216,220)	(89,228)		(1,305,448)
Buildings and improvements	(1,110,900)	(62,511)		(1,173,411)
Furniture, equipment and vehicles	(1,164,143)	(142,605)	126,547	(1,180,201)
Street system	<u>(14,413)</u>	<u>(1,663)</u>		<u>(16,076)</u>
Total accumulated depreciation	<u>(3,505,676)</u>	<u>(296,007)</u>	<u>126,547</u>	<u>(3,675,136)</u>
Total capital assets being depreciated, net	<u>3,038,499</u>	<u>(256,189)</u>	<u>(13,855)</u>	<u>2,768,455</u>
Governmental activities capital assets, net	<u>\$ 3,421,361</u>	<u>(140,306)</u>	<u>(13,855)</u>	<u>3,267,200</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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
Construction in progress		13,072		13,072
Total capital assets not being depreciated	<u>2,540,180</u>	<u>13,072</u>		<u>2,553,252</u>
Capital assets being depreciated -				
Buildings and other improvements	112,692			112,692
Water treatment plant	5,524,776	33,231		5,558,007
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	1,278,065	7,311	(10,270)	1,275,106
Total capital assets being depreciated	<u>8,288,412</u>	<u>40,542</u>	<u>(10,270)</u>	<u>8,318,684</u>
Less accumulated depreciation for -				
Buildings and other improvements	(87,745)	(3,119)		(90,864)
Water treatment plant	(2,560,059)	(257,168)		(2,817,227)
Transmission and distribution mains	(916,562)	(42,093)		(958,655)
Furniture, equipment and vehicles	(986,816)	(31,308)	10,270	(1,007,854)
Total accumulated depreciation	<u>(4,551,182)</u>	<u>(333,688)</u>	<u>10,270</u>	<u>(4,874,600)</u>
Total capital assets being depreciated, net	<u>3,737,230</u>	<u>(293,146)</u>		<u>3,444,084</u>
Business-type activities capital assets, net	<u>\$ 6,277,410</u>	<u>(280,074)</u>		<u>5,997,336</u>

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

Governmental activities:	
General government	\$ 33,369
Public safety	138,003
Highway and streets	60,893
Parks and recreation	61,881
Cemetery	1,861
Total depreciation expense - governmental activities	<u>\$ 296,007</u>
Business-type activities:	
Water	\$ 318,955
Sanitation	5,104
Golf	9,629
Total depreciation expense - business-type activities	<u>\$ 333,688</u>

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Note Payable – The Town 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, 2019 consisted of the following:

	Governmental Activities
Promissory note payable to a an individual in annual installments ranging from of \$6,986 to \$8,876 through August 2026, including interest at an effective annual rate of 3.50%; secured by a deed of trust	\$ -

For the year ended June 30, 2019, total interest expense under the note payable was \$3,965.

WIFA Loan Agreement – In May 2019, the Town entered into a 1.816% loan agreement with Water Infrastructure Finance Authority of Arizona (WIFA), which will finance the loan through bond issuance, for the installation of a PVC waterline loop. The original loan amount is for \$887,499, with forgivable principal of \$443,749, and is subject to various compliance requirements. Semiannual payments are due beginning January 2020. The loan agreement requires the Town to establish and fund a Debt Service Reserve Fund in the amount of \$26,659 that has to be funded by July 2024 and a Reserve and Replacement Fund with semi-annual payment of \$2,666 beginning in January 2025. As of June 30, 2019, no amounts have been advanced under the loan agreement.

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 \$715,874, is capitalized. Repayment of the capital leases are made by the General Fund. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Equipment and vehicles	\$ 715,874	-
Less: Accumulated depreciation	(142,531)	-
	\$ 573,343	-

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2019, were as follows:

	Governmental Activities
Year ending June 30:	
2020	\$ 90,348
2021	90,348
2022	90,348
2023	90,348
2024	90,348
Thereafter	124,894
 Total minimum lease payments	 576,634
 Less amount representing interest	 (62,085)
 Present value of net minimum capital lease payments	 \$ 514,549

For the year ended June 30, 2019, total interest expense under the capital leases was \$19,270.

Changes in long-term liabilities for the year ended June 30, 2019 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Note payable	\$ 60,750		(60,750)		
Capital leases	585,627		(71,078)	514,549	73,489
Net pension liability	2,544,985	3,140		2,548,125	
Compensated absences	32,918	50,007	(43,484)	39,441	
 Total governmental long-term liabilities	 \$ 3,224,280	 53,147	 (175,312)	 3,102,115	 73,489
 Business-type activities:					
Net pension liability	\$ 487,858		(33,677)	454,181	
Developer advances payable	128,277		(2,867)	125,410	
Compensated absences	15,109	30,800	(20,831)	25,078	
 Total Business-type long-term liabilities	 \$ 631,244	 30,800	 (57,375)	 604,669	 

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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:

Year Ending <u>June 30</u>	
2021	<u>\$ 125,410</u>
Total	<u><u>\$ 125,410</u></u>

**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 \$48,083 for the year ended June 30, 2019.

Construction Contract – During the year ended June 30, 2019, the Town entered into contracts for owner occupied housing rehabilitation, which will be funded through a grant with CDBG. Total commitments under the contract are \$144,885. As of June 30, 2019, remaining commitments under the contracts are \$111,434. Beginning in July 2019 through November 2019, the Town entered into additional contracts totaling \$503,507 for owner occupied housing rehabilitation and a water line extension.

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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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, 2019, 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	\$ 741,032	\$ 454,181	\$ 1,195,213	\$ 1,807,093	\$ 3,002,306
Deferred outflows of resources	146,228	89,573	235,801	714,531	950,332
Deferred inflows of resources	(94,450)	(57,889)	(152,339)	(18,834)	(171,173)
Pension expense	44,584	8,472	53,056	348,590	401,646

The Town’s accrued payroll and employee benefits includes \$9,491 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2019. Also, the Town reported \$253,045 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

*Arizona State Retirement System*

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

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

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**ASRS**

**Initial membership date:**

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

\*With actuarially reduced benefits

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

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, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.80 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2019 were 113,410, \$4,663, and \$1,622, respectively.

During fiscal year 2019, the Town paid for ASRS pension and OPEB contributions as follows: 53 percent from the General Fund, 47 percent from major funds and 0 percent from non-major funds.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Pension liability - At June 30, 2019, the Town reported a liability of \$1,195,213 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2018. 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, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018 reflects a change in actuarial assumption related to changes 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, 2018. The Town's proportion measured as of June 30, 2018, was .00857% percent, which was a decrease of .00054% from its proportion measured as of June 30, 2017.

The net pension liability as of June 30, 2018 will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2019, the Town recognized pension expense for ASRS of \$53,056. At June 30, 2019, 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	\$ 32,927	6,589
Change of assumptions or other inputs	31,628	105,972
Net difference between projected and actual earnings on pension plan investments	-	28,742
Changes in proportion and differences between town contributions and proportionate share of contributions	57,836	11,036
Contributions subsequent to the measurement date	113,410	
	\$ 235,801	152,339

The \$113,410 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, 2020. 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:

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Year ending June 30:

2020		\$ (29,855)
2021		3,313
2022		43,600
2023		12,890
		12,890
		\$ 29,948

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

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Investment rate of return	7.50%
Projected salary increases	2.7%-7.2%
Inflation rate	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Equity	50%	5.50%
Fixed Income	30%	3.83%
Real Estate	20%	5.85%
Total	100%	

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Discount Rate – At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. 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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	\$ 1,703,804	\$ 1,195,213	\$ 770,294

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) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) 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. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in cost-sharing plans (PSPRS Tier 3 Risk Pool), which are not further disclosed because of their relative insignificance to the Town’s financial statements.

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

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

<b>PSPRS</b>	<b>Initial membership date:</b>	
	<b>Before January 1, 2012</b>	<b>On or after January 1, 2012 and before July 1, 2017</b>
<b>Retirement and Disability</b>		
Years of service and age required to received benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, 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%	1.5% to 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	
<b>Survivor Benefit</b>		
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 inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Employees covered by benefit terms - At June 30, 2019, 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 – 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, 2019, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police
Active members - pension	7.65%-11.65%
Town	
Pension	53.35%
Health insurance premium benefit	-

For the agent plans, the Town's contributions to the pension plan for the year ended June 30, 2019, were:

	PSPRS Police
Pension - contributions made	\$ 139,635
Health insurance premium benefit	
Annual OPEB cost	-
Contributions made	-

During fiscal year 2019, the Town paid for PSPRS pension contributions as follows: 100 percent from the General Fund.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Pension liability- At June 30, 2019, the Town reported \$1,807,093 for its PSPRS net pension liability. The net pension liabilities (and asset) were measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Investment rate of return	7.40%
Wage inflation	3.50%
Price Inflation	2.50%
Cost-of-living adjustment	Included
Mortality	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.40 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of</u>
Short term investments	2%	0.25%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTS	12%	3.96%
Real estate	10%	3.75%
Private equity	12%	5.83%
Non-U.S. equity	14%	8.70%
Private credit	16%	6.75%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

Pension discount rates – At June 30, 2018, the discount rate used to measure the PSPRS total pension liabilities was 7.40 percent, which was the same as the discount rate used as of June 30, 2017. 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, 2018	\$ 2,544,800	762,874	1,781,926
Changes for the year:			
Service cost	58,173	-	58,173
Interest on the total pension liability	185,810	-	185,810
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	5,054	-	5,054
Changes of assumptions or other inputs	-	-	-
Contributions - employer	-	169,272	(169,272)
Contributions - employee	-	31,088	(31,088)
Net investment income	-	52,675	(52,675)
Benefit payments, including refunds of employee contributions	(125,891)	(125,891)	-
Hall/Parker settlement	-	(27,671)	27,671
Administrative expense	-	(1,502)	1,502
Other changes	-	8	(8)
Net changes	123,146	97,979	25,167
Balances at June 30, 2019	\$ 2,667,946	860,853	1,807,093

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 7.40 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 (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate:

PSPRS Police	Current		
	1% Decrease (6.40%)	Discount Rate (7.40%)	1% Increase (8.40%)
Net pension liability	\$ 2,222,840	\$ 1,807,093	\$ 1,476,179

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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, 2019, the Town recognized \$348,590 in pension expense for the PSPRS.

Pension deferred outflows/inflows of resources - At June 30, 2019, 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	\$ 420,330	-
Changes in assumptions	125,556	-
Net difference between projected and actual earnings on pension plan investments	29,010	18,834
Contributions subsequent to the measurement date	139,635	-
	\$ 714,531	18,834

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, 2020. 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:	PSPRS-Police
2020	\$ 170,577
2021	165,392
2022	125,408
2023	84,523
2024	9,919
Thereafter	243
	\$ 556,062

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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.

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

The fund balance classifications of the governmental funds as of June 30, 2019, were as follows:

	<u>General Fund</u>	<u>Highways &amp; Streets Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Note receivable	\$ 123,557			123,557
Restricted for:				
Public Safety			71,871	71,871
Parks and Recreation			8,985	8,985
Highway and Streets		5,046	15,604	20,650
Electronic technology			5,912	5,912
Total restricted		5,046	102,372	107,418
Unassigned	447,981		(16,801)	431,180
Total fund balances	\$ 571,538	5,046	85,571	662,155

**NOTE 13 - INTERFUND RECEIVABLES AND PAYABLES**

Individual fund interfund receivables and payable balances at June 30, 2019, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 70,924	
Highways & Streets		10,195
CDBG Self Help		28,706
Other Governmental Funds		32,023
	\$ 70,924	70,924

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

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 14 – INTERFUND TRANSFERS**

	<u>General Fund</u>	<u>CDBG Self Help Fund</u>	<u>Enterprise Funds- Water</u>	<u>Enterprise Funds- Golf</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Transfers-in	\$ 6,179		8,145	241,208	6,544	262,076
Transfers-out	<u>(241,208)</u>	<u>(20,868)</u>				<u>(262,076)</u>
	<u><u>\$ (235,029)</u></u>	<u><u>(20,868)</u></u>	<u><u>8,145</u></u>	<u><u>241,208</u></u>	<u><u>6,544</u></u>	

Transfers between funds are used to record grant costs incurred in other funds and to eliminate interfund loans that are not expected to be repaid.

**TOWN OF WELLTON, ARIZONA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 665,000	665,000	739,597	74,597
License and permits	42,155	42,155	104,257	62,102
Intergovernmental -				
Federal	72,858	72,858	-	(72,858)
State	806,759	806,759	792,444	(14,315)
Charges for services	51,000	51,000	103,652	52,652
Fines and forfeits	29,150	29,150	32,687	3,537
Interest income	15,780	15,780	21,472	5,692
Other local	442,834	442,834	41,963	(400,871)
	<u>2,125,536</u>	<u>2,125,536</u>	<u>1,836,072</u>	<u>(289,464)</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
<b>Current -</b>				
General government	865,054	865,054	549,305	315,749
Public safety	947,215	947,215	915,706	31,509
Parks and recreation	210,363	210,363	181,436	28,927
Cemetery	23,528	23,528	27,977	(4,449)
Capital outlay	500	500	22,751	(22,251)
<b>Debt service -</b>				
Principal payments on capital lease	54,000	54,000	71,078	(17,078)
Principal payments on note payable	6,750	6,750	60,750	(54,000)
Interest	18,126	18,126	23,235	(5,109)
	<u>2,125,536</u>	<u>2,125,536</u>	<u>1,852,238</u>	<u>273,298</u>
<b>Total expenditures</b>				
Excess (deficiency) of revenues over expenditures	-	-	(16,166)	(16,166)
<b>Other financing sources (uses):</b>				
Transfers in			6,179	6,179
Transfers (out)			(241,208)	(241,208)
			<u>(235,029)</u>	<u>(235,029)</u>
<b>Total other financing sources (uses):</b>				
Net change in fund balances			(251,195)	(251,195)
Fund balances, beginning of year	822,733	822,733	822,733	
Fund balances, end of year	<u>\$ 822,733</u>	<u>822,733</u>	<u>571,538</u>	<u>(737,419)</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA  
BUDGETARY COMPARISON SCHEDULE FOR  
THE HIGHWAY & STREETS FUND  
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 255,372	255,372	259,458	4,086
Other local	24,000	24,000	-	(24,000)
Total revenues	<u>279,372</u>	<u>279,372</u>	<u>259,458</u>	<u>(19,914)</u>
<b>Expenditures:</b>				
Current -				
Highway & Streets	279,372	279,372	187,624	91,748
Capital outlay	-	-	97,754	(97,754)
Total expenditures	<u>279,372</u>	<u>279,372</u>	<u>285,378</u>	<u>(6,006)</u>
Excess (deficiency) of revenues over expenditures	-	-	(25,920)	(25,920)
Fund balances, beginning of year	<u>30,966</u>	<u>30,966</u>	<u>30,966</u>	
Fund balances, end of year	<u>\$ 30,966</u>	<u>30,966</u>	<u>5,046</u>	<u>(25,920)</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA  
 BUDGETARY COMPARISON SCHEDULE FOR  
 THE CDBG SELF HELP FUND  
 YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
Federal	\$ 372,962	372,962	268,283	(104,679)
Total revenues	<u>372,962</u>	<u>372,962</u>	<u>268,283</u>	<u>(104,679)</u>
Expenditures:				
Capital outlay	372,962	372,962	247,415	125,547
Total expenditures	<u>372,962</u>	<u>372,962</u>	<u>247,415</u>	<u>125,547</u>
Excess (deficiency) of revenues over expenditures	-	-	20,868	20,868
Other financing sources (uses):				
Transfers (out)	-	-	(20,868)	(20,868)
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>(20,868)</u>	<u>(20,868)</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019**

**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.

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
COST-SHARING PENSION PLANS  
YEAR ENDED JUNE 30, 2019**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year (Measurement Date)					2014 through 2010
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Proportion of the net pension liability	0.0086%	0.0080%	0.0082%	0.0081%	0.0071%	Information
Proportionate share of the net pension liability	\$1,195,213	\$1,250,917	\$1,325,176	\$1,258,625	\$1,053,476	not available
Covered payroll	\$ 851,071	\$ 783,590	\$ 768,412	\$ 744,244	\$ 630,785	
Proportionate share of the net pension liability as a percentage of its covered payroll	140.44%	159.64%	172.46%	169.11%	167.01%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF CHANGES IN NET PENSION  
LIABILITY (ASSET) AND RELATED RATIOS  
AGENT PENSION PLANS  
YEAR ENDED JUNE 30, 2019**

**PSPRS – WELLTON POLICE DEPT.**

	Reporting Fiscal Year (Measurement Date)					2014 through 2010
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability						Information not available
Service cost	\$ 58,173	\$ 61,426	\$ 44,876	\$ 50,060	\$ 63,590	
Interest on the total pension liability	185,810	172,296	128,715	106,628	82,083	
Changes of benefit terms	-	41,871	81,014	-	22,412	
Differences between expected and actual experience in the measurement of the pension liability	5,054	17,949	424,293	238,379	185,388	
Changes of assumptions or other inputs	-	45,860	94,569	-	124,493	
Benefit payments, including refunds of employee contributions	(125,891)	(122,350)	(125,937)	(96,264)	(220,809)	
Net change in total pension liability	123,146	217,052	647,530	298,803	257,157	
Total pension liability - beginning	2,544,800	2,327,748	1,680,218	1,381,415	1,124,258	
Total pension liability - ending (a)	<u>\$2,667,946</u>	<u>\$2,544,800</u>	<u>\$2,327,748</u>	<u>\$1,680,218</u>	<u>\$1,381,415</u>	
Plan fiduciary net position						
Contributions - employer	169,272	105,728	80,788	47,562	47,712	
Contributions - employee	31,088	33,933	30,538	27,719	27,743	
Net investment income	52,675	79,996	3,981	22,586	79,229	
Benefit payments, including refunds of employee contributions	(125,891)	(122,350)	(125,937)	(96,264)	(220,809)	
Hall/Parker settlement	(27,671)	-	-	-	-	
Administrative expense	(1,502)	(1,108)	(973)	(923)	-	
Other changes	8	9	3	97,301	(39,091)	
Net changes in fiduciary net position	97,979	96,208	(11,600)	97,981	(105,216)	
Plan fiduciary net position - beginning	762,874	666,666	678,266	580,285	685,501	
Plan fiduciary net position - ending (b)	<u>\$ 860,853</u>	<u>\$ 762,874</u>	<u>\$ 666,666</u>	<u>\$ 678,266</u>	<u>\$ 580,285</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$1,807,093</u>	<u>\$1,781,926</u>	<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	32.27%	29.98%	28.64%	40.37%	42.01%	
Covered payroll	\$ 310,420	\$ 298,329	\$ 261,128	\$ 252,065	\$ 272,625	
Town's net pension liability (asset) as a percentage of covered payroll	582.14%	597.30%	636.12%	397.50%	293.86%	

See accompanying notes to pension plan schedules

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF PENSION CONTRIBUTIONS  
JUNE 30, 2019**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 113,329	\$ 92,761	\$ 84,404	\$83,726	\$81,048	\$66,159	Information not available
Contribution in relation to the statutorily required contribution	113,329	92,761	84,404	83,726	81,048	66,159	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	1,013,675	851,071	783,590	768,412	744,244	630,785	
Contributions as a percentage of covered payroll	11.18%	10.90%	10.77%	10.90%	10.89%	10.49%	

**PSPRS - WELLTON POLICE DEPT.**

	Reporting Fiscal Year						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Actuarial required contribution	\$ 139,635	\$169,272	\$105,728	\$80,788	\$47,562	\$45,741	Information not available
Contribution in relation to the actuarial required contribution	139,635	169,272	105,728	80,788	47,562	45,741	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	261,734	310,420	298,329	261,128	253,734	272,625	
Contributions as a percentage of covered payroll	53.35%	54.53%	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, 2019**

**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, 2017</u>
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2017 actuarial valuation	20 years
Asset valuation method	7 year smoothed market: 80%/120% market corridor
Actuarial assumptions: Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5%. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5%. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO PENSION PLAN SCHEDULES**  
**JUNE 30, 2019**

**NOTE 2 – FACTORS THAT AFFECT TRENDS**

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

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

To the 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, 2019, 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 10, 2020.

### 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 any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of 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*

Tempe, Arizona  
February 10, 2020