

**TOWN OF WELLTON, ARIZONA**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2020**

**TOWN OF WELLTON, ARIZONA  
TABLE OF CONTENTS  
JUNE 30, 2020**

**FINANCIAL SECTION**

Independent Auditors' Report	5
Required Supplementary Information Management's Discussion and Analysis (MD&A)	9
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	21
Statement of Activities	22
Fund Financial Statements	
Balance Sheet – Governmental Funds	23
Reconciliation of the Balance Sheet to the Statement of Net Position	24
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Net Position – Proprietary Funds	27
Statement of Revenues, Expenses, and Changes In Fund Net Position – Proprietary Funds	28
Statement of Cash Flows – Proprietary Funds	29
Statement of Fiduciary Net Position – Fiduciary Fund	31
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	32
Notes to Basic Financial Statements	33
Other Required Supplementary Information	
Budgetary Comparison Schedules	
General Fund	61
Highway & Streets	62
Notes to Required Supplementary Information	63

**TOWN OF WELLTON, ARIZONA  
TABLE OF CONTENTS  
JUNE 30, 2020**

**FINANCIAL SECTION (CONT'D)**

Schedule of Proportionate Share of Net Pension Liability Cost-Sharing Pension Plans	65
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Agent Pension Plans	66
Schedule of Pension Contributions	67
Notes to Pension Plan Schedules	68

**COMPLIANCE SECTION**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council  
Town of Wellton, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton, Arizona, as of and for the year ended June 30, 2020, 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, 2020, 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, 2021, 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, 2021

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**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

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, 2020.

**FINANCIAL HIGHLIGHTS**

- The Town's total net position increased approximately \$707,000 which represents a 8.6 percent increase from fiscal year 2019. The primary cause for the increase was due to increased tax collections from online shopping, bed tax at the hotel and fees from the sale of lots at the Coyote Links development.
- General revenues of the governmental activities accounted for \$2.1 million in revenue, or 59 percent of all fiscal year 2020 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$1.4 million or 41 percent of total fiscal year 2020 revenues.
- The Town had approximately \$2.9 million in expenses related to governmental activities, of which \$1.4 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$2.1 million and reserves from prior years were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$2.4 million in fiscal year 2020 revenues, which primarily consisted of approximately \$1.8 million in taxes and intergovernmental revenues, and approximately \$221,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$2.1 million. The General Fund's fund balance increased \$61,617 to \$633,254, 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 payments and early payoff of a lease payable offset by net increases in net pension liability and compensated absence balances.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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, 2020**

**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 Fire Expansion, 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, 2020**

**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 59 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 and Highway & Streets Funds 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, 2020**

**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 \$8,893,214 as of June 30, 2020.

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, 2020 and 2019.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 1,197,223	886,979	1,444,750	1,285,754	2,641,973	2,172,733
Capital assets	3,507,157	3,267,200	6,134,036	5,997,336	9,641,193	9,264,536
Total assets	<u>4,704,380</u>	<u>4,154,179</u>	<u>7,578,786</u>	<u>7,283,090</u>	<u>12,283,166</u>	<u>11,437,269</u>
Total deferred outflows of resources	<u>837,133</u>	<u>860,759</u>	<u>116,510</u>	<u>89,573</u>	<u>953,643</u>	<u>950,332</u>
Long-term liabilities	2,849,024	3,028,626	718,834	604,669	3,567,858	3,633,295
Other liabilities	519,662	298,313	88,861	101,323	608,523	399,636
Total liabilities	<u>3,368,686</u>	<u>3,326,939</u>	<u>807,695</u>	<u>705,992</u>	<u>4,176,381</u>	<u>4,032,931</u>
Total deferred inflows of resources	<u>134,454</u>	<u>113,284</u>	<u>35,760</u>	<u>57,889</u>	<u>170,214</u>	<u>171,173</u>
Net position						
Net investments in capital assets	3,397,141	2,752,651	6,011,967	5,871,926	9,409,108	8,624,577
Restricted	113,630	107,418	333,080	332,855	446,710	440,273
Unrestricted	(1,472,398)	(1,285,354)	509,794	407,001	(962,604)	(878,353)
Total net position	<u>\$ 2,038,373</u>	<u>1,574,715</u>	<u>6,854,841</u>	<u>6,611,782</u>	<u>8,893,214</u>	<u>8,186,497</u>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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 increased approximately \$310,000 due to an increase of cash and investments caused by increased tax collections.
- Capital assets activity is detailed on Page 19. These increases were offset by depreciation for a net increase of approximately \$240,000.
- Other liabilities increased approximately \$221,000 due primarily to increased deferred revenues as a result of unspent CARES monies offset by an increase accounts payable from the prior year.
- Long-term liabilities decreased approximately \$180,000 due to capital lease repayments offset by an increase in the net pension liability.

**Business-type Activities:**

- Current and other assets increased approximately \$159,000 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 increase of approximately \$137,000.
- Liabilities increased approximately \$102,000 primarily due to a increase in the net pension liability.

**Changes in net position.** The Town's total revenues for the fiscal years ended June 30, 2020 and 2019 were \$6.0 and \$4.6 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2020 and 2019 was \$5.3 and \$5.2 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and 2019.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:						
Program revenues:						
Charges for services	\$ 180,836	119,327	2,038,822	1,968,840	2,219,658	2,088,167
Operating grants and contributions	1,028,719	797,746			1,028,719	797,746
Capital grants and contributions	227,423	39,974	422,861	16,350	650,284	56,324
General revenues:						
Taxes	1,822,296	1,532,041			1,822,296	1,532,041
Licenses and permits	185,612	104,257			185,612	104,257
Fines and forfeits	35,682	32,687			35,682	32,687
Interest income	21,584	21,472	4,739	5,213	26,323	26,685
<b>Total revenues</b>	<b><u>3,502,152</u></b>	<b><u>2,647,504</u></b>	<b><u>2,466,422</u></b>	<b><u>1,990,403</u></b>	<b><u>5,968,574</u></b>	<b><u>4,637,907</u></b>
Expenses:						
General government	925,752	1,010,340			925,752	1,010,340
Public safety	1,420,390	1,308,741			1,420,390	1,308,741
Highway and streets	274,265	259,184			274,265	259,184
Parks and recreation	206,334	245,599			206,334	245,599
Cemetery	31,239	29,310			31,239	29,310
Water			808,786	740,352	808,786	740,352
Sanitation			234,162	181,479	234,162	181,479
Golf			1,342,415	1,384,333	1,342,415	1,384,333
Interest on long-term debt	18,514	23,235			18,514	23,235
<b>Total expenses</b>	<b><u>2,876,494</u></b>	<b><u>2,876,409</u></b>	<b><u>2,385,363</u></b>	<b><u>2,306,164</u></b>	<b><u>5,261,857</u></b>	<b><u>5,182,573</u></b>
Increase (decrease) in net position before transfers and special item	625,658	(228,905)	81,059	(315,761)	706,717	(544,666)
Transfers	(162,000)	(249,353)	162,000	249,353		
Increase (decrease) in net position	463,658	(478,258)	243,059	(66,408)	706,717	(544,666)
Net position, beginning 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>
Net position, end of year	<b><u>\$ 2,038,373</u></b>	<b><u>1,574,715</u></b>	<b><u>6,854,841</u></b>	<b><u>6,611,782</u></b>	<b><u>8,893,214</u></b>	<b><u>8,186,497</u></b>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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, 2020 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	\$ 925,752	(507,365)			925,752	(507,365)
Public safety	1,420,390	(1,008,615)			1,420,390	(1,008,615)
Highway and streets	274,265	277,238			274,265	277,238
Parks and recreation	206,334	(175,292)			206,334	(175,292)
Cemetery	31,239	(6,968)			31,239	(6,968)
Water			808,786	247,247	808,786	247,247
Sanitation			234,162	35,660	234,162	35,660
Golf			1,342,415	(206,587)	1,342,415	(206,587)
Interest on long-term debt	18,514	(18,514)			18,514	(18,514)
	<u>\$ 2,876,494</u>	<u>(1,439,516)</u>	<u>2,385,363</u>	<u>76,320</u>	<u>5,261,857</u>	<u>(1,363,196)</u>

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>

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

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

- The cost of all governmental activities for the years ended June 30, 2020 and 2019 were \$2,876,494 and \$2,876,409, 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, 2020 and 2019 subsidized approximately \$1,436,798 and \$957,047, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2020 and 2019 were (\$1,439,516) and (\$1,919,362), respectively. For the years ended June 30, 2020 and 2019 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, 2020 and 2019 were \$2,385,363 and \$2,306,164, respectively.
- For the year ended June 30, 2020, net expenses of the business-type activities of \$76,320 was primarily due to revenues in excess of expenses/costs. The Golf Fund continued to experience increased operating costs, which were not offset by increased fees. These deficits were offset by increases in the Water and Sanitation Funds to an increase in fees as well as an increase in the number of resident served.
- 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.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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 \$701,025, an increase of \$38,870 due primarily to the activity of the General Fund, Highway & Streets Fund and Other Governmental Funds, which are discussed below.

The General Fund equity increased from the prior year by \$61,716 to \$633,254 as of June 30, 2020. The increase was primarily due to increased tax revenues offset by \$162,000 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 \$19,537 to (\$14,491) as of June 30, 2020. The decrease was due to expenditures in excess of HURF collections and other revenues.

The Other Governmental Funds' equity decreased from the prior year by \$3,309 to \$82,262 as of June 30, 2020. The decrease was due primarily to expenditures in Community Facilities District Fund #2003-1 in excess of collections. This decrease was partially offset by the collection of Impact Fees 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 \$6,854,841. The increase of \$243,059 from fiscal year 2019 is discussed in greater detail on Page 15.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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 Fire Expansion Fund expenditure budgets during the year ended June 30, 2020. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund and the Highway & Streets Fund are provided in this report on page 59 through 61, as required supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2020, the Town had invested \$9.6 million in capital assets. The net change in capital assets of approximately \$1 million, prior to depreciation includes \$274,000 for street sealing, \$155,000 for the fire station expansion, \$72,000 for street improvements, \$32,000 for dump and bucket trucks, \$410,000 to complete the water line extension funded by WIFA, and \$37,000 for a sanitation vehicle. 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, 2020.

	Governmental Activities	Business-type Activities	Total
Land and improvements	\$ 1,402,357	2,540,180	3,942,537
Buildings and other improvements	526,230	18,709	544,939
Water treatment plant		2,488,935	2,488,935
Transmission and distribution mains		803,692	803,692
Furniture, equipment, and vehicles	1,251,224	282,520	1,533,744
Street system	32,152		32,152
Construction in progress	295,194		295,194
<b>Total</b>	<b>\$ 3,507,157</b>	<b>6,134,036</b>	<b>9,641,193</b>

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

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

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

**Debt Administration.** At June 30, 2020, the Town had approximately \$0.2 million in capital leases and other long-term debt outstanding, approximately \$23,000 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, 2020.

	Governmental Activities	Business-type Activities	Total
Capital leases payable	\$ 110,016	-	110,016
Compensated absences	45,235	36,255	81,490
 Total	 \$ 155,251	 36,255	 191,506

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

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

Due to the general state of the economy, the Town has cut expenditures over the last couple of years in order to account for revenue losses. In October 2014, the Town entered into a development agreement which generates taxes on monthly rental fees. This arrangement continues to be an additional revenue source for the Town, and the additional residents generate new revenues in water and sanitation services.

During fiscal year 2019-20, the Town experienced an increase in new housing starts and expects the increased activity to continue through fiscal year 2020-21. Additionally, the Town will use approximately \$245,000 in CARES funding to offset the cost of salaries for its public safety staff. Use of the CARES monies for salaries has allowed the Town to make an additional contribution of \$200,000 to PSPRS.

**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, 2020**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 634,312	1,017,674	1,651,986
Accounts receivable, net of allowance for uncollectibles		96,996	96,996
Due from other governments	341,441		341,441
Notes receivable-current	3,276		3,276
<b>Total current assets</b>	<b>979,029</b>	<b>1,114,670</b>	<b>2,093,699</b>
<b>Noncurrent assets:</b>			
Restricted cash and investments	101,368	333,080	434,448
Notes receivable	116,826		116,826
Capital assets, non-depreciable	662,382	2,540,180	3,202,562
Capital assets, net of depreciation	2,844,775	3,593,856	6,438,631
<b>Total noncurrent assets</b>	<b>3,725,351</b>	<b>6,467,116</b>	<b>10,192,467</b>
<b>Total assets</b>	<b>4,704,380</b>	<b>7,581,786</b>	<b>12,286,166</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	837,133	116,510	953,643
<b>Total deferred outflows of resources</b>	<b>837,133</b>	<b>116,510</b>	<b>953,643</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	250,801	59,805	310,606
Unearned revenues	245,397		245,397
Customer deposits		29,056	29,056
Compensated absences - current	3,086		3,086
Capital lease payable-current	20,378		20,378
<b>Total current liabilities:</b>	<b>519,662</b>	<b>88,861</b>	<b>608,523</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	42,149	36,255	78,404
Developer advances payable		122,069	122,069
Capital lease payable	89,638		89,638
Net pension liability	2,717,237	560,510	3,277,747
<b>Total noncurrent liabilities</b>	<b>2,849,024</b>	<b>718,834</b>	<b>3,567,858</b>
<b>Total liabilities</b>	<b>3,368,686</b>	<b>807,695</b>	<b>4,176,381</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	134,454	35,760	170,214
<b>Total deferred inflows of resources</b>	<b>134,454</b>	<b>35,760</b>	<b>170,214</b>
<b>NET POSITION</b>			
Net investment in capital assets	3,397,141	6,011,967	9,409,108
<b>Restricted for:</b>			
Capital improvements		333,080	333,080
Public safety	73,155		73,155
Parks and recreation	11,190		11,190
Highways and streets	22,768		22,768
Other purposes	6,517		6,517
Unrestricted	(1,472,398)	509,794	(962,604)
<b>Total net position</b>	<b>\$ 2,038,373</b>	<b>6,854,841</b>	<b>8,893,214</b>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General Government	\$ 925,752	130,126	288,261		(507,365)		(507,365)
Public Safety	1,420,390	10,860	246,223	154,692	(1,008,615)		(1,008,615)
Highway and Streets	274,265	12,307	466,465	72,731	277,238		277,238
Parks and recreation	206,334	3,272	27,770		(175,292)		(175,292)
Cemetery	31,239	24,271			(6,968)		(6,968)
Interest on long-term debt	18,514				(18,514)		(18,514)
Total governmental activities	<u>2,876,494</u>	<u>180,836</u>	<u>1,028,719</u>	<u>227,423</u>	<u>(1,439,516)</u>		<u>(1,439,516)</u>
Business-type activities:							
Water	808,786	633,172		422,861		247,247	247,247
Sanitation	234,162	269,822				35,660	35,660
Golf	1,342,415	1,135,828				(206,587)	(206,587)
Total business-type activities	<u>2,385,363</u>	<u>2,038,822</u>		<u>422,861</u>		<u>76,320</u>	<u>76,320</u>
Total primary government	<u>\$ 5,261,857</u>	<u>2,219,658</u>	<u>1,028,719</u>	<u>650,284</u>	<u>(1,439,516)</u>	<u>76,320</u>	<u>(1,363,196)</u>
General Revenues:							
					1,822,296		1,822,296
					185,612		185,612
					35,682		35,682
					21,584	4,739	26,323
Transfers					(162,000)	162,000	-
Total general revenues and transfers					<u>1,903,174</u>	<u>166,739</u>	<u>2,069,913</u>
Change in net position					463,658	243,059	706,717
Net position - beginning of year					<u>1,574,715</u>	<u>6,611,782</u>	<u>8,186,497</u>
Net position - end of year					<u>\$ 2,038,373</u>	<u>6,854,841</u>	<u>8,893,214</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020**

	General Fund	Highway & Streets	CDBG Fire Expansion	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>					
Cash and investments	\$ 621,826			12,486	634,312
Restricted cash and investments				101,368	101,368
Note receivable	120,102				120,102
Due from other governments	121,283	19,607	146,649	53,902	341,441
Due from other funds	98,870				98,870
<b>Total assets</b>	<b>\$ 962,081</b>	<b>19,607</b>	<b>146,649</b>	<b>167,756</b>	<b>1,296,093</b>
<b><u>LIABILITIES</u></b>					
Accounts payable and accrued expenses	\$ 83,845	5,060	123,838	38,058	250,801
Due to other funds		29,038	22,811	47,021	98,870
Unearned revenue	244,982			415	245,397
<b>Total liabilities</b>	<b>328,827</b>	<b>34,098</b>	<b>146,649</b>	<b>85,494</b>	<b>595,068</b>
<b><u>FUND BALANCES</u></b>					
Nonspendable	120,102				120,102
Restricted				113,630	113,630
Unassigned	513,152	(14,491)		(31,368)	467,293
<b>Total fund balances</b>	<b>633,254</b>	<b>(14,491)</b>	<b>-</b>	<b>82,262</b>	<b>701,025</b>
<b>Total liabilities and fund balances</b>	<b>\$ 962,081</b>	<b>19,607</b>	<b>146,649</b>	<b>167,756</b>	<b>1,296,093</b>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

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Fund balances - total governmental funds	\$ 701,025
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	7,475,504
Less accumulated depreciation	<u>(3,968,347)</u>
Capital assets used in governmental activities	<u>3,507,157</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>702,679</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	(2,717,237)
Capital lease liability	(110,016)
Compensated absences	<u>(45,235)</u>
Long-term liabilities not due and payable in the current period	<u>(2,872,488)</u>
Net position of governmental activities	<u><u>\$ 2,038,373</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, 2020**

	General Fund	Highway & Streets	CDBG Fire Expansion	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 984,694				984,694
License and permits	185,612				185,612
Intergovernmental -					
County				16,093	16,093
State	837,602	450,977		4,651	1,293,230
Federal	104,489		154,692	495,080	754,261
Charges for services	97,857	12,307		4,908	115,072
Fines and forfeits	35,682				35,682
Interest income	21,584				21,584
Other local	95,924				95,924
<b>Total revenues</b>	<b>2,363,444</b>	<b>463,284</b>	<b>154,692</b>	<b>520,732</b>	<b>3,502,152</b>
<b>Expenditures:</b>					
Current -					
General government	584,737			288,011	872,748
Public safety	951,463			102,257	1,053,720
Highway and streets		175,340		24,310	199,650
Parks and recreation	144,653				144,653
Cemetery	28,776				28,776
Capital outlay	7,052	307,481	154,692	109,463	578,688
Debt service -					
Principal payments on capital leases	404,533				404,533
Interest	18,514				18,514
<b>Total expenditures</b>	<b>2,139,728</b>	<b>482,821</b>	<b>154,692</b>	<b>524,041</b>	<b>3,301,282</b>
Excess (deficiency) of revenues over expenditures	223,716	(19,537)		(3,309)	200,870
Other financing sources (uses):					
Transfers (out)	(162,000)				(162,000)
<b>Total other financing sources (uses)</b>	<b>(162,000)</b>				<b>(162,000)</b>
Net change in fund balances	61,716	(19,537)		(3,309)	38,870
Fund balances, beginning of year	571,538	5,046		85,571	662,155
Fund balances, end of year	<u>\$ 633,254</u>	<u>(14,491)</u>		<u>82,262</u>	<u>701,025</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, 2020**

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Net change in fund balances - total governmental funds	\$	38,870
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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	533,168	
Less current year depreciation	(293,211)	
Excess capital expenditures over depreciation and capital contributions	<u>239,957</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	240,057	
Pension expense	(453,965)	
	<u>(213,908)</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 capital leases	<u>404,533</u>	
Differences in treatment of long-term debt and related items	<u>404,533</u>	

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

Change in long-term compensated absences		<u>(5,794)</u>
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Change in net position of governmental activities	\$	<u><u>463,658</u></u>
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See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 788,467	182,519	46,688	1,017,674
Accounts receivable	69,165	27,831		96,996
Total current assets	<u>857,632</u>	<u>210,350</u>	<u>46,688</u>	<u>1,114,670</u>
Noncurrent assets:				
Restricted investments	333,080			333,080
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		109,775	112,692
Water treatment plant	5,563,056			5,563,056
Transmission and distribution mains	1,795,740			1,795,740
Furniture, equipment and vehicles	599,924	522,306	189,876	1,312,106
Less accumulated depreciation	<u>(4,488,491)</u>	<u>(448,141)</u>	<u>(253,106)</u>	<u>(5,189,738)</u>
Total capital assets (net of accumulated depreciation)	<u>3,481,259</u>	<u>74,165</u>	<u>2,578,612</u>	<u>6,134,036</u>
Total noncurrent assets	<u>3,814,339</u>	<u>74,165</u>	<u>2,578,612</u>	<u>6,467,116</u>
Total assets	<u>4,671,971</u>	<u>284,515</u>	<u>2,625,300</u>	<u>7,581,786</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	46,604	26,215	43,691	116,510
Total deferred outflows on resources	<u>46,604</u>	<u>26,215</u>	<u>43,691</u>	<u>116,510</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	16,390	10,585	32,830	59,805
Customer deposits	29,056			29,056
Total current liabilities	<u>45,446</u>	<u>10,585</u>	<u>32,830</u>	<u>88,861</u>
Noncurrent liabilities:				
Compensated absences	10,324	5,978	19,953	36,255
Developer advances payable	122,069			122,069
Net pension liability	224,204	126,115	210,191	560,510
Total noncurrent liabilities	<u>356,597</u>	<u>132,093</u>	<u>230,144</u>	<u>718,834</u>
Total liabilities	<u>402,043</u>	<u>142,678</u>	<u>262,974</u>	<u>807,695</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	14,304	8,046	13,410	35,760
Total deferred inflows on resources	<u>14,304</u>	<u>8,046</u>	<u>13,410</u>	<u>35,760</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	3,359,190	74,165	2,578,612	6,011,967
Restricted for capital improvements	333,080			333,080
Unrestricted	<u>609,958</u>	<u>85,841</u>	<u>(186,005)</u>	<u>509,794</u>
Total net position	<u>\$ 4,302,228</u>	<u>160,006</u>	<u>2,392,607</u>	<u>6,854,841</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, 2020**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 633,172			633,172
Sanitation fees		269,822		269,822
Golf course fees			1,135,828	1,135,828
Total operating revenues	<u>633,172</u>	<u>269,822</u>	<u>1,135,828</u>	<u>2,038,822</u>
Operating expenses:				
Water department	808,786			808,786
Sanitation department		234,162		234,162
Golf course			1,342,415	1,342,415
Total operating expenses	<u>808,786</u>	<u>234,162</u>	<u>1,342,415</u>	<u>2,385,363</u>
Operating income (loss)	<u>(175,614)</u>	<u>35,660</u>	<u>(206,587)</u>	<u>(346,541)</u>
Nonoperating revenues (expenses):				
Interest on investments	<u>4,739</u>			<u>4,739</u>
Total nonoperating revenues (expenses)	<u>4,739</u>	<u>-</u>	<u>-</u>	<u>4,739</u>
Income (loss) before contributions and transfers	(170,875)	35,660	(206,587)	(341,802)
Capital contributions - intergovernmental	422,861			422,861
Transfers in			162,000	162,000
Increase (decrease) in net position	251,986	35,660	(44,587)	243,059
Net position, beginning of year	<u>4,050,242</u>	<u>124,346</u>	<u>2,437,194</u>	<u>6,611,782</u>
Net position, end of year	<u>\$ 4,302,228</u>	<u>160,006</u>	<u>2,392,607</u>	<u>6,854,841</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 625,679	264,390	1,135,828	2,025,897
Payments to suppliers for goods and services	(260,816)	(73,306)	(605,033)	(939,155)
Payments to employees	(249,108)	(141,392)	(684,483)	(1,074,983)
Net cash provided (used) for operating activities	<u>115,755</u>	<u>49,692</u>	<u>(153,688)</u>	<u>11,759</u>
Cash flows from non-capital and related financing activities:				
Transfers from other funds			162,000	162,000
Net cash provided by non-capital and related financing activities:			<u>162,000</u>	<u>162,000</u>
Cash flows from capital related and financing activities:				
Purchase of capital assets	(414,838)	(37,000)		(451,838)
Principal payments on developer advances	(3,341)			(3,341)
Increase in contributed capital	439,211			439,211
Net cash (used) by capital and related financing activities:	<u>21,032</u>	<u>(37,000)</u>		<u>(15,968)</u>
Cash flows from investing activities				
Investment income	4,739			4,739
Net cash provided by investing activities	<u>4,739</u>			<u>4,739</u>
Net increase (decrease) in cash and cash equivalents	141,526	12,692	8,312	162,530
Cash and investments, beginning 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>
Cash and investments, ending of year (including \$333,080 in the Water Fund reported in restricted accounts)	<u>\$ 1,121,547</u>	<u>182,519</u>	<u>46,688</u>	<u>1,350,754</u>

(continued)

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

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)	\$ (175,614)	35,660	(206,587)	(346,541)
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:				
Depreciation	298,680	6,646	9,812	315,138
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(10,384)	(5,432)		(15,816)
(Increase) in deferred outflows of resources related to pensions	(8,889)	(5,000)	(13,048)	(26,937)
Increase in accounts payable and accrued expenses	(16,624)	(1,602)	(13,797)	(32,023)
Increase in compensated absences	2,795	6,539	21,513	30,847
Increase in customer deposits	2,891			2,891
Increase in net pension liability	32,970	18,546	54,813	106,329
(Decrease) in deferred inflows of resources related to pensions	(10,070)	(5,665)	(6,394)	(22,129)
	<u>\$ 115,755</u>	<u>49,692</u>	<u>(153,688)</u>	<u>11,759</u>
Net cash provided (used) for operating activities	<u>\$ 115,755</u>	<u>49,692</u>	<u>(153,688)</u>	<u>11,759</u>

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2020**

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

See accompanying notes to financial statements.

**TOWN OF WELLTON  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2020**

	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, 2020**

**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, 2020**

**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, 2020**

**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, 2020**

**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 Fire Expansion** accounts for federal monies used to expand and improve the Town's fire station.

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, 2020**

**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 \$30,000, for the year ended June 30, 2020, 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, 2020 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, 2020**

**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 liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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, 2020, 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, 2020**

**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, 2020**

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

Deficit Fund Balance – The Highway & Streets and the non-major Community Facilities District Funds of the Special Revenue Fund Type had deficit fund balances of \$14,491 and \$31,368, respectively, as of June 30, 2020. The deficits are expected to be corrected through normal operations during the following fiscal year.

**NOTE 3 – CASH AND INVESTMENTS**

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, 2020**

**NOTE 3 – CASH AND CASH INVESTMENTS (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, 2020, the carrying amount of the Town's deposits were \$791,178 and the bank balances were \$871,986. 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, 2020, all deposits were fully insured or collateralized.

Restricted Cash – Non-major fund cash totaling \$101,368 is restricted for public safety, parks and recreation and highways and streets.

Investments - The Town invests in the Arizona State Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS §35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. It has a AAA f/S1+ rating and has a Weighted Average Maturity of less than three years. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The net asset value per share of the pool at June 30, 2020 was \$1.00. The Town's balances in Pool 5 at June 30, 2020 was \$1,295,685.

Restricted Investments – The Water Enterprise Fund investments is restricted for improvements to the water plant, in the amount of \$333,080. Additionally, non-major fund cash totaling \$101,368 is restricted for public safety, parks and recreation and highways and streets.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**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 Fire Station Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>							
Sales tax	\$ 115,365						115,365
Vehicle license tax	5,918						5,918
Arizona Department Highway users revenue		19,607					19,607
U.S. Department of Housing and Urban Development			146,649			45,379	192,028
Yuma County - Homeland Security						8,523	8,523
<u>Accounts receivable</u>							
Customer accounts				69,165	27,831		96,996
	<u>\$ 121,283</u>	<u>19,607</u>	<u>146,649</u>	<u>69,165</u>	<u>27,831</u>	<u>53,902</u>	<u>438,437</u>

**NOTE 5 – NOTES RECEIVABLE**

	<u>Governmental Activities June 30, 2020</u>
5.00% note receivable from a developer in monthly installments of \$774, including interest; unpaid principal and interest due August 23, 2041	\$ 120,102
Current portion	<u>(3,236)</u>
Long-Term portion	<u>\$ 116,866</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated -					
Land	\$ 367,188				367,188
Construction in progress	131,557	227,423		(63,786)	295,194
	<u>498,745</u>	<u>227,423</u>		<u>(63,786)</u>	<u>662,382</u>
Total capital assets not being depreciated					
	<u>498,745</u>	<u>227,423</u>		<u>(63,786)</u>	<u>662,382</u>
Capital assets being depreciated -					
Land improvements	2,097,565	273,855		63,786	2,435,206
Buildings and improvements	1,754,399				1,754,399
Furniture, equipment, and vehicles	2,541,736	31,890			2,573,626
Street system	49,891				49,891
	<u>6,443,591</u>	<u>305,745</u>		<u>63,786</u>	<u>6,813,122</u>
Total capital assets being depreciated					
	<u>6,443,591</u>	<u>305,745</u>		<u>63,786</u>	<u>6,813,122</u>
Less accumulated depreciation for -					
Land improvements	(1,305,448)	(94,589)			(1,400,037)
Buildings and improvements	(1,173,411)	(54,758)			(1,228,169)
Furniture, equipment and vehicles	(1,180,201)	(142,201)			(1,322,402)
Street system	(16,076)	(1,663)			(17,739)
	<u>(3,675,136)</u>	<u>(293,211)</u>			<u>(3,968,347)</u>
Total accumulated depreciation					
	<u>(3,675,136)</u>	<u>(293,211)</u>			<u>(3,968,347)</u>
Total capital assets being depreciated, net					
	<u>2,768,455</u>	<u>12,534</u>		<u>63,786</u>	<u>2,844,775</u>
Governmental activities capital assets, net					
	<u>\$ 3,267,200</u>	<u>239,957</u>			<u>3,507,157</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Business-type activities:					
Capital assets not being depreciated -					
Land	\$ 2,540,180				2,540,180
Construction in progress	13,072			(13,072)	
Total capital assets not being depreciated	<u>2,553,252</u>			<u>(13,072)</u>	<u>2,540,180</u>
Capital assets being depreciated -					
Buildings and other improvements	112,692				112,692
Water treatment plant	5,558,007	5,049			5,563,056
Transmission and distribution mains	1,372,879	409,789		13,072	1,795,740
Furniture, equipment and vehicles	1,275,106	37,000			1,312,106
Total capital assets being depreciated	<u>8,318,684</u>	<u>451,838</u>		<u>13,072</u>	<u>8,783,594</u>
Less accumulated depreciation for -					
Buildings and other improvements	(90,864)	(3,119)			(93,983)
Water treatment plant	(2,817,227)	(256,894)			(3,074,121)
Transmission and distribution mains	(958,655)	(33,393)			(992,048)
Furniture, equipment and vehicles	(1,007,854)	(21,732)			(1,029,586)
Total accumulated depreciation	<u>(4,874,600)</u>	<u>(315,138)</u>			<u>(5,189,738)</u>
Total capital assets being depreciated, net	<u>3,444,084</u>	<u>136,700</u>			<u>3,593,856</u>
Business-type activities capital assets, net	<u>\$ 5,997,336</u>	<u>136,700</u>			<u>6,134,036</u>

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

Governmental activities:	
General government	\$ 31,521
Public safety	133,005
Highway and streets	69,368
Parks and recreation	57,456
Cemetery	1,861
Total depreciation expense - governmental activities	<u>\$ 293,211</u>
Business-type activities:	
Water	\$ 298,680
Sanitation	6,646
Golf	9,812
Total depreciation expense - business-type activities	<u>\$ 315,138</u>

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

WIFA Loan Agreement – In May 2019, the Town entered into a 1.816% loan agreement with Water Infrastructure Finance Authority of Arizona (WIFA), which financed the loan through bond issuance, for the installation of a PVC waterline loop. The original loan amount was for \$887,499, with forgivable principal of \$443,749. However, the total project cost of \$422,861 was covered under the forgivable amount of the loan and the Town was not required to make semiannual payments beginning January 2020. As of June 30, 2020, no amounts are owed 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 \$715,864, is capitalized. Repayment of the capital leases are made by the General Fund. The assets acquired through capital leases are as follows:

	Governmental Activities
Equipment and vehicles	\$ 715,864
Less: Accumulated depreciation	(191,591)
	\$ 524,273

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2020, were as follows:

	Governmental Activities
Year ending June 30:	
2021	\$ 24,599
2022	24,599
2023	24,599
2024	24,599
2025	24,601
Total minimum lease payments	122,997
Less amount representing interest	(12,981)
Present value of net minimum capital lease payments	\$ 110,016

For the year ended June 30, 2020, total interest expense under the capital leases was \$18,514.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

Changes in long-term liabilities for the year ended June 30, 2020 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	\$ 514,549		(404,533)	110,016	20,378
Net pension liability	2,548,125	169,112		2,717,237	
Compensated absences	39,441	50,832	(45,038)	45,235	3,086
	<u>3,102,115</u>	<u>219,944</u>	<u>(449,571)</u>	<u>2,872,488</u>	<u>23,464</u>
Total governmental long-term liabilities	<u>\$ 3,102,115</u>	<u>219,944</u>	<u>(449,571)</u>	<u>2,872,488</u>	<u>23,464</u>
Business-type activities:					
Net pension liability	\$ 454,181	106,329		560,510	
Developer advances payable	125,410		(3,341)	122,069	
Compensated absences	25,078	47,240	(36,063)	36,255	
	<u>604,669</u>	<u>153,569</u>	<u>(39,404)</u>	<u>718,834</u>	
Total Business-type long-term liabilities	<u>\$ 604,669</u>	<u>153,569</u>	<u>(39,404)</u>	<u>718,834</u>	

**NOTE 8 - DEVELOPER ADVANCES PAYABLE**

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

<u>Year Ending June 30</u>	
2021	<u>\$ 122,069</u>
Total	<u>\$ 122,069</u>

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**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 \$48,168 for the year ended June 30, 2020.

Construction Contract – During the year ended June 30, 2020, the Town entered into contracts for street improvements and expansion of the fire station, both of which will be funded through grants with CDBG. Total commitments under the contract are \$575,209. As of June 30, 2020, remaining commitments under the contracts are \$543,156. Beginning in August 2020 through October 2020, the Town entered into additional contracts totaling \$216,00 for owner occupied housing rehabilitation, which will also be funded through grants with CDBG.

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

**NOTE 10 – PENSIONS**

The Town contributes to the plans described below. The plans are component units of the State of Arizona. At June 30, 2020, 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	\$ 840,767	\$ 560,510	\$ 1,401,277	\$ 1,876,470	\$ 3,277,747
Deferred outflows of resources	174,956	116,510	291,466	662,177	953,643
Deferred inflows of resources	(53,639)	(35,760)	(89,399)	(80,815)	(170,214)
Pension expense	107,501	108,801	216,302	346,464	562,766

The Town's accrued payroll and employee benefits includes \$13,151 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2020. Also, the Town reported \$291,594 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

*Arizona State Retirement System*

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

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

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

\*With actuarially reduced benefits

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 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, 2020 were \$128,842, \$5,514, and \$1,910, respectively.

During fiscal year 2020, the Town paid for ASRS pension and OPEB contributions as follows: 54 percent from the General Fund, 46 percent from major funds and 0 percent from non-major funds.

Pension liability - At June 30, 2020, the Town reported a liability of \$1,401,276 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2019. 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, 2018, to the measurement date of June 30, 2019.

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, 2019. The Town's proportion measured as of June 30, 2019, was .00963% percent, which was an increase of .00106% from its proportion measured as of June 30, 2018.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2020, the Town recognized pension expense for ASRS of \$216,302. At June 30, 2020, 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	\$ 25,314	263
Change of assumptions or other inputs	5,923	55,802
Net difference between projected and actual earnings on pension plan investments	-	31,496
Changes in proportion and differences between town contributions and proportionate share of contributions	131,193	1,838
Contributions subsequent to the measurement date	129,036	
	\$ 291,466	89,399

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

The \$129,036 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30:

2021	\$ (59,212)
2022	(11,433)
2023	6,049
2024	<u>(8,435)</u>
	<u><u>\$ (73,031)</u></u>

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	2.7%-7.2%
Inflation rate	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP

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 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:

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real Estate	20%	5.85%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 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	\$ 1,994,342	\$ 1,401,276	\$ 905,628

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

**TOWN OF WELLTON, ARIZONA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

*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).

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:

**Retirement and Disability**

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%

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

**PSPRS**

**Initial membership date:**

**Before January 1, 2012**

**On or after January 1, 2012 and  
before July 1, 2017**

**Retirement and Disability**

Accidental Disability Retirement	50% or normal retirement, whichever is greater
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20

**Survivor Benefit**

Retired members	80% to 100% of retired member's pension benefit
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job

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.

Employees covered by benefit terms - At June 30, 2020, 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	4
Total	8

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

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, 2020, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police
Active members - pension	7.65%-11.65%
Town	
Pension	53.24%
Health insurance premium benefit	-

For the agent plans, the Town's contributions to the pension plan for the year ended June 30, 2020, were:

	PSPRS Police
Pension - contributions made	\$ 162,753
Health insurance premium benefit	
Annual OPEB cost	-
Contributions made	-

During fiscal year 2020, the Town paid for PSPRS pension contributions as follows: 100 percent from the General Fund.

Pension liability- At June 30, 2020, the Town reported \$1,876,470 for its PSPRS net pension liability. The net pension liabilities (and assets) were measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Investment rate of return	7.30%
Wage inflation	3.50%
Price Inflation	2.50%
Cost-of-living adjustment	1.75%
Mortality	PubS 2010 tables

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

Actuarial assumptions used in the June 30, 2019, 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 7.30 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
Private credit	16%	5.36%
U.S. equity	16%	4.75%
Total	<u>100%</u>	

Pension discount rates – At June 30, 2019, the discount rate used to measure the PSPRS total pension liabilities was 7.30 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. 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.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

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, 2019	\$ 2,667,946	860,853	1,807,093
Changes for the year:			
Service cost	59,469	-	59,469
Interest on the total pension liability	197,227	-	197,227
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	(95,219)	-	(95,219)
Changes of assumptions or other inputs	118,997	-	118,997
Contributions - employer	-	139,525	(139,525)
Contributions - employee	-	25,602	(25,602)
Net investment income	-	47,801	(47,801)
Benefit payments, including refunds of employee contributions	(124,376)	(124,376)	-
Administrative expense	-	(1,831)	1,831
Other changes	-	-	-
Net changes	156,098	86,721	69,377
Balances at June 30, 2020	\$ 2,824,044	947,574	1,876,470

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 7.30 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 (6.30 percent) or 1 percentage point higher (8.30 percent) than the current rate:

PSPRS Police	Current		
	1% Decrease (6.30%)	Discount Rate (7.30%)	1% Increase (8.30%)
Net pension liability	\$ 2,314,264	\$ 1,876,470	\$ 1,527,962

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, 2020, the Town recognized \$346,464 in pension expense for the PSPRS.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSIONS (CONT'D)**

Pension deferred outflows/inflows of resources - At June 30, 2020, 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	\$ 296,831	-
Changes in assumptions	187,472	-
Net difference between projected and actual earnings on pension plan investments	15,121	80,815
Contributions subsequent to the measurement date	162,753	-
	\$ 662,177	80,815

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, 2021. 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
2021	\$ 172,757
2022	132,773
2023	91,888
2024	16,984
2025	4,208
	\$ 418,610

**NOTE 11 - RISK MANAGEMENT**

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

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

The fund balance classifications of the governmental funds as of June 30, 2020, 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	\$ 120,102			120,102
Restricted for:				
Public Safety			73,155	73,155
Parks and Recreation			11,190	11,190
Highway and Streets			22,768	22,768
Electronic technology			6,517	6,517
Total restricted		-	113,630	113,630
Unassigned	513,152	(14,491)	(31,368)	467,293
Total fund balances	\$ 633,254	(14,491)	82,262	701,025

**NOTE 13 - INTERFUND RECEIVABLES AND PAYABLES**

Individual fund interfund receivables and payable balances at June 30, 2020, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 98,870	
Highways & Streets		29,038
CDBG Fire Expansion		22,811
Other Governmental Funds		47,021
	\$ 98,870	98,870

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, 2020**

**NOTE 14 – INTERFUND TRANSFERS**

	General Fund	Enterprise Funds- Golf	Total
Transfers-in	\$ -	162,000	162,000
Transfers-out	(162,000)		(162,000)
	\$ (162,000)	162,000	

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.

**NOTE 15 – UNCERTAINTY DUE TO COVID-19**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. Although many of the Town's services are considered essential, certain other services have transitioned to online-only and the Town's major revenue sources, including businesses that collect sales taxes, are directly impacted by these events. However, the ultimate financial impact and duration cannot be estimated at this time.

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**TOWN OF WELLTON, ARIZONA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 670,000	670,000	984,694	314,694
License and permits	37,655	37,655	185,612	147,957
Intergovernmental -				
Federal	75,000	75,000		(75,000)
State	847,060	847,060	837,602	(9,458)
Charges for services			97,857	97,857
Fines and forfeits	32,100	32,100	35,682	3,582
Interest income	27,413	27,413	21,584	(5,829)
Other local	466,500	466,500	95,924	(370,576)
	<u>2,155,728</u>	<u>2,155,728</u>	<u>2,258,955</u>	<u>103,227</u>
<b>Expenditures:</b>				
Current -				
General government	883,000	883,000	584,737	298,263
Public safety	949,536	949,536	846,974	102,562
Parks and recreation	199,033	199,033	144,653	54,380
Cemetery	25,088	25,088	28,776	(3,688)
Capital outlay	29,101	29,101	7,052	22,049
Debt service -				
Principal payments on capital lease	56,000	56,000	404,533	(348,533)
Interest	14,000	14,000	18,514	(4,514)
	<u>2,155,758</u>	<u>2,155,758</u>	<u>2,035,239</u>	<u>120,519</u>
Excess (deficiency) of revenues over expenditures	(30)	(30)	223,716	223,746
<b>Other financing sources (uses):</b>				
Transfers (out)			(162,000)	(162,000)
Total other financing sources (uses):			<u>(162,000)</u>	<u>(162,000)</u>
Net change in fund balances			61,716	61,716
Fund balances, beginning of year	571,538	571,538	571,538	
Fund balances, end of year	<u>\$ 571,508</u>	<u>571,508</u>	<u>633,254</u>	<u>(38,538)</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA  
BUDGETARY COMPARISON SCHEDULE FOR  
THE HIGHWAY & STREETS FUND  
YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 254,261	254,261	450,977	196,716
Other local	<u>222,802</u>	<u>222,802</u>	<u>12,307</u>	<u>(210,495)</u>
Total revenues	<u>477,063</u>	<u>477,063</u>	<u>463,284</u>	<u>(13,779)</u>
<b>Expenditures:</b>				
Current -				
Highway & Streets	422,063	422,063	175,340	246,723
Capital outlay	<u>55,000</u>	<u>55,000</u>	<u>307,481</u>	<u>(252,481)</u>
Total expenditures	<u>477,063</u>	<u>477,063</u>	<u>482,821</u>	<u>(5,758)</u>
Excess (deficiency) of revenues over expenditures	-	-	(19,537)	(19,537)
Fund balances, beginning of year	<u>5,046</u>	<u>5,046</u>	<u>5,046</u>	
Fund balances, end of year	<u>\$ 5,046</u>	<u>5,046</u>	<u>(14,491)</u>	<u>(19,537)</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2020**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

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

- Certain activities reported in the General Fund are budgeted in separate funds.

Consequently, the following adjustments are necessary to present the General Fund actual revenues, expenditures, other financing sources (uses), and fund balance at June 30, 2020 on a budgetary basis in order to provide a meaningful comparison.

	General Fund	
	Revenues	Expenditures
Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 2,363,444	2,139,728
Activities in separate funds	(104,489)	(104,489)
Budgetary comparison schedules	\$ 2,258,955	2,035,239

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**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
COST-SHARING PENSION PLANS  
YEAR ENDED JUNE 30, 2020**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year (Measurement Date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Proportion of the net pension liability	0.0096%	0.0086%	0.0080%	0.0082%	0.0081%	0.0071%	Information not available
Proportionate share of the net pension liability	\$ 1,401,277	\$ 1,195,213	\$ 1,250,917	\$ 1,325,176	\$ 1,258,625	\$ 1,053,476	
Covered payroll	\$ 1,013,675	\$ 851,071	\$ 783,590	\$ 768,412	\$ 744,244	\$ 630,785	
Proportionate share of the net pension liability as a percentage of its covered payroll	138.24%	140.44%	159.64%	172.46%	169.11%	167.01%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	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, 2020**

**PSPRS – WELLTON POLICE DEPT.**

	Reporting Fiscal Year (Measurement Date)						2014 through 2011  Information not available
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							
Service cost	\$ 59,469	\$ 58,173	\$ 61,426	\$ 44,876	\$ 50,060	\$ 63,590	
Interest on the total pension liability	197,227	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	(95,219)	5,054	17,949	424,293	238,379	185,388	
Changes of assumptions or other inputs	118,997	-	45,860	94,569	-	124,493	
Benefit payments, including refunds of employee contributions	(124,376)	(125,891)	(122,350)	(125,937)	(96,264)	(220,809)	
Net change in total pension liability	156,098	123,146	217,052	647,530	298,803	257,157	
Total pension liability - beginning	2,667,946	2,544,800	2,327,748	1,680,218	1,381,415	1,124,258	
Total pension liability - ending (a)	<u>\$ 2,824,044</u>	<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	139,525	169,272	105,728	80,788	47,562	47,712	
Contributions - employee	25,602	31,088	33,933	30,538	27,719	27,743	
Net investment income	47,801	52,675	79,996	3,981	22,586	79,229	
Benefit payments, including refunds of employee contributions	(124,376)	(125,891)	(122,350)	(125,937)	(96,264)	(220,809)	
Hall/Parker settlement	-	(27,671)	-	-	-	-	
Administrative expense	(1,831)	(1,502)	(1,108)	(973)	(923)	-	
Other changes	-	8	9	3	97,301	(39,091)	
Net changes in fiduciary net position	86,721	97,979	96,208	(11,600)	97,981	(105,216)	
Plan fiduciary net position - beginning	860,853	762,874	666,666	678,266	580,285	685,501	
Plan fiduciary net position - ending (b)	<u>\$ 947,574</u>	<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>\$ 1,876,470</u>	<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	33.55%	32.27%	29.98%	28.64%	40.37%	42.01%	
Covered payroll	\$ 261,734	\$ 310,420	\$ 298,329	\$ 261,128	\$ 252,065	\$ 272,625	
Town's net pension liability (asset) as a percentage of covered payroll	716.94%	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, 2020**

**ARIZONA STATE RETIREMENT SYSTEM**

	Reporting Fiscal Year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 128,842	\$ 113,329	\$ 92,761	\$ 84,404	\$ 83,726	\$ 81,048	\$ 66,159	Information not available
Contribution in relation to the statutorily required contribution	128,842	113,329	92,761	84,404	83,726	81,048	66,159	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	1,125,231	1,013,675	851,071	783,590	768,412	744,244	630,785	
Contributions as a percentage of covered payroll	11.45%	11.18%	10.90%	10.77%	10.90%	10.89%	10.49%	

**PSPRS - WELLTON POLICE DEPT.**

	Reporting Fiscal Year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Actuarial required contribution	\$ 162,753	\$ 139,635	\$ 169,272	\$ 105,728	\$ 80,788	\$ 47,562	\$ 45,741	Information not available
Contribution in relation to the actuarial required contribution	162,753	139,635	169,272	105,728	80,788	47,562	45,741	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	313,376	261,734	310,420	298,329	261,128	253,734	272,625	
Contributions as a percentage of covered payroll	51.94%	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, 2020**

**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, 2018</u>
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2018 actuarial valuation	18 years for underfunded / 20 years for overfunded
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, 2020**

**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  
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 Town of Wellton, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Wellton's basic financial statements, and have issued our report thereon dated February 10, 2021.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Wellton's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Wellton's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Wellton'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 Town of Wellton'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 financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Henry + Horne, LLP". The signature is written in a cursive, flowing style.

Tempe, Arizona  
February 10, 2021