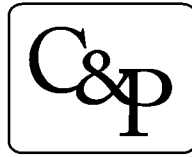


TOWN OF THATCHER, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Thatcher, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Thatcher, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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, and each major fund of the Town of Thatcher, Arizona, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Town of Thatcher, Arizona has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing 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.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 49 through 52, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 53, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 54, Schedule of Town Pension Contributions on page 55, and Schedule of Agent OPEB Plans' Funding Progress on page 57, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2017, on our consideration of the Town of Thatcher, Arizona's internal control over

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

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the Town 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 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's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

Colby J. Powell

February 23, 2017

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

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 10,189,168	\$ 1,512,005	\$ 11,701,173
Investment in joint venture	-	442,000	442,000
Receivables - net	265,907	370,408	636,315
Taxes receivable	133,808	-	133,808
Due from other governments	91,483	-	91,483
Restricted cash	-	76,932	76,932
Capital assets, not being depreciated	1,085,306	248,126	1,333,432
Capital assets, being depreciated, net	<u>11,847,820</u>	<u>3,668,725</u>	<u>15,516,545</u>
Total assets	<u>23,613,492</u>	<u>6,318,196</u>	<u>29,931,688</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>1,643,084</u>	<u>104,557</u>	<u>1,747,641</u>
LIABILITIES			
Accounts payable	57,221	82,374	139,595
Accrued expenses	102,496	17,609	120,105
Interest payable	34,919	8,633	43,552
Refundable deposits	-	76,932	76,932
Noncurrent liabilities			
Due within 1 year	333,081	90,000	423,081
Due in more than 1 year	<u>6,953,678</u>	<u>1,120,303</u>	<u>8,073,981</u>
Total liabilities	<u>7,481,395</u>	<u>1,395,851</u>	<u>8,877,246</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>472,187</u>	<u>63,447</u>	<u>535,634</u>
NET POSITION			
Net investment in capital assets	11,383,841	3,542,851	14,926,692
Restricted for			
Highways and streets	102,119	-	102,119
Unrestricted	<u>5,817,034</u>	<u>1,420,604</u>	<u>7,237,638</u>
Total net position	<u>\$ 17,302,994</u>	<u>\$ 4,963,455</u>	<u>\$ 22,266,449</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Activities
Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 1,063,236	\$ 28,648	\$ 44,721	\$ 42,132	\$ (947,735)	\$ -	\$ (947,735)
Public safety	2,558,799	69,037	102,710	125,630	(2,261,422)	-	(2,261,422)
Highways and streets	986,698	-	348,020	-	(638,678)	-	(638,678)
Community development	450,300	-	-	-	(450,300)	-	(450,300)
Parks and recreation	508,363	128,878	-	-	(379,485)	-	(379,485)
Interest on long-term debt	74,043	-	-	-	(74,043)	-	(74,043)
Total governmental activities	5,641,439	226,563	495,451	167,762	(4,751,663)	-	(4,751,663)
Business-type activities							
Sewer	360,996	282,434	-	-	-	(78,562)	(78,562)
Electric	2,554,651	2,631,693	-	-	-	77,042	77,042
Sanitation	313,948	221,071	-	-	-	(92,877)	(92,877)
Total business-type activities	3,229,595	3,135,198	-	-	-	(94,397)	(94,397)
Total primary government	\$ 8,871,034	\$ 3,361,761	\$ 495,451	\$ 167,762	(4,751,663)	(94,397)	(4,846,060)
General revenue:							
Taxes:							
Sales tax					2,836,172	63,295	2,899,467
Franchise tax					76,787	-	76,787
Share of state sales taxes					459,769	-	459,769
Share of county auto lieu taxes					258,472	-	258,472
State urban revenue sharing					585,745	-	585,745
Investment income					33,872	4,469	38,341
Gain on sale of assets					5,400	-	5,400
Miscellaneous					11,769	-	11,769
Total general revenue					<u>4,267,986</u>	<u>67,764</u>	<u>4,335,750</u>
Change in net position					(483,677)	(26,633)	(510,310)
Net position, beginning of year					<u>17,786,671</u>	<u>4,990,088</u>	<u>22,776,759</u>
Net position, end of year					<u>\$ 17,302,994</u>	<u>\$ 4,963,455</u>	<u>\$ 22,266,449</u>

See accompanying notes to financial statements.

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

	General Fund	Grants Fund	HURF/LTAF Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,118,694	\$ -	\$ 70,474	\$ 10,189,168
Accounts receivable - net	265,907	-	-	265,907
Taxes receivable	133,808	-	-	133,808
Due from other funds	10,575	-	-	10,575
Due from other governments	49,263	10,575	31,645	91,483
Total assets	<u>10,578,247</u>	<u>10,575</u>	<u>102,119</u>	<u>10,690,941</u>
LIABILITIES				
Accounts payable	57,221	-	-	57,221
Accrued expenses	102,496	-	-	102,496
Due to other funds	-	10,575	-	10,575
Total liabilities	<u>159,717</u>	<u>10,575</u>	<u>-</u>	<u>170,292</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	265,907	-	-	265,907
FUND BALANCES				
Restricted for:				
Highways and streets	-	-	102,119	102,119
Unassigned	10,152,623	-	-	10,152,623
Total fund balances	<u>10,152,623</u>	<u>-</u>	<u>102,119</u>	<u>10,254,742</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,578,247</u>	<u>\$ 10,575</u>	<u>\$ 102,119</u>	<u>\$ 10,690,941</u>

See accompanying notes to financial statements.

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

Fund balances-total governmental funds	\$ 10,254,742
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	12,933,126
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	265,907
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 funds.	(7,321,678)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>1,170,897</u>
Net position of governmental activities	<u><u>\$ 17,302,994</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

	General Fund	Grants Fund	HURF/LTAF Fund	Total Governmental Funds
Revenue:				
Taxes	\$ 2,912,960	\$ -	\$ -	\$ 2,912,960
Intergovernmental	1,303,987	287,865	348,020	1,939,872
Charges for services	175,685	-	-	175,685
Fines and forfeitures	35,579	-	-	35,579
Interest	33,868	-	4	33,872
Other revenue	32,985	-	-	32,985
Licenses and permits	14,593	-	-	14,593
Total revenue	<u>4,509,657</u>	<u>287,865</u>	<u>348,024</u>	<u>5,145,546</u>
Expenditures:				
Current				
General government	845,634	20,000	-	865,634
Public safety	2,345,992	309,643	-	2,655,635
Highways and streets	616,841	-	10,389	627,230
Community development	444,202	-	-	444,202
Parks and recreation	438,436	-	-	438,436
Debt service				
Principal	103,168	-	-	103,168
Interest	40,266	-	-	40,266
Capital outlay	200,250	42,132	445,711	688,093
Total expenditures	<u>5,034,789</u>	<u>371,775</u>	<u>456,100</u>	<u>5,862,664</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(525,132)</u>	<u>(83,910)</u>	<u>(108,076)</u>	<u>(717,118)</u>
Other financing sources (uses):				
Sale of capital assets	5,400	-	-	5,400
Transfers	40,571	(41,707)	1,136	-
Total other financing sources (uses)	<u>45,971</u>	<u>(41,707)</u>	<u>1,136</u>	<u>5,400</u>
Net change in fund balances	(479,161)	(125,617)	(106,940)	(711,718)
Fund balances, beginning of year	<u>10,631,784</u>	<u>125,617</u>	<u>209,059</u>	<u>10,966,460</u>
Fund balances, end of year	<u><u>\$ 10,152,623</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 102,119</u></u>	<u><u>\$ 10,254,742</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016

Net change in fund balances-total governmental funds		\$ (711,718)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Current year capital acquisitions	688,093	
Current year depreciation expense	<u>(666,541)</u>	21,552
<p>Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.</p>		
Revenues unavailable in the current year	265,907	
Revenues unavailable in the prior year	<u>(283,812)</u>	(17,905)
<p>Town 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.</p>		
Town pension contributions	741,265	
Pension expense	<u>(572,877)</u>	168,388
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Debt principal repaid		103,168
<p>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.</p>		
Increase in interest payable	(33,777)	
Increase in compensated absences payable	<u>(13,385)</u>	(47,162)
Change in net position of governmental activities		<u><u>\$ (483,677)</u></u>

See accompanying notes to financial statements.

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

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 1,512,005	\$ -	\$ 1,512,005
Investment in joint venture	-	442,000	-	442,000
Accounts receivable - net	37,628	298,854	33,926	370,408
Due from other funds	-	2,520,130	-	2,520,130
Total current assets	37,628	4,772,989	33,926	4,844,543
Noncurrent assets				
Restricted cash	-	76,932	-	76,932
Capital assets, net of accumulated depreciation, where applicable:				
Land	248,126	-	-	248,126
Utilities systems, net	2,280,320	993,449	-	3,273,769
Automobiles and trucks, net	46,106	101,710	-	147,816
Equipment, net	-	23,958	223,182	247,140
Capital assets, net	2,574,552	1,119,117	223,182	3,916,851
Total noncurrent assets	2,574,552	1,196,049	223,182	3,993,783
Total assets	2,612,180	5,969,038	257,108	8,838,326
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	-	91,170	13,387	104,557
LIABILITIES				
Current liabilities				
Accounts payable	5,422	66,314	10,638	82,374
Accrued expenses	1,891	22,263	2,088	26,242
Refundable deposits	-	76,932	-	76,932
Due to other funds	2,071,061	-	449,069	2,520,130
Note payable, current	-	22,000	-	22,000
Compensated absences, current	2,429	56,793	8,778	68,000
Total current liabilities	2,080,803	244,302	470,573	2,795,678
Noncurrent liabilities				
Note payable	-	352,000	-	352,000
Compensated absences	607	14,199	2,194	17,000
Net pension liability	-	655,109	96,194	751,303
Total noncurrent liabilities	607	1,021,308	98,388	1,120,303
Total liabilities	2,081,410	1,265,610	568,961	3,915,981
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	-	55,324	8,123	63,447
NET POSITION				
Net investment in capital assets	2,574,552	745,117	223,182	3,542,851
Unrestricted (deficit)	(2,043,782)	3,994,157	(529,771)	1,420,604
Total net position	\$ 530,770	\$ 4,739,274	\$ (306,589)	\$ 4,963,455

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Electric Fund	Sanitation Fund	Total
Operating revenue:				
Charges for services	\$ 282,434	\$ 2,608,863	\$ 221,071	\$ 3,112,368
Other revenue	-	22,830	-	22,830
Total operating revenue	<u>282,434</u>	<u>2,631,693</u>	<u>221,071</u>	<u>3,135,198</u>
Operating expenses:				
Cost of power	-	1,644,963	-	1,644,963
Personnel	78,516	557,399	95,288	731,203
Depreciation	145,842	75,009	40,828	261,679
Repairs and maintenance	48,942	108,825	23,124	180,891
Landfill	-	-	111,892	111,892
Materials and supplies	32,611	52,833	25,549	110,993
Insurance	25,770	30,090	17,187	73,047
Professional services	22,869	49,634	-	72,503
Other	4,412	10,057	80	14,549
Utilities	2,034	8,154	-	10,188
Total operating expenses	<u>360,996</u>	<u>2,536,964</u>	<u>313,948</u>	<u>3,211,908</u>
Operating income (loss)	<u>(78,562)</u>	<u>94,729</u>	<u>(92,877)</u>	<u>(76,710)</u>
Nonoperating revenue (expenses):				
Sales taxes	-	63,295	-	63,295
Investment income	-	4,469	-	4,469
Interest expense	-	(17,687)	-	(17,687)
Total nonoperating revenue (expenses)	<u>-</u>	<u>50,077</u>	<u>-</u>	<u>50,077</u>
Increase (decrease) in net position	<u>(78,562)</u>	<u>144,806</u>	<u>(92,877)</u>	<u>(26,633)</u>
Total net position, beginning of year	<u>609,332</u>	<u>4,594,468</u>	<u>(213,712)</u>	<u>4,990,088</u>
Total net position, end of year	<u>\$ 530,770</u>	<u>\$ 4,739,274</u>	<u>\$ (306,589)</u>	<u>\$ 4,963,455</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
Cash flows from operating activities:				
Receipts from customers	\$ 282,446	\$ 2,578,824	\$ 221,808	\$ 3,083,078
Payments to suppliers and providers of goods and services	(137,639)	(1,902,867)	(178,783)	(2,219,289)
Payments to employees	(73,589)	(543,070)	(92,268)	(708,927)
Net cash provided (used) by operating activities	<u>71,218</u>	<u>132,887</u>	<u>(49,243)</u>	<u>154,862</u>
Cash flows from noncapital financing activities:				
Borrowings received from other funds	-	(30,789)	49,243	18,454
Borrowings repaid to other funds	(18,454)	-	-	(18,454)
Sales taxes received	-	63,295	-	63,295
Net cash provided (used) by noncapital financing activities	<u>(18,454)</u>	<u>32,506</u>	<u>49,243</u>	<u>63,295</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(52,764)	(20,998)	-	(73,762)
Interest paid on note payable	-	(9,054)	-	(9,054)
Net cash provided (used) by capital and related financing activities	<u>(52,764)</u>	<u>(30,052)</u>	<u>-</u>	<u>(82,816)</u>
Cash flows from investing activities:				
Investment in joint venture	-	-	-	-
Interest received	-	4,469	-	4,469
Net cash provided (used) by investing activities	<u>-</u>	<u>4,469</u>	<u>-</u>	<u>4,469</u>
Net increase (decrease) in cash and cash equivalents	-	139,810	-	139,810
Cash and cash equivalents, beginning of year	-	1,449,127	-	1,449,127
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 1,588,937</u>	<u>\$ -</u>	<u>\$ 1,588,937</u>
Cash and cash equivalents	\$ -	\$ 1,512,005	\$ -	\$ 1,512,005
Restricted cash	-	76,932	-	76,932
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 1,588,937</u>	<u>\$ -</u>	<u>\$ 1,588,937</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows - *Continued*
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Electric Fund	Sanitation Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (78,562)	\$ 94,729	\$ (92,877)	\$ (76,710)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	145,842	75,009	40,828	261,679
Pension expense	-	53,393	7,840	61,233
Employer pension contributions	-	(44,166)	(6,464)	(50,630)
Bad debts	1,500	13,196	1,424	16,120
(Increase) decrease in:				
Accounts receivable	(1,488)	(66,085)	(687)	(68,260)
Increase (decrease) in:				
Accounts payable	(1,001)	(7,538)	(2,327)	(10,866)
Accrued expenses	1,891	4,221	555	6,667
Refundable deposits	-	20	-	20
Compensated absences payable	3,036	10,108	2,465	15,609
Net cash provided (used) by operating activities	<u>\$ 71,218</u>	<u>\$ 132,887</u>	<u>\$ (49,243)</u>	<u>\$ 154,862</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Thatcher, Arizona have been prepared in conformity with U.S. 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.

A. Reporting Entity

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town.

B. Basis of Presentation

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 usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

TOWN OF THATCHER, ARIZONA

Notes to Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Fund financial statements—provide information about the Town’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All governmental and enterprise funds of the Town are reported as major funds.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

The ***General Fund*** is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***Grants Fund*** accounts for financial resources received from various entities. Restrictions on the use of these resources are derived from the agreements from which the resources were provided.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and Arizona Lottery proceeds, which is legally restricted to expenditures for authorized transportation purposes.

The Town reports the following major enterprise funds:

The ***Sewer, Electric, and Sanitation Funds*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. 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.

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.

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the Sewer Fund, Electric Fund, and Sanitation Fund are estimated by the Town. The amounts recorded as uncollectible in the Sewer, Electric, and Sanitation Funds at June 30, 2016, totaled \$8,479, \$106,680, and \$9,842, respectively.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-line	50
Other long-term assets	5,000	Straight-line	50
Infrastructure	5,000	Straight-line	50
Heavy equipment	5,000	Straight-line	15
Light equipment	5,000	Straight-line	10
Vehicles	5,000	Straight-line	10
Computers and peripherals	5,000	Straight-line	5

G. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town’s governmental funds and includes all spendable amounts not contained in other classifications.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town’s policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process.

The Town’s policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town’s policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation and sick leave earned by employees based on services already rendered.

Employees may accumulate up to 800 hours of combined vacation and sick leave. Upon termination of employment, all unused vacation and sick leave benefits are paid to employees. Accordingly, vacation and sick leave benefits are accrued as a liability in the financial statements.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

K. Impact of Recently Issued Accounting Principles

In February 2016, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2016, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2016.

In June 2016, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2016, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension 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.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town’s allowable deposits or investments and which address the specific types of risk to which the Town is exposed such as interest rate risk, credit risk, and custodial credit risk.

Restricted cash—Restricted cash in the Electric Fund consists of cash restricted for refundable deposits.

Deposits—At June 30, 2016, the carrying amount of the Town’s total nonpooled cash in bank was \$873,449, and the bank balance was \$976,218. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held by the Town or its agent in the Town’s name.

Investments—At June 30, 2016, the investments consisted of the following.

<u>Investment</u>	<u>Rating Organization</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 5	S&P	AAA	<u>\$ 10,904,156</u>	<u>\$ 10,904,156</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the governmental funds at June 30, 2016, included \$37,314 in state-shared revenue from sales taxes, \$11,949 in state-shared revenue from auto lieu taxes, \$8,049 from the U.S. Department of Homeland Security, \$2,526 from the Governor’s Office of Highway Safety, and \$31,645 from the State of Arizona for HURF revenue.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 4 – INVESTMENT IN JOINT VENTURE

During the fiscal year 2014-15, the Town contributed \$442,000 (of which \$353,000 power contract security deposit and \$89,000 SPPA working capital) to Southwest Public Power Agency, Inc (SPPA). SPPA aids a joint venture in which SPPA is an agent for a number of public entities, including the Town, to act on behalf of its members in (i) operating a power pool, and (ii) managing power supply contracts; and (iii) fulfilling contract obligations related to the purchase capacity and energy for a 25 year period beginning on January 1, 2015.

Financial statements of SPPA can be provided by the Town upon request.

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,085,306	\$ -	\$ -	\$ 1,085,306
Total capital assets not being depreciated	<u>1,085,306</u>	<u>-</u>	<u>-</u>	<u>1,085,306</u>
Capital assets being depreciated:				
Buildings	4,498,602	36,908	-	4,535,510
Vehicles	1,440,696	49,619	-	1,490,315
Computers and peripherals	55,284	-	-	55,284
Light equipment	609,603	5,314	-	614,917
Heavy equipment	1,574,078	-	-	1,574,078
Infrastructure	11,570,649	596,251	-	12,166,900
Total	<u>19,748,912</u>	<u>688,092</u>	<u>-</u>	<u>20,437,004</u>
Less accumulated depreciation for:				
Buildings	(1,506,929)	(128,396)	-	(1,635,325)
Vehicles	(798,402)	(112,171)	-	(910,573)
Computers and peripherals	(40,132)	(3,010)	-	(43,142)
Light equipment	(488,081)	(17,125)	-	(505,206)
Heavy equipment	(1,302,865)	(60,746)	-	(1,363,611)
Infrastructure	(3,786,235)	(345,093)	-	(4,131,328)
Total	<u>(7,922,644)</u>	<u>(666,541)</u>	<u>-</u>	<u>(8,589,185)</u>
Total capital assets being depreciated, net	<u>11,826,268</u>	<u>21,551</u>	<u>-</u>	<u>11,847,819</u>
Governmental activities capital assets, net	<u>\$ 12,911,574</u>	<u>\$ 21,551</u>	<u>\$ -</u>	<u>\$ 12,933,125</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 248,126	\$ -	\$ -	\$ 248,126
Total capital assets not being depreciated	<u>248,126</u>	<u>-</u>	<u>-</u>	<u>248,126</u>
Capital assets being depreciated:				
Utility systems	7,932,573	-	-	7,932,573
Automobiles and trucks	741,636	-	-	741,636
Equipment	713,819	73,762	-	787,581
Total	<u>9,388,028</u>	<u>73,762</u>	<u>-</u>	<u>9,461,790</u>
Less accumulated depreciation for:				
Utility systems	(4,576,178)	(170,178)	-	(4,746,356)
Automobiles and trucks	(466,510)	(45,656)	-	(512,166)
Equipment	(488,698)	(45,845)	-	(534,543)
Total	<u>(5,531,386)</u>	<u>(261,679)</u>	<u>-</u>	<u>(5,793,065)</u>
Total capital assets being depreciated, net	<u>3,856,642</u>	<u>(187,917)</u>	<u>-</u>	<u>3,668,725</u>
Business-type activities capital assets, net	<u>\$ 4,104,768</u>	<u>\$ (187,917)</u>	<u>\$ -</u>	<u>\$ 3,916,851</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 119,998
Public safety	129,512
Highways and streets	351,512
Parks and recreation	<u>65,519</u>
Total governmental activities depreciation expense	<u>\$ 666,541</u>
Business-type activities:	
Sewer	\$ 145,842
Electric	75,009
Sanitation	<u>40,828</u>
Total business-type activities depreciation expense	<u>\$ 261,679</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Governmental activities:					
Compensated absences	\$ 226,360	\$ 13,385	\$ -	\$ 239,745	\$ 191,796
Net pension liability	5,080,249	417,480	-	5,497,729	-
Capital lease payable	156,453	-	103,168	53,285	53,285
GADA note payable	1,496,000	-	-	1,496,000	88,000
Governmental activities long-term liabilities	<u>\$ 6,959,062</u>	<u>\$ 430,865</u>	<u>\$ 103,168</u>	<u>\$ 7,286,759</u>	<u>\$ 333,081</u>
Business-type activities:					
Compensated absences	\$ 69,391	\$ 15,609	\$ -	\$ 85,000	\$ 68,000
Net pension liability	678,924	72,379	-	751,303	-
GADA note payable	374,000	-	-	374,000	22,000
Business-type activities long-term liabilities	<u>\$ 1,122,315</u>	<u>\$ 87,988</u>	<u>\$ -</u>	<u>\$ 1,210,303</u>	<u>\$ 90,000</u>

In April 2008, the Town entered into a note agreement with the Greater Arizona Development Authority (GADA) in the amount of \$2,500,000. The note is secured by state-shared revenues. Payments of interest are due semiannually on February 1 and August 1 beginning on February 1, 2009. Payments of principal are due annually beginning on August 1, 2009 with the note maturing on August 1, 2029. Annual interest rates range from 4.50 to 5.00 percent. The following details the debt service requirements to maturity:

Year Ending June 30,	GADA Note payable				Total	
	Governmental Activities		Business-type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2017	\$ 88,000	\$ 66,132	\$ 22,000	\$ 16,533	\$ 110,000	\$ 82,665
2018	92,000	62,478	23,000	15,620	115,000	78,098
2019	96,000	57,865	24,000	14,466	120,000	72,331
2020	100,000	53,627	25,000	13,407	125,000	67,034
2021	104,000	49,257	26,000	12,314	130,000	61,571
2022-2026	588,000	169,805	147,000	42,451	735,000	212,256
2027-2031	428,000	21,567	107,000	5,392	535,000	26,959
Total	<u>\$ 1,496,000</u>	<u>\$ 480,731</u>	<u>\$ 374,000</u>	<u>\$ 120,183</u>	<u>\$ 1,870,000</u>	<u>\$ 600,914</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES – Continued

The note proceeds were split between the Electric Fund and the General Fund. The proceeds going to the Electric Fund were used to purchase a portion of the electrical system located with the Town limits. The proceeds going to the General Fund were used to purchase a commercial building. Each fund will pay its proportionate share of the debt service expenditures in future periods as the debt service payment become due.

Capital leases – The Town has acquired vehicles and equipment under the provisions of long-term lease agreements classified as a capital lease for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Fire truck	\$ 651,330
Less: accumulated depreciation	(296,717)
Carrying value	\$ 354,613

The following schedule details debt service requirements to maturity for the Town’s capital lease payable at June 30, 2016:

Year Ending June 30	Governmental Activities
2017	\$ 54,452
Less amount representing interest	(1,167)
Present value of net minimum lease payments	\$ 53,285

TOWN OF THATCHER, ARIZONA

Notes to Financial Statements

June 30, 2016

NOTE 7 – 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 carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables of the business-type funds consisted of amounts loaned by the Electric Fund to the Sewer and Sanitation Funds to help meet fund obligations. The amounts payable from the Sewer and Sanitations Funds to the Electric Fund at year end were \$2,071,061 and \$449,069, respectively.

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2016, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension liabilities	\$ 5,497,729	\$ 751,303	\$ 6,249,032
Deferred outflows of resources	1,643,084	104,557	1,747,641
Deferred inflows of resources	472,187	63,447	535,634
Pension expense	572,877	61,233	634,110

The Town reported \$701,600 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. 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-

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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 Web site at www.azasrs.gov.

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

ASRS	Retirement	
	<u>Initial membership date:</u>	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
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 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

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

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension plan for the year ended June 30, 2016, were \$138,239. The Town's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2016	\$ 6,370	\$ 1,529
2015	7,859	1,599
2014	7,441	2,976

During fiscal year 2016, the Town paid for ASRS pension and OPEB contributions as follows: 66.65 percent from the General Fund, 29.08 percent from the Electric Fund, and 4.27 percent from the Sanitation Fund.

Pension Liability – At June 30, 2016, the Town reported a liability of \$2,252,784 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The Town's proportion measured as of June 30, 2015, was .014460 percent, which was an increase of .000703 from its proportion measured as of June 30, 2014.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$183,607. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 61,474	\$ 118,048
Net difference between projected and actual earnings on pension plan investments	-	72,197
Changes in proportion and differences between Town contributions and proportionate share of contributions	113,801	-
Town contributions subsequent to the measurement date	<u>138,239</u>	<u>-</u>
Total	<u>\$ 313,514</u>	<u>\$ 190,245</u>

The \$138,239 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ 14,385
2018	(36,624)
2019	(44,847)
2020	52,116
2021	-
Thereafter	-

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS

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

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

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

ASRS

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

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Town's proportionate share of the net pension liability	\$ 2,951,917	\$ 2,252,784	\$ 1,773,649

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

B. Elected Officials Retirement Plan

Plan Description – Elected officials participate in the Elected Officials Retirement Plan (EORP), or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS’s website at www.psprs.com.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

EORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, and age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 months of last 120 months
Benefit percent		
Normal Retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor Benefit		
Retired Members	75% of retired member's benefit	50% of retired member's benefit
Active Members and Other Inactive Members	75% of disability retirement benefit	50% of disability retirement benefit

*With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Contributions – State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members’ annual covered payroll and the Town to contribute 23.5 percent of active EORP members’ annual covered payroll. Also, statute required the Town to contribute 12.15 percent to EORP of the annual covered payroll of elected officials who were ASRS members and 17.50 percent to EORP of the annual covered payroll of elected officials who were EODCRS members, in addition to the Town’s required contributions to ASRS and EODCRS for these elected officials and judges. The Town’s contributions to the pension plan for the year ended June 30, 2016, were \$7,896. No OPEB contributions were required or made for the years ended June 30, 2015 and 2016. The Town’s OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EORP	<u>Health Insurance Fund</u>
Year ended June 30,	
2016	\$ -
2015	-
2014	-

During fiscal year 2016, the Town paid 100 percent of EORP pension contributions from the General Fund.

Pension liability – At June 30, 2016, the Town reported a liability for its proportionate share of the EORP’s net pension liability that reflected a reduction for the Town’s proportionate share of the State’s appropriation for EORP. The amount the Town recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the EORP net pension liability	\$ 337,348
State's proportionate share of the EORP net pension liability associated with the Town	<u>105,171</u>
Total	<u><u>\$ 442,519</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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’ actual contributions for the year ended June 30, 2015. The Town’s proportion measured as of June 30, 2015, was 0.0431694 percent, which was a decrease of 0.0110043 percent from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the Town recognized pension expense for EORP of \$82,511, and revenue of \$24,721 for the Town’s proportionate share of the State’s appropriation to EORP and the designated court fees. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 539	\$ 3,756
Changes of assumptions or other inputs	56,525	-
Net difference between projected and actual earnings on pension plan investments	2,046	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	33,393
Town contributions subsequent to the measurement date	7,896	-
Total	\$ 67,006	\$ 37,149

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The \$7,896 reported as deferred outflows of resources related to EORP pensions resulting from town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ended June 30,		
2016	\$	25,015
2017		(4,762)
2018		168
2019		1,540
2020		-
Thereafter		-

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

EORP

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.00%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

EORP

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

Discount rate – At June 30, 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s proportionate share of the EORP 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 4.86 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 (3.86 percent) or 1 percentage point higher (5.86 percent) than the current rate:

EORP	1% Decrease (3.86%)	Current Discount Rate (4.86%)	1% Increase (5.86%)
Town's proportionate share of the net pension liability	\$ 392,715	\$ 337,348	\$ 290,787

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

EODCRS plan – Elected officials that are not members of EORP or ASRS participate in the EODCRS and the Elected Officials Defined Contribution Retirement System Disability Program (EODCDP). The EODCRS is a defined contribution pension plan. The EODCDP is a cost-sharing multiple-employer defined benefit disability (OPEB) plan for EODCRS members. The PSPRS Board of Trustees governs the EODCRS and EODCDP according to the provisions of A.R.S. Title 38, Chapter 5, Articles 3.1 and 3.2. Benefit terms, including contribution requirements, are established by state statute.

For the year ended June 30, 2016, active EODCRS members were required by statute to contribute 8 percent of the members’ annual covered payroll, and the Town was required by statute to contribute 6 percent of active members’ annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the Town’s contributions to the individual employee account and the earnings on those contributions. In addition, statute required active EODCRS members and the Town to each contribute at the actuarially determined rate of 0.125 percent of the members’ annual covered payroll to the EODCDP plan. For the year ended June 30, 2016, the Town recognized pension expense of \$324. The Town’s OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EODCDP	Disability Fund	
Year ended June 30,		
2016	\$	14
2015		3
2014		-

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

C. Public Safety Personnel Retirement System

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

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 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 services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

<u>PSPRS Police</u>	
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>11</u>
Total	<u><u>18</u></u>

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

<u>PSPRS Police</u>	
Active Members - Pension	11.65%
Town Pension	40.48%
Health insurance premium benefit	0.00%

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Pension	<u>PSPRS Police</u>	
Contributions Made	\$	601,568
 Health Insurance Premium Benefit		
Annual OPEB cost		-
Contributions made		-

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

Net Pension Liability (Asset) – At June 30, 2016, the Town reported the following net pension liability:

PSPRS	<u>Net Pension Liability (Asset)</u>	
PSPRS Police	\$	3,658,900

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town’s net pension liability as a result of the statutory adjustments is not known.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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

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

PSPRS

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 5,739,564	\$ 2,379,217	\$ 3,360,347
Changes for the year			
Service Cost	129,706	-	129,706
Interest on the total pension liability	440,958	-	440,958
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	177,759	-	177,759
Changes of assumptions or other inputs	-	-	-
Contributions-employer	-	235,104	(235,104)
Contributions-employee	-	84,677	(84,677)
Net investment income	-	89,394	(89,394)
Benefit payments, including refunds of employee contributions	(374,248)	(374,248)	-
Administrative expense	-	(2,553)	2,553
Other changes	-	43,248	(43,248)
Net changes	<u>374,175</u>	<u>75,622</u>	<u>298,553</u>
Balances at June 30, 2016	<u>\$ 6,113,739</u>	<u>\$ 2,454,839</u>	<u>\$ 3,658,900</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

PSPRS

	1% Decrease (6.85%)	Current Discount Rate (7.85%)	1% Increase (8.85%)
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 4,449,534	\$ 3,658,900	\$ 3,005,364

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense – For the year ended June 30, 2016, the Town recognized the following pension expense:

PSPRS

	Pension Expense	
PSPRS Police	\$	367,992

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ 147,080	\$	235,173
Changes of assumptions or other inputs	541,006		-
Net difference between projected and actual earnings on pension plan investments	77,467		73,067
Town contributions subsequent to the measurement date	601,568		-
Total	\$ 1,367,121	\$	308,240

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

Year ended June 30,	<u>PSPRS Police</u>	
2017	\$	108,928
2018		108,928
2019		108,929
2020		106,164
2021		24,364
Thereafter		-

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

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Projections of benefits are based on (1) the plans as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

PSPRS

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ -	100%	\$ -
2015	9,023	100%	-
2014	7,005	100%	-

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

PSPRS

		PSPRS Police
Actuarial value of assets (a)	\$	212,057
Actuarial accrued liability (b)	\$	108,269
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(103,788)
Funded ratio (a)/(b)		195.86%
Annual covered payroll (c)	\$	720,276
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)		0.00%

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

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$ 3,131,327	\$ 3,131,327	\$ 2,912,960	\$ (218,367)
Intergovernmental	1,325,142	1,325,142	1,303,987	(21,155)
Charges for services	143,740	143,740	175,685	31,945
Fines and forfeitures	50	50	35,579	35,529
Interest	10,000	10,000	33,868	23,868
Other revenue	10,200	10,200	32,985	22,785
Licenses and permits	16,550	16,550	14,593	(1,957)
Total revenue	4,637,009	4,637,009	4,509,657	(127,352)
Expenditures:				
Current				
General government	845,634	845,634	845,634	-
Public safety	2,345,992	2,345,992	2,345,992	-
Highways and streets	650,645	650,645	616,841	33,804
Community development	444,202	444,202	444,202	-
Parks and recreation	438,436	438,436	438,436	-
Debt service				
Principal	103,168	103,168	103,168	-
Interest	40,266	40,266	40,266	-
Capital outlay	774,667	774,667	200,250	574,417
Total expenditures	5,643,010	5,643,010	5,034,789	608,221
Excess (deficiency) of revenue over (under) expenditures	(1,006,001)	(1,006,001)	(525,132)	(735,573)
Other financing sources (uses):				
Sale of capital assets	6,000	6,000	5,400	600
Transfers	(57,397)	(57,397)	40,571	(97,968)
Total other financing sources (uses)	(51,397)	(51,397)	45,971	(97,368)
Net change in fund balances	(1,057,398)	(1,057,398)	(479,161)	(832,941)
Fund balances, beginning of year	10,631,784	10,631,784	10,631,784	-
Fund balances, end of year	\$ 9,574,386	\$ 9,574,386	\$ 10,152,623	\$ (832,941)

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 261,800	\$ 261,800	\$ 287,865	\$ 26,065
Expenditures:				
Current				
General government	-	-	20,000	(20,000)
Public safety	261,800	261,800	309,643	(47,843)
Capital outlay	-	-	42,132	(42,132)
Total expenditures	261,800	261,800	371,775	(109,975)
Excess (deficiency) of revenue over (under) expenditures	-	-	(83,910)	136,040
Other financing sources (uses):				
Transfers	-	-	(41,707)	41,707
Net change in fund balances	-	-	(125,617)	177,747
Fund balances, beginning of year	125,617	125,617	125,617	-
Fund balances, end of year	\$ 125,617	\$ 125,617	\$ -	\$ 177,747

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 380,977	\$ 380,977	\$ 348,020	\$ (32,957)
Interest	-	-	4	4
Total revenue	<u>380,977</u>	<u>380,977</u>	<u>348,024</u>	<u>(32,953)</u>
Expenditures:				
Current				
Highways and streets	-	-	10,389	(10,389)
Capital outlay	380,977	380,977	445,711	(64,734)
Total expenditures	<u>380,977</u>	<u>380,977</u>	<u>456,100</u>	<u>(75,123)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(108,076)</u>	<u>42,170</u>
Other financing sources (uses):				
Transfers	-	-	1,136	(1,136)
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(106,940)</u>	<u>41,034</u>
Fund balances, beginning of year	<u>209,059</u>	<u>209,059</u>	<u>209,059</u>	<u>-</u>
Fund balances, end of year	<u>\$ 209,059</u>	<u>\$ 209,059</u>	<u>\$ 102,119</u>	<u>\$ 41,034</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2016

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (A.R.S.) requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the fund level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Councils' approval.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2006
Town's proportion of the net pension liability	0.014460%	0.013757%	Information not available
Town's proportionate share of the net pension liability	\$ 2,252,784	\$ 2,035,552	Information not available
Town's covered-employee payroll	\$ 1,332,103	\$ 1,240,084	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

Elected Officials Retirement Plan

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2006
Town's proportion of the net pension liability	0.431694%	0.054174%	Information not available
Town's proportionate share of the net pension liability	\$ 337,348	\$ 363,274	Information not available
State's proportionate share of the net pension liability associated with the Town	105,171	111,383	
Total	<u>\$ 442,519</u>	<u>\$ 474,657</u>	
Town's covered-employee payroll	\$ 33,600	\$ 36,300	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1004.01%	1000.75%	
Plan fiduciary net position as a percentage of the total pension liability	28.32%	31.91%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

PSPRS

	Reporting Fiscal Year		
	(Measurement Date)		
	2016	2015	2014 through
	(2015)	(2014)	2007
Total pension liability			Information not available
Service cost	\$ 129,706	\$ 132,777	
Interest on the total pension liability	440,958	381,545	
Changes of benefit terms	-	157,716	
Differences between expected and actual experience in the measurement of the pension liability	177,759	(363,187)	
Changes of assumptions or other inputs	-	835,496	
Benefit payments, including refunds of employee contributions	<u>(374,248)</u>	<u>(397,692)</u>	
Net change in total pension liability	374,175	746,655	
Total pension liability - beginning	<u>5,739,564</u>	<u>4,992,909</u>	
Total pension liability - ending (a)	<u><u>\$ 6,113,739</u></u>	<u><u>\$ 5,739,564</u></u>	
Plan fiduciary net position			
Contributions - employer	\$ 235,104	\$ 220,723	
Contributions - employee	84,677	74,365	
Net investment income	89,394	295,450	
Benefit payments, including refunds of employee contributions	(374,248)	(397,692)	
Administrative expense	(2,553)	-	
Other changes	<u>43,248</u>	<u>(154,602)</u>	
Net change in plan fiduciary net position	75,622	38,244	
Plan fiduciary net position - beginning	<u>2,379,217</u>	<u>2,340,973</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 2,454,839</u></u>	<u><u>\$ 2,379,217</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ 3,658,900</u></u>	<u><u>\$ 3,360,347</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	40.15%	41.45%	
Covered-employee payroll	\$ 766,307	\$ 722,871	
Town's net pension liability (asset) as a percentage of covered-employee payroll	477.47%	464.86%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year			2013 through 2006
	2016	2015	2014	
Statutorily required contribution	\$ 138,239	\$ 145,066	\$ 132,689	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(138,239)</u>	<u>(145,066)</u>	<u>(132,689)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 1,274,092</u>	<u>\$ 1,332,103</u>	<u>\$ 1,240,084</u>	
Town's contributions as a percentage of covered-employee payroll	10.85%	10.89%	10.70%	

PSPRS

	Reporting Fiscal Year			2013 through 2006
	2016	2015	2014	
Actuarially determined contribution	\$ 291,568	\$ 235,104	\$ 220,723	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(601,568)</u>	<u>(235,104)</u>	<u>(220,723)</u>	
Town's contribution deficiency (excess)	<u>\$ (310,000)</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 720,276</u>	<u>\$ 766,307</u>	<u>\$ 722,871</u>	
Town's contributions as a percentage of covered-employee payroll	83.52%	30.68%	30.53%	

Elected Officials Retirement Plan

	Reporting Fiscal Year			2013 through 2006
	2016	2015	2014	
Statutorily required contribution	\$ 7,896	\$ 9,082	\$ 11,543	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(7,896)</u>	<u>(9,082)</u>	<u>(11,543)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 33,600</u>	<u>\$ 38,647</u>	<u>\$ 49,119</u>	
Town's contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	

See accompanying notes to pension plan schedules.

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

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 cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 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	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

Health Insurance Premium Benefit - PSPRS

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/16	\$ 212,057	\$ 108,269	\$ (103,788)	195.9 %	\$ 720,276	0.00 %
06/30/15	200,218	88,300	(111,918)	226.7	766,307	0.00
06/30/14	183,818	78,755	(105,063)	233.4	722,872	(14.53)

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

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

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